

Post-war Economies

By [Dietmar Rothermund](#)

Summary

Post-war economies were beset with problems, ultimately leading to the Great Depression that ruined the world economy and resulted in “beggar-thy-neighbour” national policies. Roosevelt’s “New Deal” stressed internal consolidation; nevertheless, the evolution of world affairs favoured the USA, which had emerged as the largest of the post-war economies.

Table of contents

- [1 Introduction](#)
- [2 The First Industrial War](#)
- [3 The Economic Consequences of the Peace](#)
- [4 The Curse of the Unfinished War](#)
- [5 The Dawes Plan and the Treaties of Locarno](#)
- [6 The Impact of the Great Depression](#)
- [7 Gold and Grain: The Avalanche of Wheat](#)
- [8 The Rise of Nazi Germany](#)
- [9 Conclusion: The United States and President Roosevelt](#)
- [Notes](#)
- [Selected Bibliography](#)
- [Citation](#)

Introduction

In 1938, the German economist [Moritz Bonn \(1873-1966\)](#), who had fled to London and taught at the London School of Economics, published *The Crumbling of Empire: The Disintegration of World Economy*, in which he outlined the global change that had affected the world in his time. The most devastating feature of the new time was that “Minerva had sold herself to Mars.”¹ The sciences, born in peace, went to war and made a gigantic scientific enterprise of it. This had not yet been obvious before the First World War.

Post-war economic development did not lead to a restoration of the pre-war world economy, but to its disintegration. The gold standard was regarded as the solid foundation of the pre-war world economy, and was restored in many countries in the 1920s in a vain hope of reviving the old international order.² Deflationary measures were required in many countries in this context, and this, in turn, precipitated a worldwide depression. The global credit

famine that spread at the time was overcome only when spending on rearmament for the Second World War reflationed the national economies. Once more, Minerva helped Mars, and an even greater conflagration ensued. The decades before 1913 had been the time of the first globalization, while the post-war years witnessed a “globalization backlash.”³

The First Industrial War

When the First World War began, all participants believed that it would be a short one, lasting for a few months only. This was based on an assessment of the structure of the integrated world economy, which was supposed to make a longer conflict impossible. The German general [Alfred Graf von Schlieffen \(1833-1913\)](#), the author of a plan for the rapid conquest of [France](#), had stated in a memorandum written years before the war that long wars among industrial nations were impossible when the existence of the nation was based on the uninterrupted progress of trade and industry. Defeating the enemy by a strategy of [attrition](#) was not feasible, he argued, when the maintenance of millions requires the expenditure of billions.⁴ But the actual course of the war showed that industrial nations could mobilize resources that would indeed make the conduct of a long war possible. The progress of [science and technology](#) opened new avenues of production that sustained the war effort.

The German synthesis of ammonia is a striking example of the impact of industrial progress on the conduct of the war. Germany had developed a giant chemical industry in the late 19th century. The work of a German chemistry professor, [Fritz Haber \(1868-1934\)](#), broke new ground in the synthesis of ammonia, which was important both for the production of nitrogen fertilizer and for ammunitions. The use of nitrogen fertilizer enhanced agricultural productivity. This led, in due course, to enormous growth in the world population. During the war, however, the production of explosives was more important. Haber performed the synthesis in his laboratory in 1909. It required high pressure at high temperatures and the availability of suitable catalysts. [Carl Bosch \(1874-1940\)](#), a director of the leading chemical firm BASF and a mechanical engineer who had also studied chemistry, then pioneered the industrial production of ammonia. The process of synthesis was consequently named the [Haber-Bosch process](#).⁵

Only a few months after the outbreak of the war, [Germany](#) faced an ammunitions crisis. The import of Chilean saltpeter for the production of gunpowder was stopped by the [Allied blockade](#). At this point, the ammonia produced by BASF solved this problem. Without it, Germany would have had to sue for peace very early.⁶ The resilience of industrial nations in the face of wartime challenges was demonstrated by this development.

The war took a decisive turn when the [USA](#) joined the Allies in April 1917. Even as a “[neutral](#)” country, it had already contributed to the Allied war effort.⁷ The USA supplied the Allies with many important goods, purchased on credit. The USA, which had earlier been a debtor, thus became a major creditor even before entering the war. While the American economy profited immensely from participating in the war effort, the European economies experienced a severe setback. The [German economy](#), in particular, was not able to regain its pre-war dynamism for a long time.

The Economic Consequences of the Peace

This was the title of a book published in 1919 by the great British economist [John Maynard Keynes \(1883-1946\)](#), who had worked for the Treasury on financing the British war effort. He therefore knew the enormous problems facing Europe after the war as an “insider” and hoped for a reasonable solution to the problem of interlocking war debts. The USA was the great creditor. President [Woodrow Wilson \(1856-1924\)](#) had raised high hopes with his [Fourteen Points](#) for a just peace. Unfortunately, he did not waive the war debts, and thus forced the Allies to rely on German reparations for raising the money they owed to the USA. Wilson’s successors continued to insist on the payment of the war debts, and it was only in 1934 that [Franklin Delano Roosevelt \(1882-1945\)](#) cancelled them, after having kept them off the agenda at the World Economic Conference of 1933.⁸ In 1919, Keynes was disappointed by America and predicted with uncanny precision that there would be another world war in twenty years. He left the Treasury and the peace conference, and dashed off the book that made him famous.

As Keynes called the [Peace of Versailles](#) a “Carthaginian peace,” it has often been assumed that he pleaded for more concessions to Germany. Against this, E.W. Fuller and R.C. Whitten have argued recently that Keynes was mainly concerned with the debts owed by the British to the Americans, which the latter could not be persuaded to cancel. Keynes stated:

The war will end with a heavy tribute payable from one ally to another. The total tribute is even likely to exceed the amount obtainable from the enemy and the war will have ended with the intolerable result of the allies paying indemnities to each other instead of receiving them from the enemy...⁹

An American edition of Keynes’ book was published in 1920. It contributed to American reluctance to join the [League of Nations](#) President Wilson had proposed, and which lost its effectiveness when the USA did not join it.

The war had been financed to a large extent by means of credit, both domestic and foreign.

