Monetary internationalism, the war debts and Anglo-American preparatory negotiations for the 1933 London economic conference

Dale N. Shook
University of Nebraska at Omaha

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MONETARY INTERNATIONALISM, THE WAR DEBTS
AND ANGLO-AMERICAN PREPARATORY NEGOTIATIONS
FOR THE 1933
LONDON ECONOMIC CONFERENCE

A Thesis
Presented to the
Department of History
and the
Faculty of the Graduate College
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In Partial Fulfillment
of the Requirements for the Degree
Master of Arts

by
Dale H. Shook
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requirements for the degree Master of Arts.

William P. Patrick, History
Chairman

Graduate Committee

Name: George W. Clark, History
Department: Secondary Education

Name: Phil P. Clark, History
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CHAPTER X

From the end of World War I through 1932, the United Kingdom, in spite of its economic depression, remained the primary source of capital for the world. Following the war, however, the United States replaced the United Kingdom as the major source of foreign capital in Europe. American post-war loans, combined with the effects of the war, brought monetary and economic instability to Europe. Consequently, throughout the 1920's and early 1930's the central banking establishment and a relatively small number of diplomats, businessmen and economists made an effort, through the League of Nations, to attempt to achieve monetary internationalism as the basis of European economic stability and political unity. These adherents of monetary internationalism were deeply interested in achieving world economic recovery and opposed the rising tide of protectionism and monetary nationalism which they believed was tending to stifle international finance and trade.

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The internationalists sought to stem these tendencies because they threatened to replace the traditional laissez faire economic order with that of government control of monetary and financial affairs.

The new monetary nationalist order was essentially neo-mercantilist because it involved the use of government-assisted monetary manipulation, done for the national welfare without concern for the broader international consequences. This trend came about as a result of the attempts of many nations that had previously been dominated by the economically most powerful nations in Europe, to obtain a larger share of the post-war markets. The monetary internationalists opposed any market and monetary realignment since the survival of the existing economic and political order depended on restoring pre-war stability and the orthodox economic order. They maintained that monetary internationalism would secure prosperity for all nations, but consistently demonstrated through various international monetary policy proposals that their primary concern was to protect the relatively narrow interests of international finance and trade.

Some economists realized that the situation created in the 1920's by the World War I reparations and war debts could eventually cause a

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For example see Hubert Douglas Henderson, The Inter-War Years and Other Papers, ed. by Henry Clay (Oxford: Clarendon Press, 1955), pp. 381-387. Also see Carl F. Parrini, Heir to Empire (Pittsburgh: University of Pittsburgh Press, 1969), p. 37, for a discussion of the effect that European economic nationalism had on American penetration of European markets.
realignment in the economic control so carefully rationalised under the international gold standard, the primary institutional means of the monetary internationalists' influence and control. This view was rejected by the monetary internationalists who believed fair play would dictate, as it always had in the orthodox economic system, and that the creditor nations would not use their position to accumulate gold to take advantage of the political and economic flux in Europe. However, the internationalists were mistaken and the debts and reparations did cause a shortage of gold. This decreased the backing for national currencies, and many governments accordingly decreased the supply of money to maintain currency stabilisation. This caused prices, in gold, to fall continuously. As prices fell and gold balances shifted disproportionately, those nations losing their gold balances assumed policies of tariff protection and permitted their central banks to have almost complete control over foreign exchanges. This enabled the central banks to further upset the "natural" balance of the gold standard and assume new influence over political affairs. With this newly-acquired influence, the monetary internationalists, led by the central bankers, took the initiative of calling, through the League of Nations, a series of international economic and monetary conferences to deal with the problem of the imbalances caused by the reparations and war debts, and the growing barriers to trade and monetary order. Among the


6Cassel, *Downfall*, p. 21.
internationalists however, the Europeans wanted to preserve what control of capital development and trade they had in Europe, and the Americans wanted to prevent any erosion of their post-war gains and continue to expand their role.

The international economic conferences held in 1920, 1922 and 1927 failed because the internationalists believed the object of any economic recovery programs should be to return all nations to the gold standard and restore the pre-war economic status quo. Although the monetary internationalists professed to favor higher prices, they openly opposed those measures required to achieve higher prices. Their objective was stabilization, and stabilization was deflationary and depressionary. Their argument that stabilization would lead to recovery of international trade was true. However, because of the resulting higher interest rates, domestic credit expansion would contract, rather than expand, and would depress domestic economic activity. The monetary internationalists' stabilization policy was indicative of the difference in policy objectives between themselves and the economic nationalists.

After the collapse of the New York Stock Exchange in 1929, the flow of American funds to Europe declined significantly. In 1929 American private foreign investment and loans were $602 million; in 1930, $294 million; in 1931, $222 million; and in 1932, $16 million.7

7Viscount Philip Snowden, "Economic Nationalism Bars Way," Barron's, June 5, 1933, p. 3.


9Department of Commerce, Historical Statistics of the United States, p. 564.
But, this drastic decline in American investment and loans did not stop the reparations and inter-governmental loan payments. The strain on the gold supplies was too much for British gold reserves, and on September 21, 1931, the British Government, ignoring the advice of the central bankers, went off the gold standard to save the country from complete monetary and economic chaos.¹⁰

Prime Minister Ramsay MacDonald's National Coalition Government was searching desperately for a way to recovery.¹¹ The internationalists among the Parliamentary opposition believed the Government considered the loss of export markets, due to overproduction of primary products, the primary cause of the debacle.¹² They felt that low prices and reduced purchasing power were responsible for the Government's attitude that orthodox and internationalist free trade policies could not correct this situation, thus providing a plausible reason for the Government's move to protectionism in early 1932.¹³ However, the Government was looking beyond trade recovery. The National Coalition believed that since British austerity and deflation had failed to correct the problem of the almost continuous post-war economic decline


¹¹ For a study of the new Government's proposed monetary and economic policy see "Manifesto of Prime Minister MacDonald," Commercial and Financial Chronicle, 133 (October 10, 1931), pp. 2345-46.


in Britain, the most effective and least inflationary course for recovery was to abandon the gold standard in order to build a payments balance, lower borrowing rates, institute selective trade protection and, most importantly, find a way of convincing the United States and the rest of the world that it was the reparation-war debt payment system that had created the financial and economic imbalances.\footnote{264 H.C. Parl. Deb., April 14, 1932, 1011-14, 1019, 1022. Walter Bunciman, President of the Board of Trade, presenting the causes and the proposed solutions to the problem. Also see League of Nations, Financial Committee, Report of the Gold Delegation (O.C. 502) (1932), pp. 72-73.}

British internationalists observed the move to obtain relief from the reparation and war debt collection system and assumed that the Government's objective was merely to correct the imbalance that had occurred in national gold reserves before returning to the gold standard. In January, 1932, The Economist published a supplement entitled "The Crisis" by Sir Henry Strakosch, noted British financier, and a member of the Financial Committee of the League of Nations.\footnote{League of Nations, Report of the Gold Delegation, p. 61.} In this supplement Strakosch attempted to demonstrate that there was a close connection between the "abnormal" distribution of the world's monetary gold supply and the course of the financial crisis. He indicated that the payment of reparations and war debts was the cause of this abnormality. The most important part of the analysis was a compilation of the reparation and war debt payments to France and the United States. Strakosch also pointed out the effect of the United States discontinuing its loans to Europe:

In the first period [1925-29] - one of ordered progress - France and the United States, taken together, accepted reparations and war
debt payments in things other than gold (except for some $200 millions), whereas in the second period [1929-31] - one of profound disturbance - they collected not only the whole of them in gold, but added another $907 millions to their gold reserves, ... It may well be that this accumulation of gold would never have taken place if it had not been for the deflationary effect which the collection of reparations and war debts in gold had exercised on the rest of the world. That deflation obviously reacted adversely on the volume of international trade, particularly in the debtor countries.16

The Economist agreed with Strakosch that the abnormality in gold movements was the primary cause of lower prices. This important journal and many leading newspapers and periodicals in both Europe and the United States agreed that the chief goal of any international monetary or economic conference should be to correct this situation.17 Prime Minister MacDonald and the National Coalition Government agreed with this attitude but went beyond it.18 Both the nationalist and internationalist interests in Britain desired to restore a permanent financial balance. The difference was over the means to follow, rather than in the end sought.

The British began their formal campaign to convince the United States to negotiate the reparations and war debts problems after the December, 1931, Basle Experts Meeting, which was arranged under the

17"The Crisis," The Economist, CXIV (January 9, 1932), p. 56. Also see "World Price Drive is Urged by Britons," Commercial and Financial Chronicle, 134 (May 14, 1932), p. 3358. These two sources provide an overall analysis of the press attitude.
18See Ray D. Atherton (American Embassy Chargé in London) to State Department, January 30, 1932, Official File 230, Foreign Affairs - Financial Matters, Presidential Papers, Herbert Hoover Papers, Herbert Hoover Presidential Library. Hereafter referred to as HHP, HHPL. Atherton analyzes a January 27, 1932, speech by Prime Minister MacDonald. MacDonald said that the gold flow to the United States damaged world trade, but went on to indicate that the Government would not be satisfied with only gold parity restoration.
auspices of the Young Advisory Committee. This meeting strongly urged giving Germany relief from reparations payments. It was clear that the Young Committee could do nothing more than give an opinion on the matter. Its major concern was the devastating effect the continued payment of reparations was having on the German banking system and the potential effect on the loans the central banks had made to Germany. The Basle Meeting provided the British Government with the foundation for a major turning point in their foreign economic policy. The Government was now able to use British departure from the gold standard and the antipathy toward the war debt payments as the basis for using political means to achieve economic ends. They indicated by their new economic policy that they felt the British had suffered enough economic hardship in order to obtain British financial recovery and dominance, through orthodox economic means, and were in the future going to pursue more flexible methods.

However, as the Government pursued their unorthodox planning methods most publicity was given to the orthodox attempts to expose the errors of inflationary policies. The public and Parliament chose to not distinguish between the differing programs of the political settlement sought by the Government and the economic stabilization sought by the orthodox interests before considering the National Coalition a government of orthodoxy. They were mistaken in this assumption.

In the United States, Herbert Hoover's primary objective during his last year in office was to restore public confidence in his

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19 "Basle and After," The Economist, CXIV (January 2, 1932), p. 3.

20 Einzig, Bankers, p. 4. Also see 264 H.C. Parl. Deb., April 14, 1932, 1099, 1105-1107.
Administration. He sought to dispel all indications of inflation or government budget deficits that would impair the financial integrity of the United States. This, coupled with his belief that the sources of the depression were international rather than domestic, led Hoover to attempt to operate through the group that seemed desirous of promoting worldwide currency and trade stability, the monetary internationalists. He believed in orthodox recovery principles too fervently, and his Administration was too deeply committed to them to take the ultimate and radical action called for in the existing circumstances.

At the root of Hoover's anxiety about the world economic crisis, and the need for a conference to solve it, was his concern for the widespread overabundance of raw materials. He believed that excessive production of raw materials resulted in glutted markets. This caused a collapse of prices, financial chaos and disrupted world trade. The President saw this as primarily a European problem, ignoring American industrial overproduction. The solution Hoover advocated was to restore stable currency and values in Europe so that the United States could continue on the path to prosperity. President Hoover believed a world economic conference would create new confidence by planning the restoration of monetary and fiscal stability. He indicated that such action


was necessary to encourage the private investor to participate in credit and industrial expansion, and was the only way to reverse the deflationary process and raise purchasing power.\textsuperscript{23}

CHAPTER II

PREPARATIONS AT LAUSANNE, OTTAWA AND GENEVA

The central bankers and other monetary internationalists expressed, to President Hoover's satisfaction, the need for a world economic conference to achieve international financial stability. Hoover believed that the internationalist plan could restore stability with a temporary, rather than a permanent debt adjustment, and thus avoid political repercussions from an American Congress and public that opposed any type of debt negotiation. Hoover's own public commitment to this policy virtually tied his hands.¹ The monetary internationalist solution appeared particularly attractive because it only required a system to provide uniform policy and administration of monetary and economic affairs among the economically most important nations. But, monetary internationalists were quite pragmatic and eclectic during 1932 and 1933. They desired to attain an answer favorable to finance and trade, with whatever means necessary; even if it meant ignoring Hoover's desire to avoid negotiation for cancellation of the debts.²


As a result, there was much ambiguity in the American preparatory arrangements for the London Economic Conference, which was also called the International Monetary and Financial Conference or the World Economic Conference. The policy developed at the Executive level in the Hoover Administration was seldom interpreted or carried out in the manner desired by the President.

Hoover failed to realize the overall social and economic impact of the debt payments and believed there could be temporary arrangements made in order to free trade from restrictions and stabilize currencies without having to negotiate a permanent solution to the debt and reparations question. Hoover also believed that if the debts were cancelled the American government would lose the leverage required to force the debtor nations into accepting a return to the gold standard and currency stabilization favorable to the United States. He assumed that if the United States lost this control over European affairs American business would lose the trade advantage it had acquired in the 1920's. On the other hand, the internationalists, who were closer to foreign trade and financial affairs than the Administration, saw the obvious need for cancellation of the debts, but failed to appreciate the political consequences of cancellation. They were primarily concerned

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about the possible loss of American private loans in Europe which could result from the failure to achieve a permanent solution to the debt problem.

Both Hoover and the monetary internationalists failed to operate on a political level which matched that of many of the European governments. Hoover and his associates never realized that Great Britain and other European nations were quite ready to scrap the war loan and reparations payment program, even if it required sacrificing a return to monetary and economic internationalism. In the long run, the American decision on the future status of the war loans would make little difference. The effect the debt payments had on European economies made it quite likely that any European government which desired to stay in power would never accept the temporary solution Hoover desired. Since the British had been the most seriously affected by the deflation caused by the debt payments, and had the best bargaining power with the United States because of their earlier payment record, they were the leaders in the move to force the permanent political solution.