[War bonds](#) had been taken up by the people and in addition, foreign loans, mostly American, had also been raised. The USA had provided \$10.3 billion to the Allies, of which [Great Britain](#) had received \$4.1 billion. The debt service due on those credits was a crushing burden. The British had resorted to tax increases, particularly to a wealth tax, during the war, but they had also issued war bonds held by British citizens. Most of these were redeemed only decades later. The [German government](#) had trusted that it could pay for the war by imposing reparations on the vanquished; in the meantime, it had resorted to printing money. The Germans had additionally signed up for a total of nine issues of war bonds during the course of the war. They had a yield of 5 percent and were therefore very attractive. By the end of the war, the German Reich was indebted to the tune of 156 billion Reichsmark.¹⁰ In 1918, the German Mark had depreciated by about 50 percent since 1914.

Inflation was tolerated even after the war. This led to a brief post-war boom in Germany, even as other nations experienced a recession in 1920. However, Germany then experienced a hyperinflation in 1923, the memory of which has haunted the nation ever since. At the worst point, prices doubled every two days. In restaurants, people would pay for their meals in advance, because the bill would be much higher after dinner. Though the government was able to wipe out its internal war debt with this inflation,¹¹ the social and political consequences were devastating. The people no longer trusted the government. Many of them lost their lifetime savings. Only the owners of real estate and factories benefited from this radical cut. The ruin of the liberal and conservative middle class contributed to the rise of left- and right-wing parties, which challenged the political order of the Weimar Republic.

The Curse of the Unfinished War

The specter of reparations and war debts was not the only one haunting the nations after the war. The more immediate curse was that the war did not end in 1918, but lingered on in many local armed conflicts. [Robert Gerwarth](#) has recently analyzed this post-war war, which continued until 1923.¹² In [Greece](#) and in the Balkans, as well as in [Turkey](#), and in the debris of the [Habsburg Empire](#), there were violent military clashes. The Greeks tried to conquer [Smyrna \(Izmir\)](#), but were defeated by [Mustafa Kemal Atatürk \(-1938\)](#).¹³ [Romania](#) doubled its territory. [Bulgaria](#) suffered at the hands of the victors: in proportion to its size, it had to pay more reparations than any other country. Hungary was plunged into misery. It lost 73 percent of its population and two-thirds of its territory.¹⁴ German Austria was also very much reduced in size and wanted to join Germany, but was not permitted to do so, in spite of President Wilson's emphasis on the principle of national self-determination. [Poland](#) gained its independence after more than a century under foreign rule. The new state of [Czechoslovakia](#)

contained a large German minority. Customs barriers cut off all these states from one another, which did not encourage post-war economic growth.

Whereas many clashes occurred after the formal end of the war in various European countries, one peculiar conflict troubled the very heart of Europe: the [Ruhrkampf](#) of 1923 (i.e., the [occupation](#) of the German Ruhr district by French and Belgian troops).¹⁵ This was related to the claim of reparations which Germany had not paid punctually, and which the Allies wanted to collect in kind with the help of their armies. They were particularly interested in German coal. The German government did not react militarily to this invasion, but put up passive resistance. The economies of both sides suffered, and the French gained hardly anything by this move. Germany, however, had to support its people who were passively resisting and unemployed. The terrible inflation mentioned earlier was due to this predicament. It soon became obvious that the stalemate could not continue, and both sides had to make compromises. [Gustav Stresemann \(1878-1929\)](#), the German chancellor, terminated the passive resistance efforts and opened negotiations with the French. His government fell over this, but he returned as Foreign Minister in the next cabinet and continued his talks with France. The French had to be assured of their reparation payments. This could be done if the Americans granted the Germans loans, which they could use to pay reparations to the French, who could then pay their war debts to the Americans. This could have become a virtuous circle had it not been interrupted by the Great Depression. As long Stresemann lived, this system helped to secure the policy of reconciliation he pursued with France's [Aristide Briand](#), who even had plans for a united Europe. Stresemann died in 1929, and his policy died with him.

The Dawes Plan and the Treaties of Locarno

Two important American negotiators were active in this context: [Charles Dawes \(1865-1951\)](#) and [Owen Young \(1874-1962\)](#). Dawes, who served as a general in the First World War, became vice president of the United States in 1925. In 1924, he was sent to Germany to regularize the payment of reparations in the wake of the devastating hyperinflation. He saw to it that Germany became creditworthy again by inaugurating a flow of American capital.

The Dawes Plan subjected Germany to a deflationary policy.¹⁶ The Reichsbank was restored to its old position, and half of its board members were nominated by the Americans. In addition, an American banker acted as a watchdog in Berlin in order to monitor the execution of the Dawes Plan. This was a blow to German sovereignty, but Dr. [Hjalmar Schacht \(1877-1970\)](#), the head of the Reichsbank, did not see it that way. On the contrary, he welcomed the American presence, which shielded the Reichsbank from German political pressures.¹⁷

The Dawes Plan had several mutually reinforcing elements: the official credits, the reconstruction of the currency and of the central bank, and the easing of private credit, which flooded Germany with dollars. The French could now get their reparations easily. While European borrowers had previously come to the USA asking for credit, now the agents of American banks swarmed all over Europe, offering bonds. German bonds yielded high interests,¹⁸ and the American public was eager to invest in them. The 1920s were a “defaultless” era, which encouraged American investment in foreign stocks and bonds. The total flow of funds amounted from \$1.2 to \$1.5 billion annually from 1924 to 1928; bonds had the lion’s share, while stocks amounted to an average of \$10 million annually, but increased to \$41 million in 1928. In 1929, this flow was reduced, though the American stock market still attracted an enormous amount of funds until the crash stopped it. By 1930, the debt service on American loans abroad amounted to \$900 million.¹⁹

As long as the going was good, political relations could also develop positively. This was the era of the Treaties of Locarno, concluded in 1926. These seven treaties assured several nations of the security of their borders. The most important was, of course, the one between Germany and France, which paved the way for Germany’s admission to the League of Nations. The “golden twenties” seemed to usher in a new era of peace.

At end of the 1920s, the drying-up of American credit made it difficult for Germany to pay reparations, and another American plan was required. Owen Young, chairman of General Electrics and founder of the Radio Corporation of America, was sent to Germany, accompanied by the famous New York banker [J. P. Morgan, Jr. \(1867-1943\)](#). The Young Plan, which thus had the backing of the American banking community, eased the burden of reparation payments by spreading them over a longer period of time.²⁰ By the time the plan was finalized in 1930, however, the Depression had set in, and the German government was soon taken over by [Adolf Hitler \(1889-1945\)](#).

The Impact of the Great Depression

The Depression was due to the evolution of the American Federal Reserve Bank. The USA had gotten along without a central bank for a long time since, for all practical purposes, the Bank of England had played this role for the country, although it did not issue American currency. A severe financial panic in 1907 caused the great American bankers, led by [J.P. Morgan \(1837-1913\)](#), to aim at the construction of such a bank as a lender of last resort. [Morgan](#) was assisted by a resourceful young banker, [Benjamin Strong \(1872-1928\)](#), in this venture. They had to proceed in secrecy because the people suspected that the bankers would create a “money trust.” The bill, which was finally introduced by President Wilson in December 1913,

showed the traces of the battle which had had to be won before this could be achieved. The Federal Reserve System (Fed) consisted of several regional branches in order to prevent a centralized "money trust," but the New York branch, headed by Strong, emerged as the most powerful.

It so happened that the Fed was established just in time to coordinate the financing of war loans to the Allies. Strong was the central figure in this. In the midst of the war, he had noted in his diary that "when the war stops – it should actually STOP."²¹ Strong was an internationalist who had helped to finance the British and French war expenditure with American loans. It was an irony of fate that the Fed, under Strong's leadership, adopted a policy in the 1920s which transformed the legacy of the war into a terrible liability. With the best of intentions, Strong paved the way for the Great Depression, which he actually predicted before his sudden death in 1928. Although the combatant nations had abandoned the gold standard in 1914, the United States had effectively retained it, and after the war, Strong felt that it was his duty to assist the nations wishing to return to it. In doing so, he was caught on the horns of a dilemma. In its new role as the world's creditor, the USA experienced an enormous inflow of gold after the war. According to the doctrine of the gold standard, this should have caused an inflation in the receiving country and a deflation in the countries losing gold. High prices due to inflation in one country and low prices caused by deflation in others would then lead to a return of the flow of gold. But the Fed was pledged to maintain domestic price stability. It could do this only by sterilizing gold by hoarding it, thus upsetting the automatism of the gold standard. While this solved the problem for the USA, it put increasing deflationary pressure on the countries losing gold. Strong wanted to relieve this pressure by providing ample credit to those nations. With an enormous treasure of hoarded gold, the Fed could create any amount of federal credit, which could be calibrated by its governors. With its inflationary monetary policy, the Fed mimicked the effect that the inflow of gold should have had. There were two flaws in this procedure: first of all, the debt service of these generous credits would lead to an additional flow of gold to the USA. Second, the Fed's policy of easy money fueled the exuberance of the American stock market. The USA could have resolved the issue by cancelling the war debts and/or permitting the free flow of gold, but these options were anathema to its political leaders. Strong tried his best to restore the world order after the war, but his attempts were bound to fail. He actually fueled an inflation which he could then no longer reign in and which triggered the Great Depression.²² The deflationary measures adopted by the Fed in the late 1920s were terribly "depressive."

The international gold standard, in whose contribution to world order Strong had firmly believed, had never worked automatically in the past. It had previously been managed by the

City of London, which, as the hub of international finance, supported the free flow of gold. Before the war, Great Britain's annual capital export amounted to about 170 million pounds, mostly directed towards North and South America. Returns received by Great Britain on this capital covered more than the annual outflow. After the war, the British capital export dwindled to about 40 million pounds per year.²³ Great Britain could no longer perform its pre-war functions as global financial hub. Nevertheless, the Governor of the Bank of England, [Montagu Norman \(1871-1950\)](#), strove to return to the gold standard at the pre-war parity. He worked for this strenuously with the help of his friend Benjamin Strong, and achieved this aim in 1925. In earlier times, the post of the Governor of the Bank of England had been filled at short intervals by elderly bankers. This bank, which performed all the functions of a central bank, was in fact a private bank owned by its shareholders. It was a bankers' bank, and Norman was the very embodiment of its strength. It was a sign of turbulent times that, instead of serving the usual short term, Norman held his post from 1920 to 1944. Norman was very active in organizing the cooperation of central banks throughout the world, but came into conflict with the Bank of France. His close friendship with Hjalmar Schacht, President of the German Reichsbank, particular troubled the French. Norman reached the zenith of his fame in 1929 when *TIME* magazine lionized him, printing his picture on the cover. But he had to admit that his achievement of 1925 had been a Pyrrhic victory, the British pound having been "under the harrow" ever since (a biblical reference to a cruel type of torture). Norman had to defend the overvalued pound by following a severely deflationary monetary policy;²⁴ this is what he meant when quoting the biblical metaphor.

When an international banking crisis loomed large on the horizon, Norman made a valiant attempt to stave it off through an international cooperation of central banks. It was due to his initiative that the Bank of International Settlements (BIS) was established in Basel, [Switzerland](#), in 1930. The BIS had been mentioned in the Young Report. The leading American banker J. P. Morgan, Jr., was closely involved in this plan.²⁵ Ideally, the BIS would have been a kind of monetary League of Nations, but by the time it started functioning, it could no longer prevent the impending disaster. It was starved of funds and could not even attempt to aid ailing financial giants such as the Austrian Creditanstalt, which collapsed in 1931, setting off an avalanche of bank failures throughout Europe. Instead of showing the power of central bank cooperation, the BIS demonstrated its helplessness.²⁶

The British finally abandoned the gold standard in September 1931. The pound was then allowed to float, and it depreciated by about 30 percent. The text of the announcement in which the [British government](#) explained its momentous decision was drafted by the staff of J. P. Morgan, Jr. in New York. Morgan was the greatest creditor of Great Britain at that time, and he endorsed the move at a press conference in London, expressing his faith in British

creditworthiness. Norman was in the United States while all this happened, and later on pretended he had not known about the decision. Back in London, he immediately took charge of Britain's new monetary policy by means of the Exchange Equalization Account, which held both gold and foreign exchange reserves. He conducted vast open market operations that enabled him to calibrate money supply, as well as to adjust the exchange rate of the floating pound.²⁷