The British Government desired a permanent solution of the debt problem before any discussion of overall economic problems. The National Coalition believed the war debts the main block to British economic recovery and accordingly requested the League of Nations, in early 1932, to call a conference to deal with reparations, war debts and broader economic problems. 6 This was the Lausanne Conference. The formulation

6The Lausanne Conference was originally scheduled to begin on January 18 or 20, 1932. See Department of State, Foreign Relations of the United States, Diplomatic Papers 1932 (5 vols.; Washington, D.C.: Government Printing Office, 1958), I, 637. Hereafter referred to as Foreign Relations 1932. Also see Ray D. Atherton to the Secretary of
of British policy preceding the Lausanne Conference was an outstanding example of confusion of national and international political and economic objectives. The British planned to use the Lausanne Conference as a tool not only to call a halt to reparation payments and restore credit, but also as the basis for an attempt to restore their pre-war economic position.  

In connection with the planned Lausanne Conference, the MacDonald Government elected to drop the free trade system, not only to correct the "emergency" financial situation, but as a bargaining point vis-à-vis the United States for reparation and war debt concessions.  

The international central bankers had opened the door for such attempts at the earlier experts meetings, and the National Coalition was ready to accept international stability, but only on terms favorable to Britain. This required more than trade and monetary stabilization. The Government favored elimination of the debts before there could be any discussion of stabilization. Obtaining European unity on the debt issue, to force a moral imperative on the United States, was the purpose of the Lausanne Conference.  


7"Basle and After," The Economist, CXIV (January 2, 1932), p. 4.


During the deflation and trade depression before Britain left the gold standard it was the only European country that avoided going to budget deficits to achieve internal recovery. After leaving the gold standard, the Government continued for a time to maintain fiscal responsibility by resorting to even greater deflation through the use of all types of direct and indirect taxation. The obvious principle was that business confidence would be restored through sound public finance and sound government. However, the ensuing pressure was eased by the departure from the gold standard because the depreciation of the pound relieved the strain on the balance of payments. The Government's earlier policy of avoiding deficit financing to give them more political leverage fell in early 1932 to a more expedient policy of compromise, using some deficit financing and government involvement in monetary and economic affairs. This policy provided the basis for national recovery

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11. Ibid.

12. For the Government's earlier attitude concerning the balanced budget and opposition to protectionism see Ray D. Atherton, American Embassy (London), to the State Department, November 27, 1931, OF 230, Foreign Affairs-Financial Matters, Presidential Papers, HHP, HHPL. Atherton provides an analysis of the MacDonald Cabinet and a MacDonald speech on the subject. For a study of the reversal of this policy see "Stark and Unashamed," *The Economist*, CXIV (February 6, 1932), pp. 283-84, "The Pound and Policy," *The Economist*, CXIV (March 12, 1932), pp. 559-560, and "Control of British Banks," *Commercial and Financial Chronicle*, 134 (March 26, 1932), p. 2244. The official position was expressed in 264 H.C. Parl. Deb., April 14, 1932, 1011-1013, 1019, 1022. In response to chiding about Britain moving away from free trade policies, Walter Runciman said it did not matter as long as Britain benefitted from it, and that Great Britain had no intention of trying to exist on a self-sufficing basis. By early 1933, the Government was publicly committed to even budgeting a deficit and reducing taxes. See Andrew Mellon (United States Ambassador to Great Britain) to the Secretary of State, January 25, 1933, "Confidential," No. 16, OF 230, Foreign Affairs-Financial Matters, HHP, HHPL.
and gave the National Coalition a flexibility for international negotiations that it had not previously possessed and which the Hoover Administration never attained.

Although originally scheduled to begin in January, 1932, the Lausanne Conference was delayed by the United States refusal to discuss debt elimination. The British made a determined effort to obtain American participation. These attempts failed and the conference was postponed until June, 1932. However, eventual American involvement in the decisions made at Lausanne was considered crucial. It was obvious that any unilateral action by the European nations, without some type of acceptance by the United States, would be useless.13 The British objectives for the Lausanne Conference were quite specific. Seven days before the Conference opened, Foreign Secretary Sir John Simon informed the British Ambassadors at Washington, Berlin, and Rome that:

... The governing object to be sought at Lausanne is final agreement between debtor and creditor states represented there. The economic crisis... cannot be escaped by mere postponement or by face-saving formula. Confidence cannot be restored by mere prolongation of moratorium as this would do nothing to remove the uncertainty... There will be no further payment of reparations... The choice therefore is between reparations ceasing without agreement and ceasing under an agreement to be negotiated at Lausanne... We realize, of course, that this will raise the question of our debts to America but six months must elapse before the next instalment is due. In the meanwhile good effects of any agreement at Lausanne should have begun to make themselves felt. The continent of Europe is America's most important customer... We have noted Mr. Stimson's constant insistence of late that German reparations must continue to be paid and we infer that he realises what the position is bound to be if, as is inevitable, reparations cease.14


14Foreign Office, Political (Western), F.O. 371, June 11, 1932, No. 78, C 4789/29/62.
When the Lausanne Reparations Conference finally began on
June 19, 1932, representatives of France, Germany, Italy, the Netherlands,
the United Kingdom, Belgium and eleven other nations were present.
Prime Minister Ramsay MacDonald declared at the first session that the
object of the conference was to be based on two levels of discussion
and agreement:

That if default of the war debts is to be avoided, engagements
which have been proved incapable of fulfilment should be revised by
agreement. Both sides to all agreements must ever be ready to face
facts. And amongst the facts which we have to consider are not only
those of whether the plans hitherto formulated have imposed impos-
sible burdens, but whether and how they have contributed by their
economic, financial and commercial unsoundness to the deplorable
economic state in which the world now finds itself.
The invitation which has brought us here contemplates, as I
have said, a continuation on a wider field of our work at Lausanne
... We must stop the active influences now making for general
economic deterioration. ... Europe cannot act alone. ... and we
must all be gratified that after the present phase is over the
United States has encouraged us to believe that it will co-operate
in the examination of at any rate some of the wider problems and
join with us in devising a policy for the encouragement of trade and
the enrichment of the nations.15

This general statement was indicative of the primary objective of the
nations attending the Lausanne Conference, which was to obtain further
evidence of the need for the United States to agree to cancel the war
debts as a pre-condition for the other allies to end German reparations
and discuss overall monetary and economic stabilization.

The Final Agreement reached at Lausanne declared that the powers
signing the Agreement:

... do not claim that the task accomplished at Lausanne, which will
completely put an end to Reparations, can alone assure that peace
which all the nations desire. But they hope that an achievement of
such significance and so arduously attained will be understood and

15 Great Britain, Foreign Office, Lausanne Conference, Confidential
File 14153, "Stenographic Notes of the First Plenary Session of the
appreciated by all the pacific elements in Europe and the world, and that it will be followed by fresh achievements.\textsuperscript{16}

The concept of paying off the debts in reverence to orthodox economic principles had been destroyed at Lausanne.

The Lausanne Conference also agreed to request the League of Nations to set up an Organizing Committee to outline the basic world economic problems. The purpose of this committee was to draw up an agenda for the London Conference, which would continue the Lausanne Conference work in deciding on measures relating to interdependent economic and financial questions as well as "restoring currencies to a healthy basis . . . \text{and facilitating the revival of international trade.}\textsuperscript{17} Prime Minister MacDonald was appointed Chairman of the Organizing Committee. In order to obtain an agenda that would be politically acceptable to the United States, the Organizing Committee, as was the custom in the League, set up an Experts Committee. The Experts Committee, which was to become an important instrument in convincing the United States to take the steps necessary to ease the burden of the debts, was dominated by central bank and treasury experts favoring the orthodox economic tradition which had motivated the League since its inception.\textsuperscript{18} The first meeting of the Experts was scheduled for October 31, 1932.

In the meantime, efforts had been directed at getting the United

\textsuperscript{16}Great Britain, Cmd. 4126, Miscellaneous No. 7 (1932): Final Act of the Lausanne Conference, Lausanne, July 9, 1932, p. 15.

\textsuperscript{17}Ibid.

\textsuperscript{18}Department of State, Foreign Relations-1932, I, 827-829, 837. Also see McClure, World Prosperity, pp. 269-223 for a study of League "Wilsonian" ideology prevalent in the earlier international economic conferences.
States to participate in the London Conference. Although the British had failed to get the United States to join the Lausanne Reparations Conference, they sought to use another international economic conference, the London Conference, to achieve American agreement to the results expected to come out of the Lausanne meeting. The proposed London Conference, which was only intended to be an extension of the Lausanne Conference, was greatly broadened in purpose and scope in order to give the Hoover Administration a reason for attending and ostensibly giving its approval to the policies of monetary internationalism. The connection between the American refusal to attend the Lausanne Conference, while agreeing at the same time to participate in the London Conference, cannot be overemphasized for its impact on the preparations for the London Conference. By this action the Hoover Administration demonstrated an obvious desire to negotiate the debts in order to further monetary internationalism, while publicly, for political reasons, denying any plans to tie the results of the two conferences together.

On May 13, 1932, Sir Ronald Lindsay, British Ambassador to the United States, asked Secretary of State Henry Stimson if the State Department would be interested in the formation of an international monetary and economic conference. Stimson informed Lindsay that the Department and the President were already seriously considering the feasibility of such an idea.\(^{19}\)

On May 25, Stimson telephoned Prime Minister MacDonald to

\(^{19}\)Department of State, Foreign Relations, 1932, I, 808. The origin of the idea for a new international conference came from Winston Churchill. Subsequently, William R. Castle, Jr., Assistant Secretary of State, showed interest in the idea. At this point, Ambassador Lindsay contacted Secretary of State Stimson. See Foreign Office, Political (Western), F.O. 433, May 28, 1932, No. 740, W 6278/20/50.
indicate United States interest in participating in the London Conference, if the British would call it, because they were already off the gold standard, while if it were held in the United States it would cast aspersions on the Hoover Administration's ability to hold the United States on the gold standard. Stimson felt there were two main purposes for the conference: achieve the recovery of commodity prices, and encourage world economic groups in the knowledge that governments were behind them. Stimson went on to point out that the key to real success was based on "action taken in the monetary sphere," and delaying further tariff and trade retaliations and discriminations. Stimson, expressing Hoover's concern about identifying American participation in any world economic conference with the expected results of the Lausanne Conference, also told the Prime Minister that the United States could not consider debt and reparations questions at such a conference because they were purely domestic problems; meaning they were political problems. Stimson felt that the conference should be one of politicians and ministers, but agreed with MacDonald that before the conference there should be "suitable" preliminary discussions and expert preparations. This had been the procedure in earlier international economic conferences arranged through the League of Nations. Thus, the stage was set for the internationalist monetary experts to dominate the preparatory meetings, but plenipotentiaries would dominate the conference. However, the politicians never had the necessary power to commit any of

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20 Department of State, Foreign Relations, 1932, I, 808.

21 Ibid., 809.

22 Ibid., 810. Also see Meyers, The Hoover Administration, p. 279 for a study of what Hoover believed would be the result of these meetings.
the nations involved to the type of economic order desired by the
monetary experts. Significantly, the monetary internationalists con-
sistently refused to admit or realize that the politicians could not
readily commit the world to internationalism.

President Hoover declared he was opposed to cancellation of the
war debts, but was willing to attempt to convince the American people
that the United States could use debt deferrals to obtain beneficial
trade concessions. As a result, the MacDonald Government was confident
that the United States could eventually be encouraged to accept a perma-
nent political settlement and general cancellation of the debts. The
British acted on the premise that the best way to obtain this solution
was to demonstrate to the United States, through the experts, the effect
of the debt payments on the European economy and international trade.
If this failed, the British had what they felt to be the stronger
negotiating point of British Empire trade. They had confidence that the
unity of the Empire, which would be made secure at the upcoming Ottawa
Conference, would convince the trade-minded United States that self-
interest dictated negotiation with the British.

When the British and American governments announced the plans
for the London Conference in early June, 1932, the Washington Daily News
indicated, editorially, that the international mood was one which made
for conditions similar to those prevailing before the international
monetary and economic conferences held in the 1920's. The News pointed
out that as both London and Washington indicated the idea for an

23Feis, Characters in Crisis, p. 7.
24Foreign Office, Political (Western), F.0. 371, December 28,
1931, No. 767, C 9715/172/62.
international conference came from the other, neither had any intention of discussing the issues in a spirit of negotiation. Further indication of this attitude came from Hoover’s public assertion that the conference would not discuss debts.

Since the war debts were a political problem for Hoover, he could not openly agree to discuss them at the conference. However, Hoover recognized that the problem had to be solved before there could be meaningful discussion at the conference. Obtaining a solution to this important political problem became a vital issue in the preparatory negotiations. There were indications on both sides of the Atlantic that the preparatory activities would end in failure if they did not achieve a consensus on the debt issue, and only considered falling commodity prices, high tariffs and exchange restrictions without looking at the causes of these protectionist policies. If this happened, the conference would be, like the earlier international economic conferences, a failure before it started.

Some British statesmen recognized the American political intransigence on the debt question and pointed out the possible pitfalls that might be encountered in trying to gradually push the United States into a negotiated settlement on the issue. Winston Churchill told Parliament that when he suggested the idea of calling a world economic conference in May of 1932, he had noted that the war debts should not

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27 See 277 H.C. Parl. Deb., May 9, 1933, 1440.
be on the agenda. He pointed out that it was unfortunate that the
British and other European nations had brought up the question at
Lausanne. This action, according to Churchill, forced United States
Congressmen to commit themselves on the debt issue. He pointed out
that this could prevent the possibility of a quiet settlement.\textsuperscript{28}
Churchill's analysis proved to be a very accurate one.

Churchill stated that the United States and Great Britain
should achieve an informal agreement on the issues to be discussed at
the London Conference in order to present a united front to the con-
tinental nations. He was also anxious that the London Conference should
meet before the end of 1932 because it was, he felt, critical to
solving important social and political problems relating to unemployment,
taxation and obstructions to world trade. Churchill felt it had been a
grave mistake to close the Lausanne Conference before the American
Presidential election, indicating that: "There was still much that the
Lausanne Conference had to do to save the world."\textsuperscript{29} He felt the
Lausanne meeting should continue until the opening of the conference at
London. Churchill was apparently well aware that these important prob-
lems had to be solved immediately because the American election might
bring to power an administration determined to deal with American
problems first. He might have also realized that the preparations for
the conference were designed to accommodate the Hoover Administration,
and would be inapplicable for use with the next administration.