As Ben Bernanke has shown in his studies of the Great Depression, such a crisis increases the cost of financial intermediation (i.e., banks and brokers).²⁸ This then leads to a veritable credit famine. In the industrial countries, this was accompanied by another counterproductive phenomenon: sticky nominal wages.²⁹ The economist's textbook prescribes that falling prices be paralleled by falling wages. According to orthodox views, the labor market is a market like any other, and is therefore governed by the rules of market clearing. Unemployment should thus not really exist, as every worker should find employment at the right price (wage) for his or her work. Sticky nominal wages, which imply rising real wages when prices fall, should not exist either in a functioning labor market. Instead, however, the credit famine was accompanied by a wage freeze. Employers fired workers rather than trying to reduce their nominal wages, or else "hoarded" skilled labor.³⁰ But there may be an additional reason: unions normally defend the rights of the employed, and not those of the unemployed. The employer may thus find it easier to fire workers than to reduce wages. At any rate, unemployment grew during the Great Depression and there was no "clearing" of the labor market.

The war and its aftermath had caused the rise of the welfare state in the industrial countries. Its most important achievement was the introduction of unemployment benefits. Conservative politicians were against it, arguing that such benefits distorted the labor market. But socialist leaders defended it, and Germany added a Labor Ministry to its cabinet in 1920. It introduced unemployment insurance in 1927, as well as a state-run labor exchange. The war had impoverished many Germans, and 6 million soldiers had to be [demobilized](#) after the war.³¹ The depression further increased unemployment and put the welfare state under great strain.³² German unemployment, which had reached 30 percent in 1932, fell to 2 percent in 1938.³³

While these problems plagued the industrial sector, the agricultural sector experienced its own bitter fate during the Depression. Peasants working in a subsistence economy would not have been touched by the Depression, but by the 1920s, there were very few pockets of subsistence economies left at the periphery of the world market. Most peasants on the

periphery depended on the market and on credit for their operations. In order to pay rent and/or land revenue, and to service their debts, peasants had to sell part of their agricultural produce. The demands they had to meet were very “sticky” and could not be readily adjusted once agricultural prices fell precipitously. This fall was more dramatic than anything that happened in the industrial sector, and could also be traced to the fate of the gold standard.

Gold and Grain: The Avalanche of Wheat

The gold standard supported the expansion of the worldwide trade in food grains, particularly wheat. As long as the gold standard prevailed, credit was freely available. This also helped to finance the storage of wheat, which could be used as a collateral to obtain further credit. The trade in wheat futures helped to stabilize prices internationally.³⁴ The 1920s had witnessed a rapid expansion of wheat production. In the USA, large parts of the Great Plains had been reclaimed for wheat cultivation. In the 1930s, these tracts turned into the “Dust Bowl,” as the soil dried up due to large-scale farming and the wind blew it away. Huge machines performed the work for which thousands of laborers used to be required. In [Argentina](#), huge estates of cattle breeders were partly converted into land cultivated by itinerant tenants, who lived in huts but owned modern combine harvesters.³⁵ In the period from 1924 to 1929, four countries dominated the wheat export market: Canada (38 percent), the [USA](#) (22 percent), Argentina (19 percent), and [Australia](#) (12 percent).³⁶ In 1925, these four nations produced altogether 40 million tons of wheat, of which they exported 19 million tons. The previous year had been a bad one – world production only amounted to a total of 68 million tons – but 1927 and 1928 were good years. World production climbed to 82 and then 92 million tons, and prices began to fall. Although 1929 was once more a bad year (77 million tons), prices did not recover. The storages were filled to the brim. In the meantime, the Fed had raised the bank rate in order to control the exuberance of the stock market. But speculators deposited stocks with their banks, using them as collateral for buying more stocks. The higher interest rates hit those who stored wheat on credit. Up until then, storage had provided the ratchet which prevented the decline of the wheat price, but in 1929, the ratchet broke, and an avalanche of wheat flooded the world market. Panic sales reduced prices, and by 1931 the wheat price had fallen far below the prewar level (index number 1913= 100, 1931= 62).³⁷ Trade declined in terms of value, but not in volume. Supply and demand held fairly stable, but they no longer determined the price of commodities, which remained depressed for a long time.

The steep fall in wheat prices affected the peasants on the periphery of the world market. [India](#) is a case in point: wheat prices declined even more precipitously there than elsewhere. From 1929 to 1931, the wheat price fell by more than half. Cheap Australian wheat depressed the Indian price level and the Indian government was forced to pass a Wheat

Import Duty Act.³⁸ The move did not at all agree with the free trade policy otherwise advocated by the government, but the Indian peasantry was in distress. Most of the peasants were indebted to moneylenders, and their debt service and revenue demands were not adjusted to make allowance for their loss in income.

Even more crushing than the fall of the wheat price, which affected Northern and Western India, was the sudden and unexpected collapse of the rice price in January 1931, which hit Eastern India. Rice was not overproduced and was not stored in great quantities. It was mostly produced and consumed in Asia. By 1933, the price of rice was lower than that of wheat: an unprecedented event. It was a drastic case of contagion by credit contraction. In October 1930, there had been a good rice harvest in [Japan](#). The Japanese price of rice then dropped by about 30 percent. This was also due to a deflationary monetary policy pursued in order to keep Japan on the gold standard, which it had rejoined only one year earlier. Japan neither imported nor exported rice at that time, but in November 1930, the news from Japan affected the international rice market of Liverpool, where the rice price was halved. This was communicated to Rangoon, the chief rice market of British India, where the price also fell by half when the winter harvest reached the market in January 1931.³⁹ A peasant rebellion in Myanmar followed and was violently crushed by the British. The impact of the Great Depression on the periphery of the world market could be noted in many other countries, too.⁴⁰

A curious case of a delayed impact of the Great Depression was that of [China](#), which had been on a silver standard. The price of silver fell steeply in parallel with that of all other commodities in 1930, and Chinese living abroad in gold standard countries then bought silver and invested it in China. This gave rise to a short-lived boom at the very time when other countries were hit by the Depression. But the Silver Purchase Act of 1934 obliged the [US government](#) to hold a quarter of its currency reserves in silver. The silver price doubled within a year and once more attained the level of 1929. In 1935, the price of silver increased by another 50 percent. Silver was sucked out of China with a vengeance, and fierce deflation followed.⁴¹