The next phase of the British efforts preceding the London

\textsuperscript{28}272 H.C. Parl. Deb., November 23, 1932, 78.

\textsuperscript{29}Ibid.
Conference was the Ottawa Conference, held from July 26 to September 1, 1932. This meeting, which indirectly greatly affected Hoover's negotiation plan, was designed to provide the British with trade bargaining power in the form of trade concessions if the United States was not inclined to eliminate the debts on the basis of the moral imperative provided through the Lausanne Conference.

The publicly stated purpose of the Ottawa Conference was to unite the Empire by internally lowering tariffs. The means for achieving this goal was to gain tacit Commonwealth approval of the most-favored-nation principle and imperial preference in an attempt to raise commodity prices. There was public antipathy towards a British return to the gold standard, and as a result the Government chose not to bring it up at Ottawa as part of the basis for bargaining with the United States for cancellation of the war debts. The Government stated in Parliament that achieving currency stabilization and the return to full international trade was the preferred way to restore a healthy economy. Even, however, should the Government fail to achieve Empire unity it would not be precluded from achieving economic recovery

30267 H.C. Parl. Deb., June 16, 1932, 551. The Secretary of State for Dominion Affairs (Mr. Thomas) pointed out that: "If we can show by our example that the Dominions of the British Commonwealth representing ... a fourth of the world, by common agreement can reconcile these divergent interests and help each other, what an example that in itself will be to the world."

31Foreign Office, Political (Western), F.O. 433, September 1, 1932, No. 26, W 9361/1167/50.


by national monetary adjustment.

The opposition in Parliament expressed their disdain of the Government's Lausanne-Ottawa policy. The free trade opposition argued that if the Government wanted no trade impediments and trade restrictions they should not go to Ottawa to achieve British Empire unity. The protectionists also opposed the program because they favored inflation, which could not be achieved through Empire trade agreements. Both groups stated that the National Government had given nothing but general indications of economic policy, and that they were anxious for a policy decision and a solution to Britain's attitude with regard to economic involvement with the rest of the world. The opposition realized that if the Government obtained Empire unity at Ottawa they would also gain new political bargaining power that would further disrupt the return to free trade and give the Government another opportunity to expand their unorthodox financial policy.

The Government generally considered the Ottawa Conference a success. In a post conference memo to Sir V. Wellsley, Mr. H.O. Chalkley, a British delegate to the conference, pointed out that although the ostensible reason for the conference was to increase the volume of Empire trade, Success has been achieved in that field by the

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34 See MacDonald speech in Great Britain, Cm. 4126, Miscellaneous No. 7 (1932): Final Act of the Lausanne Conference, Lausanne, July 9, 1932. The opposition argument is studied in 272 H.C. Parl. Deb., June 16, 1932, 552-53.


37 Ibid., and Foreign Office, Political (Western), F.O. 433, September 1, 1932, No. 26, W 9861/116750.
conclusion of a series of trade agreements between the various member
countries of the Empire." Chalkley then went on to point out that:

... the effects of these trade agreements, so far as the United
Kingdom is concerned, extend far beyond imperial economic rela-
tionships. They involve the United Kingdom in a domestic political
issue - the taxation and restrictive regulation of imports of
foreign food supplies and raw materials - which at the same time
must profoundly affect the economic and political relations of the
United Kingdom with foreign countries, and possibly also our
foreign policy.38

Chalkley also devoted considerable space to dealing with the
issue of raising wholesale prices and obtaining stability in exchanges
and a satisfactory currency. However, these issues were only discussed
at the conference in the most general terms.39 Very likely the Govern-
ment realized that such discussions would not receive great support
from the Dominions, which were interested in national recovery more than
international stabilization. The MacDonald Government was also more
interested in national recovery, and believed that the best route to
this recovery was through the United States. Achievement of a solution
to the low prices and glut of raw materials was conveniently handed to
the United States:

The Americans are not yet prepared, however, to contribute their
full share, which must now be the major share, in the international
co-operation in the four fields - political, economic, monetary
and financial - for the restoration of world purchasing and con-
suming power which alone can be decisive in attaining the common
objective. ... Since they desire the end and recognize the means,
it is possible that the forthcoming World Economic Conference may
provide the opportunity of securing some advance by the United
States in these directions.40

38 Foreign Office, Political (Western), F.O. 433, September 1,
1932, No. 26, W 9861/1167/50.

39 Ibid.

40 Ibid.
Seldom during the course of the preparations for the London Conference were the British objectives put so bluntly.

Since it was not possible to get the United States to agree to an outright cancellation, the Ottawa Conference took the British one step closer to obtaining a negotiated settlement on the debts. Free trade observers considered the Ottawa Conference a conspicuous failure because it had achieved reductions in imperial tariffs at the price of increased tariffs to outside traders. These observers felt this defeated one of the major goals of the British unity plan which was to lower barriers internally without raising them externally in order to demonstrate their overall unity on international trade and currency matters. They failed to realize that these barriers to non-imperial trade were precisely what the British Government wanted the United States to consider, hoping they would cause Congress to entertain plans for debt negotiation.

The somewhat nebulous policy of the Government was determined by their consideration of political reality. Political forces operating on the National Coalition caused it to take steps it felt necessary to achieve economic recovery. The planned delay created through the Lausanne and Ottawa Conferences was used to gain unity and a basis for negotiation on the debt issue. It also prevented the opposition factions from learning the exact nature of the Government's selective and nationalist policy and defeating it by making a more extreme appeal to

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those elements that would benefit most from either free trade and
monetary stabilization or protection and a free floating currency.
Because the Government position was between that of the opposition
factions, the opposition found it extremely difficult to expose the
Government policy as completely opposed to British interests. Since
the Government stood for fiscal responsibility, they appeared to be
pro-orthodox in economic and monetary policy. However, this was not the
case. Because the Government was a coalition they had to consider all
interests or the coalition - and recovery - would fail. Indications of
the internationalist and central bank concern over the Government's
relatively unorthodox approach came from the coalition's monetary inter-
nationalist critics who opposed the use of bargaining tactics of unor-
thodox origin because they realized this would mean the end of the kind
of stability that benefitted their interest and the international cooper-
ation they believed was right for the world. Thus, the idea that the
British Government was ideologically closer to Herbert Hoover's doc-
trinaire and orthodox approach than the more flexible approach advocated
by American economic nationalists was illusory. This had great signifi-
cance in the development of British as well as American policy in the
preparations for the London Conference.

The British had done their part to ease the negotiations, giving
the appearance that they fully agreed with the orthodox economic recovery
policies suggested by Hoover and the monetary internationalists. It was
now Hoover's turn to obtain American concurrence to the supposedly
internationalist policies worked out in earlier meetings of the monetary
experts, which were to be ratified at the London Conference.

Most of the official United States participation in the
preparations for the London Conference took place at the meetings of
the Geneva Organizing and Expert Commissions, which met from October 31
to November 13, 1932, and January 9 to January 19, 1933.43 The first
problem that Hoover had to deal with in relation to official American
involvement in the preparations was the selection of the American
representatives to the Organizing and Expert Commission meetings. The
appointment of Norman H. Davis and the United States Ambassador to
Germany, Frederic Sackett, as the representatives to the Organizing
Commission, and Professors John H. Williams and Edmund Day to the
Preparatory Expert Commission was an apparent indication of Hoover's
internationalist attitude.44

From the beginning of the Geneva discussions, the Hoover Adminis-
tration was aware of the expected attempts by the Europeans to dominate
the preparations. Hugh S. Wilson, United States Minister to Switzerland,
reported on the great ability and singlemindedness of the European
experts that would be at the meeting. Wilson had argued with the
British Foreign Secretary, Sir John Simon, that the Experts Commission
should not be allowed to entirely prepare the agenda for the conference
because many questions of policy were involved.45 Wilson also reported
on the League of Nations argument to call the London Conference the
"Economic and Financial Conference." Earlier, the conference had been
called only the "Monetary Conference" and Congress voted supportive

43James W. Angell, The Program for the World Economic Conference
(Boston: World Peace Foundation, 1933), p. 5-9. Hereafter referred to
as Program.

44Feis, Characters in Crisis, pp. 24-27.

45Department of State, Foreign Relations-1932, I, 826.
funds for it on this basis, assuming it would only deal with monetary matters. The League Financial Committee argued that "monetary" was too narrow a description of the matters to be brought before the conference.  

The Hoover Administration, however, acceded to the European decision to permit the experts to prepare the entire agenda and determine the scope of the conference. The Administration was turning the conference over to the monetary internationalist experts, expecting that they could, through expert appeal, convince Congress and public opinion that only by agreeing to accept debt negotiation in connection with overall monetary and economic stabilization could the United States and the world achieve recovery from the depression.

In analyzing the potential results of the upcoming Experts meetings the United States Consul at Basel, Merle H. Cochran, reported that the central bank and Bank for International Settlements representatives would dominate the committee action. He pointed out that the dominant viewpoint taken by these European experts was in complete agreement with the Bank for International Settlements platform of currency stabilization and return to an orthodox financial status quo.  

Cochran felt that it was certain that the American experts, regardless of their qualifications, would be at a serious disadvantage unless they received definitive instructions on the Administration's

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46 Department of State, Foreign Relations-1932, I, 826.
47 Ibid., 828.
48 Ibid., p. 314. Cochran analyzed the Bank for International Settlements platform in a telegram to the State Department, July 11, 1932, OF 230, Foreign Affairs—Financial Matters, Presidential Papers, MHP, HHFL. This platform was the basis for the Draft Agenda.
position on the handling of the debt and other general economic issues.\footnote{Department of State, Foreign Relations-1932, I, 829.}

Other observers had indicated this same point in Washington, without results.\footnote{Feis, Characters in Crisis, p. 28.} Cochran pointed out what the consequences of indecision would be in a remarkable piece of forecasting:

Europe's best experts are on the Preparatory Committee. It will be the plan of these men to go as far at Geneva as possible toward writing a complete program for acceptance at London. The qualifications of the European experts and the extent to which they are associated with Government policy should make clear the importance attributed by the European powers to the Preparatory Conference. If the United States hopes to have appear in the final Conference Report or Resolutions any positive American doctrines, every precaution should be taken to see that the Experts at Geneva work toward this end. To begin only at London, or to be obliged there to disavow acts of our Experts at Geneva, would be disastrous.

We shall come in far enough criticism at best, and we certainly should not expose ourselves to an undue amount through assuming ill-advised positions at Geneva.\footnote{Department of State, Foreign Relations-1932, I, 829.}

This warning was ignored by the Administration, which could lead to a hypothesis that Hoover expected the monetary internationalists to control the proceedings of the Preparatory meetings as well as the London Conference. He acquiesced to the internationalist representatives' proclamations that the debts had to be dealt with at the London Conference, hoping to make some political gain from the new confidence which the preparations would elicit, with little concern for the consequences at the London Conference itself. Hoover seemed never to have expected that the Geneva meetings might be frustrated by any significant shift in economic thought prior to the London Conference.\footnote{Feis, Characters in Crisis, p. 27.}
The last Administration directive to Day and Williams, the Americans on the Preparatory Experts Committee, came on October 18, 1932, the day they sailed for Europe. Acting Secretary of State William R. Castle, Jr. told them that the question of reparations, debts and specific tariff rates must be excluded from the scope of the conference. The implication was that the debt question would be left to private negotiations which would precede the conference. This was hardly a definitive set of instructions. The combination of Day and Williams' own orthodox internationalist leanings, and the determination of the other experts to achieve a debt solution, made the meeting a failure as far as Castle's directive was concerned.

After the completion of the first round of meetings, Day and Williams, in a report to the President, pointed out that monetary instability, the burden of public and private foreign indebtedness and trade impediments were interrelated and were "infringements upon a normally constituted world order." They suggested that the best means of correcting the situation was to solve the monetary instability problem by restoring the gold standard in England and Germany. Day and Williams indicated, in the true orthodox manner, and notwithstanding the original broad government directive opposed to war debt negotiations, that an early settlement of the war debt question was essential.54 In order to implement this program they urged achieving an Anglo-American understanding before the meeting of the London Conference.55

53Department of State, Foreign Relations 1932, I, 835.
54Ibid., 840, and "Notes of the Week on the World Economic Conference," The Economist, CXVI (January 14, 1933), p. 65.
55Ibid.
The argument Day and Williams used in their report was very similar in content to that used by the Preparatory Commission of Experts, the British Government and the central bankers on numerous occasions prior to the Geneva meetings. This argument was that "depreciation of currencies depresses world prices which in turn steadily increases the burden of debts and leads to defensive measures which block the channels of trade."56

In early December, 1932, the speculation about the Geneva meeting efforts to achieve a unanimous agreement on the need for debt negotiation and currency stabilization reached the point where Stimson felt it necessary to inform Norman Davis, one of the American representatives at the Organizing Committee meetings, that in spite of the attention given to the Preparatory Committee's work, no decision had been made regarding American policy.57 Certainly, the impasse between Hoover and President-Elect Franklin D. Roosevelt was the primary cause of this indecision. Hoover could not direct progress toward the policies of orthodoxy and internationalism to achieve restabilization without Roosevelt's backing.58

56Department of State, Foreign Relations, 1932, I, 762-63.
57Ibid., p. 841.
58Herbert Hoover to Franklin Roosevelt, December 13 and 19, 1932, Official File 1772, Roosevelt, Presidential Papers, HHP, HHPL.
CHAPTER XIII

ATTEMPTS AT NEGOTIATION - NOVEMBER, 1932, THROUGH JANUARY, 1933

While the Hoover Administration allowed its economic and monetary policy to drift in Geneva and Washington, the MacDonald National Coalition Government commenced the consolidation phase of its preparations for the London Conference. The Lausanne and Ottawa meetings had provided the Government with substantial bargaining power on the debt issue. In early November, 1932, after the commencement of the Geneva Experts meetings, the Government began to test the American receptiveness to debt negotiations by informing the Hoover Administration it would be unable to meet the December 15, 1932, loan payment because of the hardships imposed on the country.¹ The French Government sent a similarly worded note about the same time, and the Administration feared collusion and a "united front" emanating from the Lausanne Agreement.² The Administration received these notes with the attitude that; "[Although] the Administration had been carrying on a strenuous fight for [Great Britain] it had been made more difficult by implication of bad

¹Foreign Office, Political (Western), F.O. 430, November 10, 1932, No. 453, C 9430/29/52. Also see Department of State, Foreign Relations-1932, I, 754-56. The British Government requested a suspension of the December 15 payment, followed by discussions to review and amend the inter-governmental payment system, with the object of cancelling the debts.

faith in [the British] note.\(^3\)

Secretary of State Henry Stimson informed Sir Ronald Lindsay, British Ambassador to the United States, that President Hoover regarded the debt-deferring note as an implication that the United States had failed to follow up on the Lausanne Agreement.\(^4\) Lindsay argued that the Lausanne Agreement regarded only the German inability to pay reparations and was not tied to the British note to the United States Government. Stimson, a staunch supporter of cancellation, demonstrated a sympathetic concern but pointed out that the Hoover Administration could not give favorable notice to the British objectives due to the political antipathy toward debt settlement and the "... impossible attitude of Congress circles."\(^5\)

The British action was premised on Ambassador Lindsay's belief that President Hoover was inclined to extend the moratorium but would only do so in return for trade and disarmament concessions. He believed Hoover hoped to bargain with Great Britain on the Ottawa agreements to gain ground against his political opposition.\(^6\) Lindsay was convinced it was still best for Great Britain to negotiate separately with the United States so that the whole matter could be referred to the


\(^4\)Ibid. Also see Department of State, Foreign Relations-1932, I, 756-57.


\(^6\)Foreign Office, Political (Western), F.O. 430, No. 454, November 14, 1932, C 9421/29/62.
London Conference where Britain would have the advantage. For this reason, Lindsay thought the best action would be to sit and wait for the United States to make the next move.

The apparent connection between the debt-deferring note and the Lausanne Agreement caused the British to fear the loss of their negotiation advantage. Lindsay learned that New York City political circles were quite upset with the British for acting so quickly on the debt issue. Lindsay informed the Foreign Secretary that:

They political circles say opinion here is still under the influence of the election and abnormal, that more time is wanted to educate it and that meanwhile debtor Governments should continue payments. I need not characterise this criticism, but it is confirmed by the tone of the press; that of the better papers is all that could be desired, while the appeals to ignorant prejudice come from more popular press and Hearst papers.

Lindsay did not need to point out that "better" papers were sympathetic to the position of the monetary internationalists who favored elimination of the debts, and the British were advised to play on that interest.

There was other evidence that the Administration would have liked to negotiate a debt arrangement with the British. On the same day Stimson chastised the British action on the debt, Secretary of the Treasury Mills informed Lindsay that the Administration had been in touch with certain New York bankers who were friendly to British interests. Mills suggested that the firm of Lamont, Leffingwell and Harrison might

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7See Ibid., November 16, 1932, No. 560, C 9437/23/62. Sir R. Vansittart (for Simon) informed Lindsay that London agreed with his November 14, 1932 (No. 451) assessment of the American situation and that Lindsay ought to be looking at areas for possible concession arrangements.

hold the British debt payment in a blocked account until they were in a better financial position. Mills also urged that the British Government should present a counter-proposal. "... emphasizing that without one it would be impossible to profit by a better disposition in Congress circles towards His Majesty's Government." He pointed out that the Government ought to come up with something temporary, because: "Anything in the way of trade agreements ... would take too long to be worth considering for the present conjuncture." Lindsay, in speaking for the British Government, continued to press for elimination of the debts rather than the suggested counter-proposal which would give the Hoover Administration some political security. Significantly, the attitude assumed by the British in November with the defeated Hoover Administration was much differently received by the Roosevelt Administration later in the preparatory discussions.

Thus, the Hoover Administration agreed with the British desire for debt negotiation but its political power was gone. The counter offer that Stimson and Mills requested Lindsay to submit was the only basis on which the Administration could approach Congress. The British were in an excellent bargaining position at that time but chose to wait, assuming that next time they would receive an offer for a complete renunciation of the debts. It did not take the British long to realize how quickly the United States position could change with the change in administration.

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9Ibid., November 24, 1932, No. 473, C 9742/29/62. Also see Meyers, The Hoover Administration, p. 280, for a discussion of the Administration viewpoint that the United States had to keep the debt issue separate from overall economic issues in order to use it for leverage in later negotiations and the London Conference. Hoover was merely trying to preserve this.
Logically, the British could view the situation as one in which bargains were possible. The Hoover Administration had consistently indicated that only by pointing out the real economic problems, and not by referring to emotional issues, could the British achieve a negotiated settlement of the debts.10 Lindsay considered this in line with everything the MacDonald Government had been doing since early 1932. The Government position was made clearer and stronger on December 13, when Chancellor of the Exchequer Neville Chamberlain told the House of Commons that there was nothing "incompatible between American willingness to consider a revision of war debts with a view to world recovery, and the arrangement that was made at Lausanne,"11 The Hoover Administration did very little to disabuse the British of this viewpoint, insisting only that the British continue the payments while the Administration sought to obtain Congressional authority to negotiate separate arrangements.12 From December, 1932, to March 4, 1933, Lindsay, Simon and the British Government demonstrated an expectation that the Hoover Administration's sympathy with the British point of view would be carried over in the next administration. The Hoover Administration had bargained out of weakness, and Lindsay reinforced the opinion in the MacDonald Government that their waiting strategy would pay off at the London Conference.

The most important consideration with regard to a solution to the debt problem was whether the negotiations would be carried out in

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private or in public. Hoover was opposed to public discussions carried out through normal diplomatic channels. In private discussions, mutually agreeable solutions were more easily obtained, and public pressure could be avoided. Hoover realized that a public expression of any possible compromise on the debts would greatly arouse Congress and public opinion. He desired to reactivate the War Debts Commission in order to obtain a gradual and negotiated solution, above politics. Reactivation of the Commission would serve his purpose because it would provide him with enough power to negotiate temporary debt relief terms, but without the risk of being forced to discuss cancellation. Hoover recognized that unless President-Elect Roosevelt agreed to this plan for private negotiations, it would never be possible to induce the British to take his monetary stabilization and trade agreement terms.

On the same day that Lindsay conferred with Stimson and Mills, President-Elect Roosevelt stated his opposition to the recommission of the War Debts Commission. This caused Lindsay great concern. Then, the next day Lindsay learned that Roosevelt would go along with negotiations if they were handled through normal diplomatic channels. Once again, Lindsay was led to believe that Roosevelt, like his predecessor, would be willing to negotiate until the monetary internationalists had convinced the Congress and American public opinion that the only correct answer was complete renunciation of the debts. However, there were two

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15 Foreign Office, Political (Western), F.O. 430, November 25, 1932, No. 483, C 9801/29/62.
more important factors involved in the final decision to reactivate the War Debts Commission. First, the British were willing to negotiate privately if the President and the Commission had the authority to make an official and permanent settlement. Reactivation of the Commission would provide some basis for adjustments, but it never had and never would receive the power to cancel the debts. Thus, the best way for the British to reach a favorable arrangement would be through public negotiations where British trade concessions and the moral imperative provided at Lausanne and Geneva would have more influence on public opinion in both the United States and Great Britain. Second, some of Roosevelt's advisers were opposed to cancelling the debts because they could serve as a warning to those who might expect the United States to finance another war. They also opposed discussions that could delay implementation of the New Deal domestic program. \(^16\)

Due to the impasse between Hoover and Roosevelt, the British failed in their attempt to obtain even a temporary settlement or moratorium of the debts before the December 15, 1932, payment was due. The Government desired to maintain the appearance of British financial integrity and Britain's supposedly strong bargaining position that could be beneficially used at the upcoming London Conference. As a consequence, they made the $95 million payment, but with the stipulation that it would not be considered a resumption of the regular payments; merely a final capital payment. The Hoover Administration was adamant in refusing to recognize this stipulation and the issue of settlement was left to the Roosevelt Administration. \(^17\)

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\(^{17}\) *Department of State, Foreign Relations-1932*, I, 770-780.
On December 17, 1932, Hoover informed Roosevelt that since the
developer governments had indicated their opposition to further payment of
the debts, it was necessary for the United States to discuss the debts
individually. Hoover pointed out that:

... such problems as the exchange of views in respect to debts
cannot be accomplished in satisfactory manner through the ordinary
routine of diplomatic contacts. Satisfactory conclusions can only
be reached by free and direct round table discussion with each
government separately where agreement may be had upon fact and
where conclusions can be reached. It has been an almost universal
practice in our government where unusual and vital questions are
involved to appoint special delegations to undertake such dis-
cussions. The routine machinery of diplomacy neither affords the
type of men required nor can they give the time from other duties
which such discussions require.18

Hoover also wanted Roosevelt to agree with him in setting up the
machinery to carry out this plan. Hoover stated that: "The debts" cannot be disassociated from the problems that would face the World
Economic Conference and to some degree those before the Conference on
World Disarmament."19 This was, of course, contrary to Hoover's own
public statements on the debt question.20

The President thought it was quite clear that the debt question
had to be discussed and negotiated prior to the London Conference for
it to be a success:

... the successful outcome of the World Economic Conference will
be greatly furthered if the debt problems can be satisfactorily
advanced before that conference although final agreement of the
debt problem... may be contingent upon the satisfactory
solution of certain economic questions in which our country has

18 Herbert Hoover to Franklin Roosevelt, December 17, 1932, Of
1772, Roosevelt, Presidential Papers, RNP, HHPL.

19 Ibid.

20 Meyers, The Hoover Administration, pp. 275-302, passim, and
a direct interest and the final determination of which may well form a part of the matters coming before the Economic Conference.21

Hoover was also anxious to set up the delegation to negotiate with the British in order to halt the British trend toward protectionist policies. In addition, he hoped that the Anglo-American discussions would help to restore confidence in his Administration and raise prices. He indicated that inaction would be dangerous, and although it was normal to wait until the change in administration, he felt it necessary to start the machinery before March 4th.22

At the same time Hoover was pushing Roosevelt to give his approval to opening the debt negotiations he demonstrated his distrust of the President-Elect by indicating that he was going to inform Congress of the economic situation and the desirability for setting up the machinery for the negotiations to precede the World Economic Conference.23

In his message to Congress Hoover pointed out the connection between the debts and American economic difficulties. He indicated that the restoration of price levels was essential, and that the price decline was due to the cessation of investment and overproduction, although he gave some credence to decreased consumption. He then went on to point out that:

... price levels have been seriously affected by the abandonment of the gold standard by many countries and the consequent instability and depreciation of foreign currencies. These fluctuations in themselves, through the uncertainties they create, stifle trade, cause invasions of unnatural marketing territory, result

21 Herbert Hoover to Franklin Roosevelt, December 17, 1932, OF 1772, Roosevelt, Presidential Papers, HHP, HHPL.

22 Ibid.

23 Ibid.
in arbitrary trade restrictions and ultimate diminished consumption of goods, followed by a further fall in prices.\textsuperscript{24}

The President also pointed out that he agreed with the conclusions of the internationalist experts that:

\ldots One of the first and most fundamental points of attack is to reestablish stability of currencies and foreign exchange, and thereby release an infinite number of barriers against the movement of commodities, the general effect of which would be to raise the price of commodities throughout the world.\textsuperscript{25}

The President recognized that the problem was one of raising prices, but to achieve this end he, like the monetary internationalists, favored a concerted action to return to the gold standard, even though it had worked badly since the war. He pointed out that the gold standard was "still the only practicable basis of international settlements and monetary stability so far as the more advanced industrial nations are concerned."\textsuperscript{26} He saw the solution of the monetary problem as the reason for the London Conference and indicated that: "The problem of the war debts to the United States has entered into this world situation. It is my belief that their importance, relative to the other world economic forces in action, is exaggerated."\textsuperscript{27} Hoover appeared to be laying the groundwork for minimising the effect of the debts in order to obtain maximum monetary and trade concessions from the British.

President-Elect Roosevelt almost immediately rebuffed Hoover's

\textsuperscript{24}Presidential Message to Congress, December 19, 1932, OF 1772, White House Press Releases, Presidential Papers, HHP, HHPL.

\textsuperscript{25}\textit{Ibid.}

\textsuperscript{26}\textit{Ibid.}

\textsuperscript{27}\textit{Ibid.}
attempt to get him to agree to preliminary debt negotiations and
courage Congress to take action in favor of international currency
stabilization. Roosevelt once again pointed out, on December 19, 1932,
that the debts must be handled through the existing diplomatic
channels. He was demonstrating his concern for and sensitivity to
public and Congressional opinion. Hoover was not as adept at this
all-important Presidential function.

Hoover had lost his political influence and realized that only
the channels of communication and negotiation provided by the monetary
internationalists provided an avenue for continuing his crusade, out of
the glare of unfriendly publicity. However, time operated against
Hoover. There was little hope that the new administration would permit
the American internationalists to engage in private negotiations to
achieve trade advantages and eliminate the threat of monetary and
economic nationalism. The London Conference seemed to be Hoover's only
hope for achieving the desired results.