In other countries on the periphery, gold flowed out in torrents after Great Britain had left the gold standard in September 1931 and was floating the pound. This immediately increased the price of gold. Moneylenders then forced their debtors to part with their gold and a stream of “distress gold” flowed from the periphery to the center of the world economy. This was of great advantage to the floating pound and the emerging “sterling area.”⁴² It was the last instance in which control over the colonies was useful for [imperial powers](#): if countries like

India had been independent, they would have imposed a gold export embargo and used the gold to reflate their own economies. But the imperial rulers saw to it that India disgorged its gold, following a deflationary policy that deepened the Depression and helped to squeeze out more gold.⁴³ In earlier times, colonies had been valued because they guaranteed access to raw materials and agricultural produce. The steep fall in commodity prices had deprived the rulers of this benefit. They now held on to the colonies as creditors.

The trend towards decolonization emerged in the 1930s. Moritz Bonn coined the term “decolonization” in 1931, and in his book *The Crumbling of Empire*, he stated: “A decolonization movement is sweeping over the continents. An age of empire-breaking is following an age of empire-making.”⁴⁴ The global war had upset the old order. The myth of white racial superiority had been undermined on the battlefields, where millions of [soldiers of color](#) defended the [empires](#) by killing white soldiers.⁴⁵

The Rise of Nazi Germany

Post-war German democracy was a brittle edifice. The Allies had forced Germany to declare its sole responsibility for the war, which German public opinion rejected as a lie (*Kriegsschuldfrage*). The occupation of the Ruhr area by the French army and the subsequent hyperinflation had weakened the Weimar Republic, and finally, the Great Depression had subjected it to severe unemployment, amounting to 3.7 million in 1930. Adolf Hitler’s Nazi Party had been rather marginal until then, but in 1930, Hitler did very well in the elections, and was appointed head of the government by President [Paul von Hindenburg \(1847-1934\)](#).⁴⁶ In 1933, Hitler staged a coup and seized power. Hindenburg died in 1934, and Hitler usurped his office. In running the government, Hitler was supported by Hjalmar Schacht, head of the German central bank (Reichsbank), who was, in addition, Minister of Economic Affairs from 1934 to 1937. He clashed with [Hermann Göring \(1893-1946\)](#), who was ignorant of economics, but very powerful. Schacht had to yield the ministry to him, but remained head of the Reichsbank. Hitler retained Schacht as minister without portfolio. Schacht gradually reflatd the German economy and practiced Keynesianism even before Keynes had published his *General Theory*. The Nazis had no economic ideology, and Schacht could do what he liked. He proclaimed that German productivity was the backing of its currency. From 1929 to 1931, the volume of the German currency had declined from 5.6 to 4.1 billion Marks; Schacht reflatd it step by step. By 1938, it amounted to 8.6 billion.⁴⁷ He earned his fame as a financial wizard by creating the so-called “Mefo” bonds. “Mefo” stood for *Metallforschungsgesellschaft*, a shadow firm, which did not produce anything, but issued bonds that were discounted by the Reichsbank. Schacht was backed in this venture by leading German industrialists, who,

though they invested hardly any capital in this fake company, profited from it, since German re-armament was financed with Mefo bonds. By 1939, Mefo bonds to the tune of 12 billion were outstanding, while government bonds amounted to 19 billion. This shows that Mefo bonds were an additional currency. Hitler called Schacht a swindler when talking to his minions, but he found his tricks very useful.

Under Schacht's management, the German economy remained well controlled. This can be seen by comparing German with British index figures for prices and wages(1929=100)⁴⁸:

1932: German prices 70, wages 67, British prices 75, wages 96

1938: German prices 77, wages 85, British prices 89, wages 105

Hitler could be very satisfied with his ingenious "swindler," who enabled him to finance German rearmament while keeping both prices and wages low. Of course, this also required the Nazi state, which kept both capital and labor on a tight leash.

Schacht was a conservative nationalist who backed Hitler because he shared his desire to get rid of the restrictions of the Treaty of Versailles. But Hitler wanted to rearm Germany in order to win a Second World War. Initially, Hitler was cautious. He carefully watched the reactions of the British and the French to his moves. If they had stopped him early, they could have prevented the war. When Hitler saw his troops occupy the demilitarized Rhineland in 1936 and get away with it, he felt encouraged to move on. His next aims were the annexation of Austria and reclaiming the predominantly German regions of Czechoslovakia. President Wilson's well-meaning emphasis on the self-determination of nations had saddled Europe with a problematic legacy. The boundaries of the nations emerging from the defunct Habsburg Empire were determined by the victorious powers, and not by those nations themselves. The Germans in what was left of Austria were inclined to join Germany. Similarly, the Germans of Czechoslovakia, whose settlements formed a ring around the Czech area, had their eyes on Germany. Hitler could thus appeal to their "self-determination" to upset the order imposed by the Treaty of Versailles.

In November 1937, Hitler received an unexpected "private" visitor: [Charles Lindley Wood, Viscount Halifax \(1839-1934\)](#).⁴⁹ He had no official position in the cabinet and became Foreign Secretary only in 1938 as successor to [Anthony Eden \(1897-1977\)](#), who had resigned in protest against the Prime Minister's dealings with [Benito Mussolini \(1883-1945\)](#). Halifax told Hitler that he had discussed his initiative with Prime Minister [Neville Chamberlain \(1869-1940\)](#). He assured Hitler that the British agreed with him on the Czech and Austrian problems and would not obstruct a "solution" if it could be achieved without a war. It seems that Hitler convinced him of his "peaceful" intentions and assured him that he had no further

territorial ambitions. Poland sided at that time with Germany, as it had also claims on Czech territory in Silesia. Both Hitler and Halifax felt that their talks had been successful.