Roosevelt was aware of Hoover's plans and pointed out that the
conference "should not be submerged in conversations relating to
disarmament or debts." He also pointed out that since he could not
agree with Hoover on the scope of the conference, no representatives to
the conference should be appointed until after March 4, 1933. He agreed
with the plan to hold a prior informal conference, but this was not
likely to receive acceptance from the Europeans until the United States
at least tacitly accepted the idea of negotiating the debts. This was,

28 Franklin Roosevelt to Herbert Hoover, December 19, 1932, OF
1772, Roosevelt, Presidential Papers, HHF, HHPL.

29 Ibid.
in effect, the end of Hoover's plans to negotiate a settlement with Britain.

The new impotence of the Hoover Administration became evident on January 20, 1933, when it gave tacit acceptance to the Draft Annotated Agenda prepared by the Preparatory Commission of Experts for the London Conference, and published by the League of Nations. The annotated agenda dealt primarily with problems of monetary instability, restoration of the gold standard, improving trade relations and raising world prices. It excluded specific tariff rate discussions in order to accommodate the United States Congress. However, in the "Introduction" and "General Programme" analysis the Commission declared the war debts to be the key to all economic recovery. Settlement of the debts thus became the keystone to the agenda and the London

30League of Nations, Preparatory Commission of Experts, Draft Annotated Agenda, (O.C. 48) (1933), pp. 5-9. The basic agenda of items to be discussed at the London Conference was drawn up at the Lausanne Conference. The agenda items specifically mentioned were: monetary and credit policy, prices, resumption of the movement of capital, restrictions on international trade, tariff and treaty policy, and organization of production and trade. The Preparatory Commission of Experts was instructed to draw up annotated comments to the basic agenda in order to make it possible for the London Conference "to decide upon the measures to solve the other economic and financial difficulties which are responsible for and may prolong the present world crisis." (See supra, p. 18, and n. 16, p. 18). The experts' annotated comments were published in the Draft Annotated Agenda. However, some contemporary observers felt the experts went beyond their stated task and that the annotations to the agenda were firm programs for the plenipotentiaries to pass on at London in order to restore monetary internationalism. Thus, rather than giving suggestions, the experts decided that certain programs had to be implemented to save the world, without providing any alternatives. The politicians and diplomats who would be at the London Conference were given no choice, per the annotated agenda. They would either wholly accept monetary internationalism or reject it. See Leo Pasvolsky, "Preparatory Commission's Vague Report," and "Agenda for World Economic Conference," Barron's, December 19, 1932, and February 27, 1933, p. 5 and pp. 18-19.
Conference. Since the MacDonald Government accepted the Draft Annotated Agenda, which was drafted by the representatives of monetary internationalism, as a proper interpretation of the economic situation, it appeared that the Coalition Government was promoting the policies of the monetary internationalists. As long as MacDonald's Government had the gains achieved at Lausanne and Ottawa it could agree to anything at Geneva, just to keep the internationalists and the United States off-balance and thinking that what Britain really wanted was only currency stabilization and removal of trade impediments.

The Experts Committee also discussed and included in the annotated agenda items dealing with restoration of the gold standard, relaxation of the world discriminatory tariff schedules, adjusting the disequilibrium between costs and prices and securing concerted government action on all the agenda items. Members of the Commission, officials representing the United States Government, the Bank for International Settlements and the central bankers appeared to consider solution of these other overall economic problems as important as solving the war debt problem, but did not say they had to be solved first. However, the British, contrary to popular belief, were committed politically more to elimination of the debts than any other item on the agenda. Thus, they would consider correction of the maladjustments caused by

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31 The Experts and the Conference, "The Economist, CXVI (January 28, 1933), pp. 165-166. This article includes a discussion of the British plan to use the Draft Annotated Agenda as the basis of the private preliminary negotiations between the United States and Great Britain.

32 Angell, Program, p. 9.

33 Department of State, Foreign Relations-1932, I, 840.
the debts to be the basis of any program for overall economic stability.\textsuperscript{34} The Government recognized that the inclusion of debts in the agenda for the London Conference would not be politically acceptable in the United States.\textsuperscript{35} Therefore, it relied on its own bargaining power and the supposedly strong position of the American monetary internationalists to convince the American Government of the need for negotiating the elimination of the war debts. The British believed the bankers and the other internationalists had enough influence with the Administration to commit it to at least discuss the issue at the London Conference.\textsuperscript{36} Their biggest mistake seems to have been not differentiating between the weak influence the monetary internationalists held in the Roosevelt Administration as opposed to the strong influence they held in the Hoover Administration. This had an important effect on the preparatory negotiations which took place after the Draft Annotated Agenda was published.

On January 25, 1933, the American Ambassador to Great Britain, Andrew Mellon, cabled the State Department an analysis of a speech by Chancellor of the Exchequer Neville Chamberlain, reflecting the British Government attitude with regard to cancelling the debts. Mellon pointed out that the recent indications from the White House about the


\textsuperscript{36}Ibid.
impasse between Hoover and Roosevelt was causing the Cabinet to begin to realize that the new administration would not be more lenient on the debt settlement question. Mellon then pointed out that:

I feel, furthermore, that as regards the outlook in the United States, a far more pessimistic attitude than the situation warrants is indicated by British opinion, in the self-appraisal of Great Britain's own position. The British mind is furnished proof of this by reports of the need of British cooperation towards world recovery, and reports of American insistence upon an early return to the gold standard by Great Britain. The idea of discussing these issues in connection with any so-called final debt settlement is not unfavorable to the British. However, they argue that the Lausanne Agreement alone holds out hope for a return of European prosperity, and in any examination at Washington of the capacity to pay of Great Britain, they will insist that no steps be taken to upset that agreement.37

The Hoover Administration was undoubtedly aware that the British still believed they would hold the upper hand in any negotiations, even though it expected policies of economic nationalism from the incoming administration. Hoover desired to maintain control of the diplomatic negotiations for the London Conference and made little effort to inform the British of the potential changes in negotiating strategy that might be made in the Roosevelt Administration, assuming that the British would continue to hold their advantage. The British Ambassador to the United States and some of the internationalists in the British Government also made this assumption and apparently did not realize that when Roosevelt came to office the advantages they thought they held no longer would be of any significance. This advantage would only be useful if the United States wanted a return to gold and stability. Hoover and others in the Administration sensed that Roosevelt might not care

37Andrew Mellon (American Ambassador to Great Britain) to the State Department, January 25, 1933, No. 16, "Confidential," OP 230, Foreign Affairs - Financial Matters, Presidential Papers, HHF, HHPL.
if the British went back on gold but never informed the British of these suspicions.
CHAPTER IV

CULMINATION OF THE PREPARATIONS

One of the most important factors in breaking down monetary internationalism was the post-war introduction of planning and efficiency, assisted by the government. According to Charles Beard:

As governments, through their banking and financial affiliations, through their loans, stock purchases and other activities, and through their attempts to uphold capitalist structures during the crisis which followed the World War, became more and more deeply entangled in their respective social orders, integration and supervision in economy were made increasingly necessary. From domestic economy, control spread to foreign trade through elaborate forms of licencing and quota and specific arrangements for commodity exchange, such as were formulated at the British imperial conference at Ottawa in the summer of 1932; and to forms of monetary stabilization and control such as the equalization fund of the Bank of England.¹

These were the controls needed to harness the increased industrial efficiency, thus avoiding the disparity of distribution so characteristic of a laissez faire economy. Something had to be sacrificed to achieve this goal, and the Roosevelt Administration chose monetary internationalism. This sacrifice was formally made at the London Economic Conference, but effectively announced to all concerned some months previous to the conference during the later stages of the preparatory negotiations.

The internationalist economists and writers of the day who described the American attitude on international trade and the war debts in 1932 and 1933, generally believed that both Hoover and Roosevelt recognized the need for a settlement of the debt question. Most writers assumed that Roosevelt would be willing to make concessions on the debts in order to increase trade, restore Great Britain to the gold standard and lower tariff barriers. This was an erroneous assumption, since Roosevelt desired to keep the debt issue separate from general economic questions. Nevertheless, the internationalists issued a call to educate the American people to the realities of the situation, without recognizing the connection between debt negotiation and the preparations for the London Conference, and the effect a failure to achieve a debt settlement could have on the conference.  

The American and British press response to the plans for debt negotiations indicated the general confusion experienced in both countries with regard to the objectives of the negotiations. In late January, 1933, leading American and British newspapers believed that the British would oppose any attempt by the Roosevelt Administration to bargain with the debts to get Britain quickly back on the gold standard. Theoretically, this was a sound point because a majority

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2 Dorsey Richardson, Will They Pay? (Philadelphia: J.B. Lippen

3 For a study of press response, reflecting the monetary interna
of Britons were opposed to any return to the gold standard before Britain had achieved economic recovery. What the press failed to grasp was that the British Government was not planning to bargain with the gold standard but rather with trade concessions. The monetary internationalists in both countries saw gold as the basis for negotiation, but failed to see that neither government was particularly concerned about the monetary problem while there were serious economic problems. The primary evidence for this point came from the efforts the British Government had made in using the trade concessions acquired at Ottawa to put pressure on the United States to reduce and eventually eliminate the debts.

The MacDonald Government mistakenly believed that the Empire solidarity achieved at Ottawa would provide a sufficient basis for negotiation with the Roosevelt Administration. Ambassador Lindsay sent the Foreign Secretary an analysis of the situation with the incoming Administration. He pointed out that he had recently talked with Secretary of State Henry Stimson, and received an aide mémoire from Stimson on the extensive discussions Stimson had with Roosevelt. Stimson indicated that Roosevelt considered the debts and world economic problems to be concurrent, and was willing to talk with British representatives about the debts. Although Lindsay and his Government

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6Ibid., 742-743. Also see Feis, Characters in Crisis, p. 116.
recognized the various pressures in Congress that opposed any debt negotiations, they apparently felt there was a good chance that Roosevelt would, if encouraged, agree to private negotiations on the British American debt and many other economic issues prior to the London Conference.\(^7\)

In spite of this hopeful sign, Lindsay, on January 21, expressed concern that the failure of such negotiations would be quite detrimental to the British recovery plans. He also indicated a less than optimistic attitude towards success in the negotiations due to strong Congressional opposition to reduction or postponement of foreign debts.\(^8\) This was a recurring and warranted concern that tended to overshadow the supposed British Government confidence concerning the American desire to negotiate the elimination of the debts.

During the next week, Lindsay talked to Roosevelt about sending a British delegation to discuss the debts. They agreed there would be no binding arrangements made prior to the London Conference. Lindsay believed that Roosevelt was definitely in favor of achieving an eventual agreement on the debts and that the President-Elect:

\[\text{[could not]}\] contemplate piecemeal action and only by presenting Congress with the prospect of curing the world as well as the domestic situation can be hope to ensure \[\text{[support]}\] of his debt program. He does not want to make any one \[\text{[issue]}\] contingent on the other though they must be treated together and parallel to each other. \[\text{[and does not wish to bargain one subject against another.]}\(^9\)

\(^7\)Foreign Office, Political (Western), F.O. 371, January 20, 1933, Nos. 31 and 32, C 647/1/62. Also see Department of State, Foreign Relations 1933, I, 328-29.

\(^8\)Foreign Office, Political (Western), F.O. 371, January 21, 1933, No. 33, C 648/1/62.

This fit in with the British program to obtain cancellation of the
debts, by considering them as tied in with the overall economic and
monetary problem. Although Roosevelt favored immediate debt discussions
with the British as soon after March 4 as possible, and seemed to favor
reducing the debts as much as practical politics would allow, he did not
suggest their elimination. Nevertheless, Lindsay stated that the
British Government would not favor imperiling the Lausanne Agreement,
which called for total elimination of the war debts and reparations.
When Roosevelt stated that conditions were worse in the United States
than in Great Britain, Lindsay agreed but noted that the British
"obligations of honour had worn very thin and that opinion was quite
ready to refuse further payment altogether." Lindsay fully expected
that Roosevelt would eventually accept the Lausanne provisions and even
forego plans for a final settlement, since it would be as difficult to
obtain Congressional consent to a reduction or moratorium as full can-
cellation, and he felt Roosevelt would believe cancellation more
beneficial to international relations. He apparently believed that
Roosevelt would eventually accomplish cancellation through his expected
comprehensive program for "curing the world." 10

From January 31, to February 20, 1933, Ambassador Lindsay was in
London, receiving briefings on British foreign economic policy. When he
returned to Washington in February he brought a new Treasury policy
statement on the war debts and economic policy. 11 He also returned with
the desire to maintain the Lausanne Agreement which required eliminating

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10 Foreign Office, Political (Western), F.O. 371, January 30,
1933, Nos. 67-68, C 853/1/62.

11 Ibid., February 10, 1933, C 1446/1/62.
the debt payments as a basis for the London Conference talks. This policy was directed at nationalistic recovery but somewhat unrealistic in its appraisal of President-Elect Roosevelt's ability to obtain a consensus to accept debt concessions for the British. The British still assumed that Roosevelt was encouraging the possibility of a negotiation of trade concessions for debt cancellation. Even though such an assumption might have fit in with Roosevelt's flexible and pragmatic nature, the British really had very little in the way of firm assurances.

The British assumed that Roosevelt could be impressed and convinced of the need to adjust his program to accommodate debt cancellation as the basis for further discussion. The instructions Lindsay brought from London seemed to imply that it was an all-or-nothing proposal. The Treasury policy statement categorically refused to consider any debt reduction programs previously suggested by Roosevelt and others. The only choice the British gave Roosevelt was to convince Congress to accept the Lausanne Agreement even though the United States had not participated in the drafting of that agreement nor had it been inclined to accept it previously.

Lindsay proceeded to implement the plans to get Roosevelt to commit himself shortly after his return to the United States. The instructions he received from the Treasury indicated that Britain could make certain concessions as the talks on the debts proceeded. However, these concessions were:

a) Great Britain and other nations would return to the gold standard
b) Great Britain would give commercial concessions to the United States
c) India and other nations would increase the price of silver

12Ibid. Also see 274 H.C. Parl. Deb., March 15, 1933, 2024.
Although the first two concessions were the basis of the Draft Annotated Agenda drawn up by the Preparatory Commission of Experts, the British were aware that Day and Williams, the American representatives to the Preparatory Commission meetings, were not government representatives and had no power to commit their government to policy decisions. Thus, before the Government would agree to any concessions, Roosevelt had to agree to the debt arrangements proposed at Lausanne and Geneva. The British were using the Draft Annotated Agenda, an internationalist tool, as the lever to force Roosevelt to assist them in reaching their own national objectives.

The Coalition Government believed, based on their experience with Hoover, that they could take the lead in the negotiations, but they would not do this to what they thought was their own detriment and to the advantage of the United States. Thus, the British took a passive position, awaiting the expected United States debt concession. Based on Lindsay's dispatches, the Government rather confidently expected that Roosevelt would make the next move in order to eventually return the British to the gold standard. That Roosevelt and his advisers never sought this was a blow to British negotiation efforts, but meant

13Feis, Characters in Crisis, p. 113.
14Foreign Office, Political (Western), F.O. 371, February 10, 1933, C 1446/1/62.
15Ibid. Also see Department of State, Foreign Relations-1933, I, 828-29.
16See Foreign Office, Political (Western), F.O. 433, February 21, 27, March 7, 8, 20, 1933; Nos. 8, 140, 141, 152, 154, 157, 169; C 1564/1/62, C 1870/1/62, C 1871/1/62, C 2168/1/62, W 2398/685/50, C 2169/1/62, C 2571/1/62.
the demise of monetary internationalist influence over domestic monetary policy.

The British felt that coordinated central bank action was necessary to attain an increase in prices. They called for cooperation between London and Washington to provide cheap and abundant short term money. The British policy statement pointed out that: "The Government are convinced that well coordinated action between the central banks is likely to have more effect in improving world conditions than isolated efforts by particular countries." The instructions also indicated that action to increase the supply of credit also required a program to increase demand, noting that the restoration of purchasing power in the war debt-burdened countries was essential. This was the basis for the British desire to have private negotiations with the United States before the London Conference. However, the Government proposed such policies to raise prices, not to achieve the monetary internationalists' goal of orthodox gold standard stabilization.

The Treasury policy statement called for a return to an international monetary standard, but the British Government view of stabilization was at odds with that of the monetary internationalists. The Government indicated that any return to an international monetary standard would do no good until there was a "reasonable degree of equilibrium between prices and costs and the defects of the gold standard"

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17 Department of State, Foreign Relations, 1933, I, 466, and Foreign Office, Political (Western), F.O. 371, February 10, 1933, C 1445/1/62.

18 Ibid.

19 Ibid.
Such a plan was not consistent with orthodox stabilization principles which called for adjustment after the return to gold. The Government also desired the abolition of exchange controls, but not unless there was assurance of additional foreign exchange reserves or readjustment of Britain's external commercial debts. In addition, the National Coalition urged relaxation of trade barriers and tariff arrangements, but indicated that it was unwilling to release all of the most-favored-nation rights because of the effect it would have on the Dominion arrangements. The Coalition Government was willing to negotiate a gentleman's agreement that the present tariff levels would not be raised, but this was not considered the main objective of the London Conference. Thus, according to the policy statement, settlement of the war debts was basic to any other arrangements. But, if no agreement was possible on the debts alone they would be willing to consider debts and other issues together, with the object of bargaining one against the other. The Government was being quite pragmatic and nationalistic.

Roosevelt appreciated the British position on the debts but pointed out that American opinion was not receptive to accepting the Lausanne Agreement. He agreed that a Ministerial Representative should not come to the United States for high level discussions if there was any chance of the mission failing to get American agreement. Roosevelt also requested the British to go slow on the debt question and concentrate instead on the other economic questions. Roosevelt was stalling for time to see how the domestic political scene adjusted to economic

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20 Foreign Office, Political (Western), F.O. 371, February 10, 1933, C 1446/1/82.
conditions, but Lindsay failed to take cognizance of this. Lindsay observed that the main problem of inducing Congress to accept the debt elimination proposal would be assisted by Roosevelt's various domestic relief plans. He felt relief in this area would make Congress more amenable to debt relief for foreign governments.²¹

From late February to the middle of March British policy deteriorated into confusion and contradiction. On February 27, Lindsay talked to Cordell Hull, Roosevelt's newly designated Secretary of State, who said the debt question should be subordinated at London to the more pressing economic problems, leaving the debt question for other parallel conversations not connected with the Economic Conference. At this meeting, Lindsay left Hull an extract of the Treasury instructions he had received.²² By March 8, 1933, the Administration had studied the British policy memorandum and informed Lindsay, through Norman Davis, that it was unfortunate that the British had made the solution of the debt problem a precedent for any action taken on other economic questions.²³ Lindsay considered this part of the give and take and pointed out to Hull that since the policy memoir was drafted, the Prime Minister had made a new policy statement in the House of Commons on February 13. The new policy was that His Majesty's Government was willing to talk concurrently about both the debts and other economic

²¹ Foreign Office, Political (Western). F.O. 371, February 21, 1933, No. 8, C 1564/1/62.

²² Ibid., February 27, 1933, No. 140, C 1870/1/62. For the extract see Department of State, Foreign Relations-1933, I, 467.

problems. \(^2\)

However, the Administration was unwilling to attempt to convince Congress of the need to negotiate the debts, and jeopardize its domestic program. \(^2\) The major British mistake was believing that the internationalism of the Roosevelt Administration was equal to its nationalism. Through March the Administration repeatedly indicated that it was definitely in favor of separate negotiations on the debts. \(^2\) There was also concern in the Administration that connection of debt and economic policy discussions would either destroy the London Conference or Roosevelt’s domestic program due to the political repercussions. Yet, Lindsay informed the British Cabinet that there was no question that Roosevelt was only waiting for the right moment to approach Congress for debt negotiation powers. On March 24, Lindsay pointed out in a dispatch to Simon that the Administration was favorable to cooperation on gaining a solution:

\[\ldots\] Government of United States is of opinion that a number of problems must be solved if economic life of world is to be revived and it is undesirable to establish an order to priority in regard to those problems. \(^2\)

Lindsay was apparently receiving the message from the Administration, but he continued to expect latent internationalism to appear. He noted

\(^2\) H.C. Parl. Deb., February 13, 1933, 616. However, this concession was actually discussed first in the Treasury policy statement (F.O. 371, February 10, 1933, C 1446/1/62) but not included in the extract given to Hull.

\(^2\) Warren, Herbert Hoover and the Great Depression, p. 271.

\(^2\) Foreign Office, Political (Western), F.O. 371, March 20, 1933, No. 169, C 2571/1/62.

\(^2\) Ibid., March 24, 1933, No. 175, C 2735/1/62.
that:

The Government of the United States is, therefore, of opinion that although we should seek the best solution for each problem individually and not bargain one against another we should in so far as possible explore simultaneously such questions as international commerce, tariffs, quotas, embargoes, monetary questions, gold standard, rehabilitation of silver and others.

In this same dispatch Lindsay noted that the Roosevelt Administration was opposed to partial solutions, and if debt settlement was made a condition for solution of other economic problems it would disagree.28 Even though Lindsay reported the Administration's opposition to combining debt and overall economic questions, he continued to expect the Roosevelt Administration to soon give up its nationalistic stance and adopt a policy of monetary internationalism.29

Lindsay failed to realize that the Administration had no inclination to discuss combining the economic and debt issues at this point. The Administration indicated that it believed a visit from Prime Minister MacDonald could influence public opinion enough to enable them to eventually negotiate on a combined debt and economic issue platform, but it was not going to be pushed by Lindsay or the British Government into taking action to this end. Roosevelt, Moley and Hull were urging the Government to arrange for the Prime Minister to come to the United States.30 They probably believed that MacDonald's appearance could possibly sway American opinion on several of the

28 Foreign Office, Political (Western), F.O. 371, March 24, 1933, No. 175, C 2735/1/62.

29 Ibid., March 26, 1933, No. 182, C 2803/1/62.

30 Ibid., March 24, 1933, No. 176, C 2750/1/62, and Ibid., March 27, 1933, Nos. 182 and 183, C 2803/1/62.
international political and economic matters to which it was firmly committed. However, the British Cabinet delayed consideration on this point because there was apparently confusion within the Government as to whether Roosevelt was favoring negotiation or telling the British to forget such a possibility. Lindsay's discussions with the Administration were not providing the answers. The MacDonald Government was concerned about this because a failure to reach an agreement on this issue, it was believed, would cost the Government much prestige and support. However, even Assistant Secretary of State Raymond Moley admitted to Lindsay that the President did not intend to request of Congress a free hand to deal with the debt question: "Moley said that it had been put about that [The] President was planning to secure from Congress a free hand in advance to deal with debts, and that all that had been said was that no such intention at present existed." 31 Roosevelt was obviously greatly concerned about requesting Congress for such powers, but was willing to use his position with the British to obtain the MacDonald visit for whatever political benefits it might bring to his Administration and the United States. He might have also recognized the remote possibility that the visit could create favorable influence on Congressional and public opinion with regard to international economic cooperation and the debt issue.

On March 26, Lindsay once again underestimated Roosevelt's capacity to solve problems domestically. He pointed out that:

31 Foreign Office, Political (Western), F.O. 371, March 24, 1933, No. 178, 0 2751/1/62.
The President is thus compelled to turn to broader measures of more international scope to bring about revival. When he looks out over this field he finds war debts and reparations to be just as serious an obstacle in his own path as they are an offence to foreign powers.  

Thus, although Lindsay was aware of the unyielding attitude of Congress, he felt Roosevelt could not avoid the debt problem. He also believed Roosevelt was willing to attempt to surmount the political opposition at the price of sacrificing his domestic program to maintain international stability:

... It is to overcome [Congressional recalcitrance] and to open closed interests that [the] President now virtually appeals for help. It is not unfair to suggest that with this object in view he wishes to capitalise [on] both the immense prestige which Great Britain now commands in this country and [the] personal popularity of the Prime Minister.

Lindsay utterly failed, once again, to recognize that all Roosevelt was planning to try for was a postponement of the payment rather than a cancellation. As a result, he suggested that the MacDonald Government capitalize on Roosevelt's prestige and the prestige of the British in the United States and accept the invitation to the Prime Minister to visit the United States. Lindsay believed that this visit would force Roosevelt's hand and ensure the success of the London Conference. Lindsay believed that not only would Roosevelt be laying his prestige on the line with the visit but it would also tend to widen the basis for future international cooperation. He stated that:

[Roosevelt] will be committed to turning away from the narrower policies of economic nationalism and to turning to a policy of

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32 Foreign Office, Political (Western), F.O. 371, March 26, 1933, Nos. 182 and 183, C 2803/1762.

33 Ibid.
freer trade towards which he and his party are naturally inclined. It will be almost impossible for him to yield to the temptation of following the line of least resistance, vis. to stand aside and allow Congress to force the debtor Government into default. 34

While Lindsay was attempting to get Roosevelt to commit his Administration to bargain with the British on the debts, the Parliamentary opposition was endeavoring to sabotage the National Government's foreign economic policy. Sir Stafford Cripps of the free trade opposition pointed out that the new Government policy statement indicated that it was departing from the concern for overproduction and under-consumption, the usual concerns of an internationalist and free trade Britain. Cripps went on to argue that the Government was acting on the premise that the best way to get rid of economic nationalism was to be more economically nationalistic. 35 The protectionists defended the Government's pragmatic philosophy with the same argument used by protectionist American Congressmen. They pointed out that the idea of sweeping tariff barriers away presupposed that all nations in the world had an equal standard of living, and that because Great Britain's standard was higher it needed more protection, justifying the protectionist policies and consequent bargain-oriented foreign economic policy. They also indicated that the agenda for the London Economic Conference had to consider this factor. 36 Subsequently, the House of Commons soundly defeated a proposal to require the Government to put

34Foreign Office, Political (Western), F.O. 371, March 26, 1933, Nos. 182 and 183, C 2803/1752.
36Ibid., 2039.
before the London Conference definite proposals to lower the obstacles
to trade and modify the most-favored-nation clauses. This placed
the British Government on the same footing with the new American govern-
ment, willing and able to invoke protection and other measures necessary
to maintain control of the national political economy.

On March 27, Ambassador Lindsay began a series of crucial
meetings with representatives of the State Department. The significance
of these meetings lies in what information they provide on the success
or failure of the British to discover Roosevelt's war debt negotiation
plans, and to indicate the consistency of his policy in the preparations
for the London Conference.

At the March 27 meeting, Lindsay and Anthony Bewley, Financial
Advisor to the British Embassy in Washington, met with Secretary of
State Cordell Hull, Assistant Secretary of State Raymond Moley and
Herbert Feis, Economic Advisor to the State Department. Lindsay and
Hull were primarily concerned with silver commodity prices and trade,
and Lindsay pointed out that the Preparatory Commission of Experts had
stated that trade interests would best be served by a rise in the
general level of commodity prices. However, Moley replied that:

... the United States Government were not bound by the views
expressed by Professors Day and Williams, and did not accept the
commission's views on silver or certain other matters.38

37275 H.C. Parl. Deb., March 15, 1933, 2044. The vote in the
House of Commons was 203 to 58, opposing firm proposals on free trade.
This provided the National Government with a substantial mandate to
continue its policy.

38Foreign Office, Political (Western), F.O. 433, March 30, 1933,
No. 499, C 4009/5/50.
Lindsay reported that Moley did not elaborate on what the "other matters" were, but did not indicate that he, Lindsay, had sought to find out what they were. In retrospect, this would appear to be one of the most crucial issues in the impasse between the United States and Great Britain during the latter stages of the preparations for the London Conference. Had Lindsay identified these "other matters" fully, and attempted to understand the Roosevelt Administration's apparent position, the British might have learned several months before the London Conference that the Administration was not planning to sacrifice domestic recovery for a debt settlement and international monetary stability.

On March 29, 1933, Lindsay again discussed economic affairs with the State Department representatives. At this meeting, Hull indicated his strong opposition to economic nationalism; pointing out that only by developing new markets, rather than closing old ones, could a remedy be found for the economic problem. Lindsay agreed with this internationalist principle of expansion of trade and consumption, noting that the Prime Minister sought to lower the trade barriers. Lindsay then brought up the point that the United States was a creditor nation, as well as a country with an export surplus, and that this was producing the "profound disequilibrium" in the world that was causing others to add restrictions. Lindsay noted that Moley indicated that this was the fault of the Hoover Administration; that no new large scale foreign lending was anticipated, and implied that the American export surplus would be reduced by increased purchases from abroad. However, Moley pointed to the difficulty of getting the public to accept tariff reductions, and that:
... tariff reductions could be counteracted by monetary manipulation in foreign countries. The same sort of effect as that obtained by tariff reduction might be reached by monetary action, and from the point of view of public opinion it might be easiest to approach the problem from this point of view first. 39

When Lindsay transmitted his analysis of this discussion to London he stated that: "Exactly what Mr. Moley had in mind in these remarks was not explained owing to lack of time, and this aspect of the matter will be further discussed at a later meeting." It never was. 40 Lindsay was either very naive or could not believe it, but Moley was stating, over two months before the London Conference convened, that the new United States foreign economic policy was to use government control of the monetary sector of the economy in order to achieve national recovery. After such a bold statement, only a monetary internationalist would continue to harbor hopes of a return to laissez faire and an international monetary status quo.