In January 1939, Hitler clashed with Schacht, who feared that Germany was heading for a serious inflation. Just like Keynes, Schacht was convinced that there was no harm in reflation an economy to achieve full employment if one stopped short of precipitating an inflation. He felt that this point had been reached in Germany due to excessive spending on rearmament, and could not see why it was still necessary now that Hitler's aim of getting rid of the terms of the Treaty of Versailles had been reached. He therefore wrote a letter to Hitler, signed by all members of the board of the Reichsbank. Hitler responded by sacking Schacht and his board.⁵⁰ He then went ahead with his preparations for the Second World War.

Conclusion: The United States and President Roosevelt

The self-destruction of Europe in the First World War had created an opening for the USA, which began its rise to global power without really aiming at it. Hitler's seizure of power was paralleled by the beginning of Franklin Delano Roosevelt's long presidency. Much has been said about his New Deal, but actually, Roosevelt's most important measure was going off the gold standard and initiating a devaluation of the US dollar in April 1933. Unlike Great Britain, which had been forced to go off gold in September 1931 due to a drain of its gold reserves, the USA had an enormous treasure of hoarded gold and could very well have retained the gold standard. But Roosevelt wanted to raise agricultural prices in order to help his voters, the American farmers. He did very well, as far as this was concerned, and he did not care about stabilizing the world at that time. He refused to attend the World Economic Conference in London in June 1933 and sent his "bombshell message" instead, telling the Europeans to put their house in order.⁵¹ His emphasis was on domestic consolidation rather than global leadership. Finally, however, he had to assume global leadership nevertheless. The dollar subsequently became the currency of the world. The Fed could print money for the whole world and derive a seignorage (i.e., a fee for coining money) for it. The French president, Valéry Giscard d'Estaing, called this an "exorbitant privilege."⁵² It had been acquired at the end of the Second World War, when the USA accounted for more than half of the combined output of the Great Powers. But it was retained even when the relative weight of the US economy declined. The sequence war-depression-war had put the USA into the driver's seat of the world economy.

Dietmar Rothmund, Ruprecht-Karls-Universität Heidelberg

Notes

1. Bonn, Moritz: *The Crumbling of Empire*, London 1938, p. 130. [↑](#)
2. Eichengreen, Barry: *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939*, Oxford 1992. [↑](#)
3. Feinstein, Charles / Temin, Peter / Toniolo, Giovanni: *The World Economy between the World Wars*, Oxford 2008. [↑](#)
4. Hardach, Gerd: *Der Erste Weltkrieg*, Munich 1973, p. 64. [↑](#)
5. König, Wolfgang / Weber, Wolfhard: *Netzwerke, Stahl und Strom, 1849-1914*, Berlin 1997, p. 384f. [↑](#)
6. Hardach, *Der Erste Weltkrieg* 1973, p. 68. [↑](#)
7. *Ibid.*, p. 160. [↑](#)
8. Feinstein / Temin / Toniolo, *The World Economy* 2008, p. 138. [↑](#)
9. Fuller, E. W. / Whitten, R. C.: Keynes and the First World War, in: *Libertarian Papers* 9/1 (2017), pp. 1-38, here p. 20. [↑](#)
10. Hardach, *Der Erste Weltkrieg* 1973, p. 173. [↑](#)
11. Tipton, Frank B. / Aldrich, Robert: *An Economic and Social History of Europe, 1890-1939*, Houndsmill 1987, p. 177. [↑](#)
12. Gerwarth, Robert: *The Vanquished. Why the First World War Failed to End, 1917-1923*, London 2016. [↑](#)
13. *Ibid.*, p.242. [↑](#)
14. *Ibid.*, p. 207. [↑](#)
15. Feinstein / Temin / Toniolo, *The World Economy* 2008, p. 38. [↑](#)
16. Tipton / Aldrich, *Economic and Social History* 1987, p. 205. [↑](#)
17. Rothermund, Dietmar: *The Global Impact of the Great Depression*, London 1996, p. 35. [↑](#)
18. Feinstein / Temin / Toniolo, *The World Economy* 2008, p. 79. [↑](#)
19. Mintz, Ilse: *Deterioration in the Quality of Foreign Bonds issued in the United States, 1920-1930*, New York 1951. [↑](#)
20. Rothermund, *Global Impact* 1996, p. 67. [↑](#)
21. Roberts, Priscilla: Benjamin Strong, the Federal Reserve and the Limits to Interwar American Nationalism, in: *Economic Quarterly* 86/2 (2000), p. 73 (Diary entry of 9 March 1916; Strong Papers File 1000.2). [↑](#)
22. Rothbard, Murray: *America's Great Depression*, Auburn 2000, pp. 142-149. [↑](#)
23. Rothermund, *Global Impact* 1996, p. 21. [↑](#)
24. *Ibid.*, p. 27. [↑](#)
25. Burke, Kathleen: The House of Morgan in Financial Diplomacy, 1920-1939, in: McKercher, Brian J. C. (ed.): *Anglo-American Relations in the 1920s. The Struggle for*

- Supremacy, Edmonton 1990, p. 148. [↑](#)
26. James, Harold: The Creation of a World Central Bank? The Early Years of the Bank of International Settlements, in James, Harold (ed.): Interwar Depression, Munich 2002, pp. 159-170. [↑](#)
27. Rothermund, Global Impact 1996, p. 63. [↑](#)
28. Bernanke, Ben: Essays on the Great Depression, Princeton 2004, p. 43. [↑](#)
29. Ibid., p. 28f. [↑](#)
30. Ibid., p. 256f. [↑](#)
31. Schmidt, Manfred: Der deutsche Sozialstaat, Munich 2012, pp. 17-18. [↑](#)
32. Ibid., p. 20. [↑](#)
33. Rothermund, Dietmar: The Worldwide Depression, New Delhi 2016, p. 180. [↑](#)
34. Topik, Steven C. / Wells, Allen: Warenketten in einer globalen Welt, in: Iriye, Akira / Osterhammel, Jürgen (eds.): Geschichte der Welt, volume 5, Munich 2012, p. 713. [↑](#)
35. Ibid., p. 706. [↑](#)
36. Ibid., p. 698. [↑](#)
37. Rothermund, Global Impact 1996, p. 40. [↑](#)
38. Rothermund, Dietmar: India in the Great Depression, 1929-1939, New Delhi 1992, p. 82f., 87f. [↑](#)
39. Ibid., p. 86. [↑](#)
40. Rothermund, Dietmar: Currencies, Taxes and Credit. Asian Peasants in the Great Depression, in: James, Interwar Depression 2002, pp. 15-34. [↑](#)
41. Rothermund, Global Impact 1996, p. 113. [↑](#)
42. Drummond, Ian M.: The Floating Pound and the Sterling Area 1931-1939, Cambridge 1981, p. 260. [↑](#)
43. Rothermund, India in the Great Depression 1992, p. 54f. [↑](#)
44. Bonn, Moritz: The Crumbling of Empire. The Disintegration of World Economy, London 1938, p. 101. [↑](#)
45. Gerwarth, Robert / Manela, Erez: The Great War as a Global War, in: Zeiler, Thomas et al. (eds.), Beyond 1917, New York 2017, p. 200. [↑](#)
46. Schwabe, Klaus: World War I, the Rise of Hitler, and the Legacy of Dictatorship, in: Zeiler et al., Beyond 1917 2017, pp. 248-265. [↑](#)
47. Rothermund, Worldwide Depression 2016, p. 179 [↑](#)
48. Ibid., p. 180. [↑](#)
49. Tomaszewski, Jerzy: Lord Edward Halifax visiting Adolf Hitler. The Antecedents of Munich, in: Hardach, Karl (ed.): Internationale Studien zur Geschichte von Wirtschaft und Gesellschaft, Frankfurt 2012, pp. 1119-1130. [↑](#)
50. Rothermund, Global Impact 1996, p. 150 [↑](#)

51. Clavin, Patricia: Explaining the Failure of the London World Economic Conference, in: James, Interwar Depression 2002, pp. 77-98. ↑
52. Eichengreen, Barry: Exorbitant Privilege. The Rise and Fall of the Dollar, Oxford 2011, p. 4. ↑

Selected Bibliography

- [Bernanke, Ben: **Essays on the Great Depression**, Princeton, 2004: Princeton University Press.](#)
- [Bonn, Moritz-Julien: **The crumbling of empire. The disintegration of world economy**, London, 1938: Allen & Unwin.](#)
- [Drummond, Ian M.: **The floating pound and the sterling area, 1931-1939**, Cambridge, 1981: Cambridge University Press.](#)
- [Eichengreen, Barry J.: **Exorbitant privilege. The rise and fall of the dollar and the future of the international monetary system**, Oxford, 2012: Oxford University Press.](#)
- [Eichengreen, Barry J.: **Golden fetters. The gold standard and the Great Depression, 1919-1939**, New York, 1995: Oxford University Press.](#)
- [Feinstein, Charles H. / Temin, Peter / Toniolo, Gianni: **The world economy between the world wars**, New York, 2008: Oxford University Press.](#)
- [Fuller, E. W. / Whitten, R. C.: **Keynes and the First World War**, in: Libertarian Papers 9/1, 2017, pp. 1-38.](#)
- [Gerwarth, Robert: **The vanquished. Why the First World War failed to end, 1917-1923**, London, 2016: Allen Lane.](#)
- [Hardach, Gerd: **Der Erste Weltkrieg, 1914-1918**, Munich, 1973: Deutscher Taschenbuch Verlag.](#)
- [James, Harold \(ed.\): **The interwar depression in an international context**, Munich, 2002: Oldenbourg.](#)
- [König, Wolfgang / Weber, Wolfhard: **Netzwerke, Stahl und Strom. 1840 bis 1914**, Berlin, 1997: Propyläen.](#)
- [McKercher, Brian: **Anglo-American relations in the 1920s. The struggle for**](#)

[supremacy](#), Edmonton, 1990: University of Alberta Press.

- [Mintz, Ilse Schueller: **Deterioration in the quality of foreign bonds issued in the United States, 1920-1930**, New York, 1951: National Bureau of Economic Research.](#)
- [Münkler, Herfried: **Der Große Krieg. Die Welt 1914 bis 1918**, Berlin, 2014: Rowohlt.](#)
- [Rothbard, Murray N.: **America's Great Depression**, Auburn, 2000: Ludwig von Mises Institute.](#)
- [Rothermund, Dietmar: **India in the Great Depression. 1929-1939**, New Delhi, 1992: Manohar.](#)
- [Rothermund, Dietmar: **The global impact of the Great Depression 1929-1939**, London, 1996: Routledge.](#)
- [Rothermund, Dietmar: **The worldwide depression, 1929-1939**, New Delhi, 2016: Manohar.](#)
- [Schacht, Hjalmar: **Confessions of 'the old wizard'**, London, 1956: Houghton Mifflin.](#)
- [Schmidt, Manfred G.: **Der deutsche Sozialstaat. Geschichte und Gegenwart**, Munich, 2012: Beck.](#)
- [Tipton, Frank B. / Aldrich, Robert: **An economic and social history of Europe, 1890-1939**, South Melbourne, 1987: Macmillan Australia.](#)
- [Tomaszewski, Jerzy: **Lord Edward Halifax visiting Adolf Hitler. The antecedents of Munich**, in: Hardach, Karl \(ed.\): Internationale Studien zur Geschichte von Wirtschaft und Gesellschaft, Frankfurt a. M. 2012 Peter Lang, pp. 1119-1130.](#)
- [Weitz, John: **Hitler's banker. Hjalmar Schacht**, Boston, 1997: Little, Brown and Co.](#)
- [Zeiler, Thomas W. / Ekbladh, David K. / Montoya, Benjamin C. \(eds.\): **Beyond 1917. The United States and the global legacies of the Great War**, New York, 2017: Oxford University Press.](#)

Citation

Dietmar Rothermund: Post-war Economies, in: 1914-1918-online. International Encyclopedia

of the First World War, ed. by Ute Daniel, Peter Gatrell, Oliver Janz, Heather Jones, Jennifer D. Keene, Alan Kramer, and Bill Nasson, issued by Freie Universität Berlin, Berlin 2018-05-22.