Lindsay ignored Moley's comment on the likely use of monetary nationalism in the United States and continued to discuss and agree with Hull's concern for eliminating the trade barriers. Hull was concerned about the ignorance of public opinion on tariff and economic relations existing in all countries. The Americans suggested that the best way to correct this ignorance was for the Prime Minister to come

39 Foreign Office, Political (Western), F.O. 433, March 30, 1933, No. 508, C 4010/5/50.

40 A search was made of British and American documents on this subject that were issued between March 29, 1933, and July 3, 1933, and this point was never discussed. Thus, it would appear that the British and Americans assumed the other understood the implications or became aware through subsequent American actions, and recognized this point throughout the remainder of the negotiations. The significance of this point with regard to the subsequent attitude assumed by the two governments cannot be overemphasized.
to the United States and utilize his ability to appeal beyond national interests in economic matters.\footnote{Foreign Office, Political (Western), F.O. 433, March 30, 1933, No. 508, G 4010/5/50.} Lindsay took this as a basis for Roosevelt definitely committing himself and his Administration to obtain Congressional and public approval of unlimited debt negotiation powers and a return to monetary internationalism. London apparently interpreted these reports as evidence that Hoover internationalism would be continued, as the Cabinet did not question Lindsay's optimism.

The next phase of the British-American preparations for the London Conference took place from March 31 to April 4, 1933. Prime Minister MacDonald, Foreign Secretary Simon and other members of the Cabinet met in London with Norman Davis, who then was a special European envoy for the President on the debt problem and the London Economic Conference. This meeting was the only one during the preparations for the London Conference in which an emissary of the President presented the Administration's debt policy to the Cabinet, directly, without going through Ambassador Lindsay. At the first meeting, Davis indicated his desire to see the settlement of the debt question and return of international monetary cooperation, but he repudiated American newspaper reports that the British Government wanted the London Conference early in order to convince Roosevelt to give concessions on the debts. Davis informed the Government that even though the Roosevelt Administration desired to give the British some concessions, there were limits to what they could expect. Simon, informing Lindsay of the results of the first discussion, noted that MacDonald had informed Davis, based on the
information provided several days earlier by Lindsay, that: "... The only practical way to hold the Economic Conference under favorable conditions would be to regard the instalment of the debt to America as held in suspense." Simon studied Davis' reply noting that:

Mr. Davis ultimately stated explicitly [in] what he described as his own view, though it may be suspected that there was more authority behind it... that Mr. Roosevelt would be reluctant to hold out hopes which would impose on him a moral obligation.

In addition, Davis said that:

It was not possible for Mr. Roosevelt to say in advance that he would recommend Congress to give him power to suspend debt payments. Mr. Roosevelt might ask for authority to reduce the British debt... provisionally... 42

Davis was telling the British, explicitly, the best they could hope for was a reduction in the debt. He indicated this might amount to a $915 million concession on a remaining debt obligation of approximately $3.1 billion. 43 The Prime Minister and the Foreign Secretary, apparently led on by Lindsay's optimistic reports, stated that such a concession would not serve their purpose. At this point, Davis let them know that: "... As you fellows don't seem to care for 915 million dollars, I think I had better report that the proposition does not interest you." Davis then used this as an opener to bring up the Administration's desire to get MacDonald to visit the United States, but promising nothing in return:

... [President] Roosevelt could not give any assurance even of what his own action would be as an encouragement to the Prime Minister to go over. All that could be said was that there was

42 Foreign Office, Political (Western), F.O. 433, April 1, 1933, No. 132, C 3002/1/62.

less risk to [the Cabinet] if the Prime Minister went over than there would be if he did not go over. If he did not go over, [the Government] were bound to come right up against June 15 with nothing arranged. 44

Throughout the London meetings between Davis and the members of the Cabinet, the British expressed great concern about the possible political repercussions if MacDonald went to the United States without a prior arrangement to postpone the June 15 debt payment, and also came back without an agreement. However, Davis stuck to his point. At the end of his stay in London, Davis summed up for the Secretary of State what he believed was the British position and how he reacted, based on the position of the Roosevelt Administration, as he, Davis, saw it:

... You will realize, ... that these people here will not discuss the problems of the Economic Conference without dragging in some reference to the debts and that it has been my task to try to bring them to subordinate this issue to that of working towards general economic recovery. I believe I have succeeded ... in bringing them around to the view that under present conditions it is not practicable to attempt to arrive at any mutually satisfactory basis for modifying the terms of [the] existing arrangements and that we should concentrate on the same economic issue in which we have a common basis. 45

British confidence and expectations for the preparations to the London Conference were severely damaged, and Lindsay's internationalist expressions of optimism had been shattered. However, the British national monetary and economic objectives were hardly destroyed, but the remaining internationalist sympathies in the Cabinet were undermined. From this point, it was apparent they were back where they were prior to Lausanne; hoping for a debt settlement but willing and able to use

44 Foreign Office, Political (Western), F.O. 371, April 1, 1933, No. 132, C 3002/1/62.
45 Department of State, Foreign Relations 1933, I, 482.
any means available to achieve the same result. Still, the National Government could hardly refuse the American offer without publicly admitting that they were attempting to frustrate the possible success of the London Conference. In order to salvage what they could, the Cabinet accepted the invitation for MacDonald to visit the United States, on the premise that the debts would not be discussed. However, the Government was facing the political reality that if the debts were brought up and nothing came of it the Government could fall. The acceptance hardly demonstrated the earlier British expectancy, which Lindsay had led the Cabinet to believe was warranted, of achieving their goals before the conference.46

The Davis meetings provided an insight into the nature of the relations between the United States and Great Britain beyond the fact that Roosevelt, through Davis, was telling the British to go slow on their requests and plans for negotiations. The Government had been informed of the same basic information through the diplomatic channels, but the point was not made clear. Lindsay had even informed the Cabinet several days before the Davis discussions that negotiations were quite possible and that the United States seemed to be ready to accept the Lausanne Agreement, even though Raymond Moley told Lindsay essentially the same thing Davis told MacDonald and Simon. The Roosevelt Administration was either hoping to gain massive bargaining power for the conference or really did not care about international stabilization. Lindsay and the monetary internationalists chose to believe Roosevelt

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46Foreign Office, Political (Western), F.O. 371, April 5, 1933, No. 138, C 3128/1/62, and Department of State, Foreign Relations-1933, I, 477.
was after the bargaining power, but the Cabinet monetary nationalists, led by Chamberlain, were now certain of what they knew before; Roosevelt was practicing the same pragmatic policy they had followed since September, 1931.

The National Coalition now appeared ready to accept the Roosevelt terms and separate negotiations on the war debts from other questions, but now in possession of the basis for rationalizing token debt payments or even default. The British position appeared to be to go along with the Roosevelt plan because their position would probably not be altered before the scheduled June 12 opening date of the London Conference. They were merely being conciliatory and waiting for the opportunity to negotiate, publicly, based on the Lausanne and Ottawa agreements.

Simon, in adjusting his earlier rather determined stand on the debt issue, pointed out to Lindsay on April 10 that the earlier British argument that the Lausanne debt cancellation agreement had to be ratified before other issues could be discussed was merely a point of departure, not an ultimatum or bargaining point.\textsuperscript{47} The Government was now only requesting that the United States consider the debts as a block to achieving a meaningful international economic and financial recovery, not making it the basis for further discussion. Simon even indicated willingness to discuss debts while the London Conference met, although he felt a moratorium of debts during the conference would prevent its disruption and destruction. Simon also indicated that the Prime Minister's American trip would be related to questions other than the

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\textsuperscript{47} Foreign Office, Political (Western), F.O. 371, April 10, 1933, No. 151, C 3295/1/62.
war debts. If the United States would not talk about them, it would be better to not make further public references of optimism, such as Lindsay's earlier information had created. To do otherwise would be political suicide. Thus, it was now quite obvious that debt negotiations, not international monetary stabilization, was the primary British objective for the London Conference. However, the Government evidently still believed stabilization would be impossible without elimination of the debt payments.

When MacDonald met with Roosevelt in Washington on April 21, the debts were discussed. The public statements on the meeting made no reference to any debt discussions, but MacDonald noted later that Roosevelt felt the Lausanne Agreement "was the finest thing done since peace, and that it would be a pity to disturb it." MacDonald still hoped to gain some political advantage from the trip and interpreted Roosevelt's comments on the debts to mean that he agreed with the British attitude that the success of the work of the London Conference depended on the settlement of the debt issue. An indication of what the British attitude would now be came from Norman Davis, who said after the MacDonald visit:

The British will talk about agreeing with us upon the broad policy of economic cooperation to be adopted at the World Conference, but I fear the Cabinet with the possible exception of MacDonald

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48 Foreign Office, Political (Western), F.O. 371, April 10, 1933, No. 151, C 3295/1/62.

49 Ibid., April 22, 1933, No. 238, C 3651/1/62. Joint statements printed in Department of State, Foreign Relations-1933, I, 490-492.

50 Department of State, Foreign Relations-1933, I, 493.
has now little real faith or interest in achieving this.\(^5\)
The British were now in a position of giving notice that if Congress refused to deal with the debt issue, Britain would be justified in withholding the June 15 payment and thereby posing a threat to the possible success of the London Conference.

After MacDonald left the United States, Ambassador Lindsay continued to express confidence in the ultimate intent of the Roosevelt policies. He stated that:

> Ever since the Prime Minister left America I have felt confident that the President will in due course ask Congress for powers to deal with debts according to his discretion and that these powers will be granted to him. . . . It has become a commonplace in the press that the President is planning to ask for powers and no likelihood of unfavorable reaction is at present to be discerned. . . I cannot believe that the President has abandoned his intention to ask for powers.

Lindsay also indicated that Congressional opinion was far behind the educated opinion favoring the elimination of the debts, but that "it is equally certain that popular opinion is solidly behind the President and prefers that control of any question should be in his hands rather than those of Congress."\(^5\)

One of the more significant observations of American policy on the debt issue came from Sir Frederick Leith-Ross, noted British financier and confidant in the MacDonald Government. Leith-Ross accompanied MacDonald to the United States and remained after MacDonald left to hold a number of meetings with Moley and Lewis Douglas, Director of the Budget, and James P. Warburg, a financial adviser to the


Administration, on the debt question. Leith-Ross was acting as an independent financial expert, in order that the Government would not be associated with the expected failure to achieve a debt settlement. In a memo on these discussions, Leith-Ross noted that Douglas favored debt cancellation, but indicated that it was politically impossible for Roosevelt to urge cancellation on Congress. Douglas also indicated that even if the President obtained a suspension of the June 15, 1933, payment there had to be at least a token payment as acknowledgement of the debt. Leith-Ross believed this was another significant adjustment in United States policy because he was aware that the Government had previously operated on the assumption that any suspension of payments would not require an admission of the debt.\(^5\) Leith-Ross was apparently concerned that the British public, which was strongly opposed to continued payment, might withdraw their support of the National Government if informed of this policy. However, the Government was already aware of this possibility and the futility of obtaining a suspension because the Prime Minister instructed Leith-Ross to not continue discussing the question of the June 15 payment with the American representatives. The Government had probably already decided that they would either default, or, as they actually did, make only a token payment.

In order to conciliate the British and obtain funds for the Administration's domestic recovery program, the American representatives for the war debt discussions suggested a complicated new funding plan, through which the British debt would be approximately $2.5 billion.

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without interest and spread out over fifty years. This long-term plan would reduce the total actual British payment by about $915 million, the amount that Davis had mentioned at the March 31 meeting with MacDonald and Simon.\(^5\) This funding plan was another example of the Roosevelt policy of opportunism and monetary nationalism, and not devoid of some element of bargaining. However, it obviously had to be done on Roosevelt's terms. Nothing came of this scheme before the London Conference convened, indicating that it was primarily an attempt to pacify the British so that they did not completely abandon the preparatory discussions and the conference. Thus, the Administration had once again informed the British that it could not risk national solidarity on the debt issue and wanted to gain what they could for United States recovery before the British and the other European nations reciprocated. Roosevelt might very well have expected that the London Conference would be the place for the eventual break.

The British Government had no real choice in the matter if they had any desire of ever gaining a debt concession. They no longer appeared to maintain a hope that Roosevelt would agree to the Lausanne schedule of final token debt payments before the London Conference. This situation put the British in the position of apparently being committed to pay on its debt to the United States, while its own European debtors had been effectively released from further payments to Great Britain through the Lausanne Agreement. The British were seemingly

caught in a bind. Simon told Lindsay that while the Government recognized the difficult political situation in the United States, it would be most difficult to reopen the reparation and debt payment negotiations after Lausanne.\textsuperscript{55} The stage was set for the British to resort to their much-considered policy of token payments on the debt, which would give the appearance they were not defaulting.

The London Conference probably would have started on this somewhat indeterminate note had the British not been faced with one last item which provided them with a reason to lose their remaining faith in the London Economic Conference as a basis for recovery through debt cancellation. On May 18, 1933, the Foreign Secretary told Lindsay that the French had agreed with the Prime Minister that currency stabilization was an indispensable part of the London Conference, and that the war debt problem should also be solved. However, Simon pointed out that the French were assuming a position of favoring cooperation between France, Great Britain and the United States with the object of stabilizing American and English currencies without consideration for a pre-conference debt arrangement. The French then asked a question that indicated what they desired to achieve as a result of the preparations to the conference and the conference itself:

If this procedure [linking debts and stability] has to be maintained with absolute rigidity would it not have the effect of postponing the preparatory moves for the stabilization of

\textsuperscript{55}Foreign Office, Political (Western), F.O. 371, May 17, 1933, No. 264, C 4159/1/62. If the British had agreed to the need to reopen the reparation and debt negotiations, they would have been forced to once again negotiate with Britain's European debtors. The Government did not desire to take this risk because they were aware that they would obtain nothing from the French and the other debtor nations.
currencies, and would it not in this way run the risk of paralysing
the action of the World Conference and exposing nations to an
aggravation of currency disorders with all their consequences? 56

Simon was concerned that the French, like the central bankers
and other monetary internationalists, were primarily interested in
achieving stabilization and checking currency-value fluctuations. They
would favor debt negotiations only if they did not interfere with the
stabilization effort. If the French policy were adopted prior to or
during the London Conference it would enable the French to achieve
stabilization, to the disadvantage of the British. The Government
recognized that all their efforts to achieve stabilization through
deflation and negotiating debt settlements with the United States would
give the central banks and gold countries, led by France, the oppor-
tunity to put down, through stabilization, the national recovery efforts
of England and the United States. 57

From this point onward, the British worked in favor of a post-
ponement of the debts as opposed to a cancellation or a final token
payment. 58 This way they could British public support until the
London Conference where there might be a final attempt at negotiations

56 Foreign Office, Political (Western), F.O. 371, May 18, 1933,
No. 267, W 5515/168/50.

57 Ibid. This was probably also a significant consideration in
the Roosevelt decision to oppose premature stabilization at the London
Conference. The gold countries wanted to force the United States to
put its prestige on the line and agree to stabilization in order to
save the Conference. They also wanted action against British monetary
policies in order to get even with Great Britain for attempting to
force British stabilization on Europe. See Department of State,
Foreign Relations 1933, I, 480.