DOI: [10.15463/ie1418.11264](https://doi.org/10.15463/ie1418.11264)

External Links

- [6 May 1926. Emergency Rations, The general strike of 1926 \(Guardian News and Media Archive\) \(Article\)](#)
- [Bernanke, Ben S.: The Macroeconomics of the Great Depression. A Comparative Approach, in: Journal of Money, Credit and Banking 27/1, 1995, pp. 1-28 \(FRASER\) \(Article\)](#)
- [Bonn, M. J.: The Crumbling of Empire. The Disintegration of World Economy, London 1938 \(Internet Archive\) \(Book\)](#)
- [Bordo, Michael D. / MacDonald, Ronald: The Inter-War Gold Exchange Standard. Credibility and Monetary Independence, 2001 \(National Bureau of Economics Research Working Paper\) \(Article\)](#)
- [Brun, Joseph Lucien: Résumé analytique des diverses dispositions contenues dans la loi du 17 avril 1919 sur la réparation des dommages de guerre, Amiens 1919 \(Gallica\) \(Book\)](#)
- [Chevallier, Fabienne: Sortie de guerre et enjeux urbains. Histoire de deux projets parisiens, 1919-1939, in: Histoire@Politique 3/3, 2007 \(Cairn.info\) \(Article\)](#)
- [Crafts, Nicholas: Walking Wounded. The British Economy in the aftermath of World War I, 27 August 2014 \(VoxEU.org\) \(Article\)](#)
- [Dorval, Bill / Smith, Gregor W.: Interwar Deflation and Depression, 2013 \(Econstor\) \(Article\)](#)
- [Ducrocq, Maxime: La Loi sur la réparation des dommages de guerre et son application pratique, Paris 1918 \(Gallica\) \(Book\)](#)
- [Fuller, E. W. / Whitten, R. C.: Keynes and the First World War, in: Libertarian Papers 9/1, 2017, pp. 1-38 \(Libertarian Papers\) \(Article\)](#)
- [Haber, Fritz: The Synthesis of Ammonia from Its Elements. Nobel Lecture, 3 June 1920](#)

[\(Nobelprize.org\) \(Article\)](#)

- [Hall, Daniel: Agriculture After the War, New York 1916 \(HathiTrust\) \(Book\)](#)
- [Hannsgen, Greg / Papadimitriou, Dimitri B.: Lessons from the New Deal. Did the New Deal Prolong or Worsen the Great Depression? 2009 \(Levy Economics Institute\) \(Article\)](#)
- [Hofmann, Mathias / Woitek, Ulrich: Emerging from the War. Gold Standard Mentality, Current Accounts and the International Business Cycle 1885-1939, 2011 \(University of Zurich\) \(Article\)](#)
- [Keynes, John Maynard: The Economic Consequences of the Peace, London 1920 \(Internet Archive\) \(Book\)](#)
- [Maddison, Angus: The World Economy, 1-2001 AD, in: The World Economy. Historical Statistics, volume 2, pp. 241-263 \(Madison Project\) \(Article\)](#)
- [New Deal Programs \(Library of Congress\) \(Database\)](#)
- [President Wilson's 14 points, 4 Principles and 5 Particulars, 1918 \(Frans A.M. Alting von Geusau\) \(Primary Source\)](#)
- [Seipp, Adam R.: Post World War I Demobilization, 2012 \(Oxford Bibliographies\) \(Article\)](#)
- [The Dawes Plan, the Young Plan, German Reparations, and Inter-allied War Debts \(United States Office of the Historian\) \(Article\)](#)

Metadata

Regional Section(s)

[Australasia](#) > [Australia](#)

[Central Europe](#) > [Germany](#)

[East Asia](#) > [China](#)

[East Asia](#) > [Japan](#)

[Latin America](#) > [South America](#) > [Argentina](#)

[North America](#) > [USA](#)

[South and South East Asia](#)

[Western Europe](#) > [France](#)

[Western Europe](#) > [Great Britain and Ireland](#) > [Great Britain](#)

Thematic Section(s)

[Post-war](#)

Subjects

[Economy](#) > [Labour](#) > [Unemployment, during and after war](#)

[Economy](#) > [Post-war economy](#) > [Demobilisation, post-war](#)

[Economy](#) > [Post-war economy](#) > [Inflation, post-war](#)

[Economy](#) > [Post-war economy](#) > [Reparations](#)

[Economy](#) > [War economy](#) > [Agriculture](#)

[Economy](#) > [War finance](#) > [Banks and financial markets](#)

[Economy](#) > [War finance](#) > [Foreign lending](#)

[Economy](#) > [War finance](#) > [Inflation](#)

[Warfare and the military](#) > [Wars after war](#) > [Second World War](#)

[Warfare and the military](#) > [Wars after war](#) > [Post-war conflicts](#)

Author Keywords

First World War; Reparations; Locarno; Great Depression; Gold Standard

GND Subject Headings

[Europa ; Wirtschaft ; Geschichte 1918-1945 \(, \)](#)

LC Subject Headings

[Europe--Economic conditions--1918-1945](#)

Rameau Subject Headings

[Europe -- Conditions économiques -- 1918-1945](#)

Key Person(s)

[Eden, Anthony](#); [J.P. Morgan, Jr.](#); [Roosevelt, Franklin D.](#); [Keynes, John Maynard](#); [Chamberlain, Neville](#); [Schacht, Hjalmar](#); [Charles Lindley Wood, Viscount Halifax](#); [Morgan, John Pierpont](#); [Bonn, Moritz](#); [Bosch, Carl](#); [Dawes, Charles](#); [Young, Owen](#); [Strong, Benjamin](#); [Norman, Montagu](#); [Wilson, Woodrow](#); [Mussolini, Benito](#); [Hitler, Adolf](#); [Hindenburg, Paul von](#); [Kemal, Mustafa \(Atatürk\)](#); [Schlieffen, Alfred, Graf von](#); [Briand, Aristide](#); [Göring, Hermann](#); [Stresemann, Gustav](#); [Haber, Fritz](#)

Key Location(s)

Title

Post-war Economies

Author(s)

[Dietmar Rothermund](#)

Article Type

Handbook Article

Classification Group

Survey Article (Thematic)

Articles That Link Here

[Post-war Welfare Policies](#); [Post-war Economies \(Africa\)](#); [Post-war Societies](#); [Discussion: Humanitarianism](#); [Post-war Welfare Policies](#); [League of Nations](#); [Post-war Economies \(Australia\)](#); [Centenary \(Internet\)](#); [Post-war Economies \(Turkey\)](#) and [Post-war Societies \(India\)](#)