58 Foreign Office, Political (Western), F.O. 371, June 4, 1933,
No. 291, C 5006/1/62.
which would permit the British to bargain with trade concessions and obtain parity before stabilization was achieved. This would prevent the French and the monetary internationalists from turning back British recovery.

During this same period, American economic conditions improved, giving President Roosevelt additional bargaining power. Stock prices and public confidence rose significantly, but money gold rates were cut loose when the President took the United States off the gold standard in April.59 The immediate success Roosevelt's domestic economic policies had in restoring confidence was probably an incentive for him to rely less on the need for international monetary stability. Debt agreements and monetary stabilization would endanger the continued success of his policies. Still, Roosevelt let the planning for the London Conference continue, even though acceptance of the annotated agenda policy was all but impossible.60

The American decision on the debt issue was not decisive because the British Government only needed a consideration of it to obtain a consensus in British public opinion to oppose further full payments and even consider outright default. Roosevelt had destroyed Britain's bargaining power on the debt issue, but in the long run the British attained their goals and the monetary internationalists were the real losers. The Coalition Cabinet had become aware of the direction of affairs and was ready to use everything in the way of trade protection,

60 Ibid., pp. 156-57.
preferences and quotas to protect the sterling bloc. The strength of purpose demonstrated by the National Government was outstanding. Even if the London Conference were to fail to achieve anything, as was the case, the British Government had obtained what it wanted. The preparations for the London Conference served the purpose of the British about as well as the conference itself probably could have. Even the acquiescence and delay permitted by both the Hoover and Roosevelt Administrations and the failure of the British Ambassador to the United States to identify the objectives of the Roosevelt Administration had not prevented the British from effectively forcing the debt issue to a perpetual stalemate. The preparatory activities, which were the culmination of the monetary internationalist campaign for the return to monetary orthodoxy, had been used by the national governments of Britain and the United States to guarantee the continuation of the move to monetary and economic nationalism through World War II.
CHAPTER V

CONCLUSION

The preparations for the London Economic Conference were initially directed by the European and American central bank and treasury officials who had given strong support to international business and finance in the 1920's. American monetary internationalists, led by the central bankers, had provided a significant portion of the investment for European recovery and sought to extend their influence and control of American foreign policy. Their purpose was to obtain government support and protection of American business activities overseas. This group recognized that the only effective way for achieving this control was through the administrative branch of the government. The economic crisis created by the depression had sapped them of much of their accumulated political power, and they considered the preparatory activities for the London Conference a basis to restore and expand their previous influence.2

Most European nations had lost so much of their currency backing to the United States and France in the post-war period that they resorted to such nationalist policies as tariffs, quotas, exchange restrictions and currency depreciation. During 1931, many of these

1Brooks, Once in Golconda, pp. 92-93.
2The origins and implications of this point are developed in Parrini, Heir to Empire, pp. 37, 39.
nations also left the international gold standard. The protectionist policies they adopted partially alleviated the situation but presented a threat to the monetary internationalists, who felt that such actions created an intolerable disturbance to international trade.\(^3\) Protectionist policies could be used to correct the monetary and economic imbalance but would also cause a trade realignment in favor of those countries depreciating their currencies. Thus, the internationalists rejoiced when the British National Coalition Government and the Hoover Administration both agreed to deal with such economic problems at the London Economic Conference.\(^4\)

Raising world prices was the key to economic recovery in 1932. Most American and European politicians in power believed this had to be achieved without resort to inflation of national currencies and unbalanced national budgets. However, the British Government attained enough public support during 1932 to gradually accept the merits of the unbalanced budget and greater government involvement in economic planning.\(^5\) In the vocabulary of the orthodox economists, inflationary actions meant ultimate financial chaos. Until the final phase of the preparations for the London Conference, the monetary internationalists believed they still had the power to thwart the plans for inflationary adjustment through an appeal to the orthodox economic principles of the nineteenth century which considered increased trade as the only legitimate method to raise prices.\(^6\)

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\(^4\)McClure, *World Prosperity*, pp. 233, 241-244.

\(^5\)Supra, pp. 15-16.

Key elected officials in the United States and Great Britain stated throughout the preparations that the clamor for economic and monetary nationalism could frustrate their programs for long range economic recovery and growth. However, these elected officials were often associated with specific nationalistic recovery programs. As a result, they accepted only that part of the internationalist plan of creating a pre-war economic and monetary status quo that would help them achieve their separate national objectives. The British Government was much more consistent in this type of activity than the Hoover Administration.

The British Government quickly recognized that the program developed by the internationalist experts might be used to obtain national relief. For the Government to actually adhere to the orthodox plan and let the monetary internationalists do more than present an agenda on which to bargain would be political suicide. Thus, the British National Coalition sought to use the preparations for the London Conference not to reactivate laissez faire trade principles and return to the international gold standard but rather to encourage the United States to negotiate the elimination of the war debts.

7Hoover, Memoirs, III, 176; Department of State, Foreign Relations-1932, I, 308-309; Council on Foreign Relations, World Affairs-1932, pp. 4-5; The Times (London), November 10, 1931, speech by MacDonald; 277 H.C. Parl. Deb., May 9, 1933, 1424, Simon pointing out in Parliament that the Government favored a return to international free trade; 278 H.C. Parl. Deb., June 1, 1933, 2053, Chamberlain stating that the Government desired to work for international cooperation with the United States, with the object of raising world prices.

This would enable the British to achieve monetary and economic parity. Britain remained off gold during the preparations for the London Conference. The Government believed that as long as stabilization took place after a favorable parity was restored between the pound and the dollar, it was to their advantage to engage in the efforts to convene an international financial and monetary conference. The Cabinet recognized that the basis for sustained economic recovery would be obtained either through cancellation of the debts or by continuing to remain off the gold standard and encouraging further currency depreciation.9 The most acceptable method for the British was debt cancellation, and they believed the negotiations preceding the London Conference would be the source of this settlement. However, as the planning for the conference expanded, the monetary internationalists in Europe and the United States failed to recognize the reasons behind the avowed British objective of negotiating an end to the war debts.10

The National Government gained considerable political negotiating power from the currency depreciation and destabilization that had enabled significant domestic economic recovery since September, 1931, when the British left the gold standard. The MacDonald Government could agree with internationalist policies for the long run, while continuing to obtain immediate recovery through monetary policies designed to achieve only national recovery. The Exchange Equalization Fund.

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9Einzig, The Sterling-Dollar-Franco Tangle, pp. 3-4. Also see Foreign Office, Political (Western) F.O. 433, March 30, 1933, No. 508, W 4010/5/50, for United States recognition of the same principle for its own use.

10McClure, World Prosperity, pp. 236-244.
developed and directed by the Treasury, had worked effectively in maintaining the value of the pound at whatever level the Government desired it. Since the Government had this psychological momentum in its favor, it could afford to be far less committed than the Hoover Administration to the monetary internationalist stabilization programs suggested at the various preparatory meetings.

Because President Hoover's recovery measures had not been effective, the only unified support he had came from the monetary internationalists who saw in him the only remaining base of power to achieve a return to international currency stabilization. Confidence in the Hoover policies was at its lowest point, but the President was staunchly opposed to any policy calling for abandonment of the laissez faire world he and his Republican predecessors had stood for in the prosperous 1920's. Thus, he would turn to any solution which presented a logical cover and method of saving face which might also provide a resurgence of confidence in the economic policies of his Administration. Hoover's monetary internationalist allies offered an automatic answer to this problem. Achievement of international monetary stabilization would substantiate the inherent logic and success of laissez faire.

Congress presented Hoover with a far more serious challenge than Parliament gave MacDonald. The MacDonald Government represented the moderate element in Parliament. In Congress the backers of internationalist pro-orthodox policies and free trade were in a distinct

11Nimsig, Bankers, p. 104.
12Supra, pp. 11-13.
13Supra, pp. 15-16.
minority to the economic nationalists and protectionists, even in the President's own party. The United States Congress represented an isolationist and frustrated America and refused to implement Wilsonian-Republican internationalism. By late 1932, Congress was almost militant in refusing to pass the domestic economic recovery measures that the Hoover Administration felt were necessary to achieve international economic stability.\(^\text{14}\) As a result, Hoover was confused and without public support. He needed help and turned to the internationalists. However, they lost their last source of political influence when Hoover lost in his bid for re-election.

European and American internationalists felt that even with Hoover's defeat, the spotlight of an international monetary and economic conference would force the professed and clandestine political adherents of the nationalist monetary and economic philosophy to once again accept orthodox economic policies.\(^\text{15}\) However, the national recovery policies of the Roosevelt Administration and the MacDonald Government destroyed the plans for a resurgence of monetary internationalism. First, the British Government sought to obtain greater political bargaining power through the Lausanne, Ottawa and Geneva Experts Conferences. Second, the overwhelming defeat of Herbert Hoover's internationalist policies gave Franklin D. Roosevelt a political mandate with relatively broad powers to bring about domestic recovery, at the expense of international


\(^\text{15}\)Schlesinger, *The Coming of the New Deal*, p. 203.
monetary and trade stabilization, if necessary. Roosevelt did not have greater latitude than Hoover in his development of foreign economic policy, as he discovered when he expressed interest in obtaining Congressional approval to negotiate and adjust the war debt payment system. However, Roosevelt realized this and acted accordingly, placing greater emphasis on the development of domestic policy, whereas Hoover never saw the logic in separating domestic and foreign economic policy.

The contrast between the MacDonald and Hoover Governments, and the similarity between the MacDonald and Roosevelt Governments, was greater than is generally assumed. The MacDonald Government had significantly more popular support than the Hoover Administration. Thus, the British Government had nothing to lose in refusing to use the return to the gold standard and currency stabilization as a bargaining point for the elimination of the war debts. There was extreme public antipathy in Britain to the Government paying any more on the debts. The Government indicated that the agreements made at the Lausanne, Ottawa and Geneva meetings provided the ammunition they believed was necessary to deal with any American administration to obtain cancellation of the debts. They were well aware of the strong American public opposition to negotiating the debts, and even though Ambassador Lindsay misjudged the objectives of the Roosevelt Administration with regard to the priorities placed on domestic versus international monetary and economic policy, the Government was not frustrated in achieving their policy objectives. The American recalcitrance on the debt issue actually assisted the Government's plan to protract the negotiations long enough to obtain

the necessary British public opinion to continue their trade protection policies and take unilateral actions to reduce or cancel the debts once the one last effort to appease the United States was made with the $95 million payment of December 15, 1932.\textsuperscript{17}

Some members of the British Parliamentary opposition were concerned about the possible effect of the election of an economic nationalist to the Presidency. They believed that the Government was not aware of the effect this could have on the British debt negotiation plan. The Government was not oblivious to this possibility but was determined to see their policy through regardless of the changes in American Presidential Administration. Still, they were partially taken by surprise when Roosevelt refused to take the debt issue to Congress. The Government's primary mistake was failing to appreciate the possibility that Roosevelt would rely so heavily on short run, politically motivated actions to achieve passage of his domestic program. Until the end of March, 1933, the Government believed there was a chance Empire unity and the agreements reached at Lausanne and Geneva could encourage a shift in American public opinion. However, after Norman Davis' March 31st meeting with MacDonald and Simon, the nationalists in the Cabinet realized that only Lindsay, and to some extent MacDonald, held out hope that Roosevelt would actually assist their cause.\textsuperscript{18}

It is significant to note that even though Roosevelt's refusal to attempt to obtain debt negotiation powers negated the effect of the

\textsuperscript{17} Supra, p. 40.

\textsuperscript{18} Supra, pp. 68-73.
Lausanne, Ottawa and Geneva agreements, his adoption of an antistabilization stance did not hinder the British recovery program. The British were no more prepared than Roosevelt to accept premature currency stabilization. Their determination to use a negotiated debt settlement as the condition for stabilization discussions was further strengthened when the French made a bid to sacrifice British debt negotiations to force a return to the gold standard and non-negotiated currency stabilization. At that time, the Government effectively announced that without a permanent debt settlement before or during the London Conference they would not agree to currency stabilization.\(^1^9\) Thus, contrary to general impression, the National Coalition Government was able to adjust its international monetary and economic policy to domestic recovery goals as well as the Roosevelt Administration.

The economic conditions that were so much affected by the debts and reparations had existed in Europe and the United States since the war. The monetary internationalists had attempted for some years to hasten the move back to orthodoxy and internationalism, but failed to solve the debt and reparations problem. As a consequence, their leadership was rejected. Thus, it was highly probable that the monetary internationalist objectives would be defeated in the preparations for the London Economic Conference. It was logical that monetary and economic nationalism should be the vehicle for this defeat because it was only through such policies that sustained and overall domestic recovery could be realized. The monetary internationalists who continued to hold positions of authority during the two years preceding the

\(^{19}\)Supra, pp. 78-79.
London Conference failed to understand the degree to which achievement of the debt settlement and national economic recovery was a precondition for restoration of monetary internationalism. If they had assisted, rather than fought, this necessary transitional adjustment, they might have been able to prevent many of the political problems contributing to World War II and effected a much earlier initiation of European political and economic union.
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