Schuker, Stefan A.

American „Reparations“ to Germans, 1919-33: Implications for the Third-World Debt Crisis.

Princeton Studies in International Finance, No. 61, July 1988

International Finance Section
Department of Economics
Princeton University
Princeton, New Jersey

ISBN 0-88165-233-4

(GESIS Datenfile: ZA8537)

Library of Congress Cataloging-in-Publication Data

Schuker, Stephen A., 1939-
American "reparations" to Germany, 1919-33.

(Princeton studies in international finance, ISSN 0081-8070 ; no. 61, July 1988)
Bibliography: p.
1. Debts, External—Germany—History—20th century. 2. Investments, American—Germany—History—20th century. 3. World War, 1914-1918—Reparations. 4. Germany—History—1918-1933. 5. Debts, External—Developing countries. I. Title. II. Series: Princeton studies in international finance ; no. 61.
HJ8654.S28 1988 336.3′4′0973 88-12747
ISBN 0-88165-233-4

Printed in the United States of America by Princeton University Press at Princeton, New Jersey.

International Standard Serial Number: 0081-8070
International Standard Book Number: 0-88165-233-4
Library of Congress Catalog Card Number: 88-12747

CONTENTS

"And now ladies and gentlemen, you will see that I'm really going to tell you a fairy tale. Do you know what Papa said? Papa said: 'A deal is a deal, and whatever you promise, you have got to fulfill.' "

—Walter Hasenclever, *Der Froschkönig*

"Small debts are like small shot; they are rattling on every side, and can scarcely be escaped without a wound: great debts are like cannon; of loud noise, but little danger."

—Samuel Johnson

1 INTRODUCTION

The Current Debt Problem and the Weimar Precedent

The losses on private investment during the Great Depression of the 1930s had a chilling effect on the world economy. The experience proved so devastating for those who had risked their money abroad that it discouraged lending outside official channels, except among closely allied industrial countries, for a generation and more. Only in the early 1970s did international lending on a massive scale resume. Then, scarcely more than a decade later, a new debt crisis erupted. All but a few of the principal borrowing nations experienced liquidity problems of one sort or another in the early 1980s. Some, despite efforts at adjustment extending over several years, still have not put behind themselves the threat of ultimate insolvency. Yet bankers, and even certain economic analysts, maintain that an examination of traditional debt ratios failed to provide clear warning of the new impending difficulty before 1980. Prudent men could not have foreseen the looming danger to global financial stability, Díaz Alejandro (1984, pp. 342-345) typically contends, except through the application of "nonquantitative, metaphysical insights."

This study deals with one important aspect of the international debt crisis preceding the current one—the cycle of German borrowing and default during the Weimar Republic, 1919 to 1933. It does not aspire to the insights of metaphysics; it relies instead on the humbler tools of historical investigation. All the same, an examination of capital flows and their political context during the Weimar era may offer a useful perspective to the student of contemporary political economy.

Long-term lending took place at that time primarily through the bond market rather than under the aegis of commercial banks. In other respects, however, the parallels are suggestive. Germany rated as the largest single debtor of the 1920s, at first on official account, later on private account as well. The sovereign debt stemming from Germany's reparations obligations, if it were to be paid, would have necessitated an adjustment in the balance of payments analogous to that required of oil-importing nations after the successive energy price increases of the 1970s. Half a century ago, as today, recycling loans that demanded no sacrifice on current account represented the easy way out. Germany was obviously not a developing country. It figured as Europe's locomotive economy and as a pillar of the world monetary system. But that endows the case with potentially greater heuristic value. The Weimar Republic could not hope to act as a free rider in international economic affairs. What it did about reparations and debt mattered to the world. This study examines the considerations that led Germany to borrow in the United States and elsewhere. It explores the political constraints that inhibited the use of the capital inflow to generate export-led growth. It enlarges on the peculiarly nationalistic response in the Reich to the exogenous shocks that jolted the world economy in 1931. Finally, it traces the country's subsequent descent from moratorium to willful default.

Debt generates controversy. The volume of German foreign borrowing, the deployment of the proceeds, and the domestic policies that made repayment seem infeasible reflected an intensely political process. The shifting configuration of the international economy naturally structured the opportunities open to Berlin policymakers in dealing with their external accounts. At home, the business cycle conditioned the incentives to labor and capital, given the accessibility of foreign resources, to behave as they did in their distributional struggle. Yet if economic forces supplied the motive for borrowing, politics at every point controlled the steering mechanism that led in the 1930s to the breakdown in international payments.

This is not to say that the documentary evidence points to a neat distinction between economic constraints and political choices in Weimar Germany. In almost all disturbances of external indebtedness, policymakers find economics and politics inextricably linked. The latter is superimposed upon the former. The records reflect the confusion or conflation of the two. The borrowing nation necessarily undertakes obligations without knowing what the future holds. But it does know one thing. A market economy must be to some degree unstable; instability is what provides scope for dynamism. The chief political issue may thus be framed: how will the borrower respond when, inevitably, economic circumstances change?

The Cyclical Phenomenon of Debt Delinquency

The pattern of periodic "manias" followed by crashes has proven to be a durable feature of modern capitalism. At least twenty-nine major episodes of varying severity have taken place since the eighteenth century. For almost that length of time, economists have labored mightily to understand the cycle and to explore methods of limiting its excesses (Minsky, Vol. 3, 1972, pp. 95-136; Kindleberger, 1978, pp. 14-24, 253-259). Some "displacement," or change in perceived opportunity, sets off a boom. An expansion of credit and investment at first stimulates a genuine increase in income. Prices and interest rates rise. Then euphoria develops. Speculators no longer evaluate rationally the prospective return relative to risk. They engage in "overtrading." At length, another incident makes clear that the boom has gone too far. A "revulsion" takes place against commodities and securities. Banks cease to lend,

and everyone strives at once to increase liquidity. Unless a lender of last resort emerges, a panic may ensue leading to ruinous liquidation.

The pattern, as Kindleberger (1981) demonstrates, applies to international lending as well as to the domestic business cycle. Indeed, because of the inevitable lag in response to events taking place in faraway countries, developments at the financial center tend to produce magnified effects on the flows of money and goods at the economic periphery. External debtors may encounter particular difficulties if real interest rates increase (as a consequence of deflation or disinflation), if additional credit dries up unexpectedly, if commodity prices fluctuate unfavorably, or if export opportunities dwindle following an economic downturn in major markets.

The problem became acute and systemic for the first time in the mid-nineteenth century, as the volume of transnational borrowing rose exponentially relative to loan recipients' income and immediate export capacity. Between 1864 and 1914, foreign investment by the main creditor nations expanded by a factor of 11 (Aldcroft, 1977, p. 239). Kindleberger calls attention to a repetitive cycle of the period: euphoric overlending from Europe overseas, then exogenous shocks leading to suspension of debt service, and eventually refunding of the defaulted obligations at a discount, coupled frequently with new lending. Present-day economists, noting the ample risk premiums often built into Victorian-era foreign loans, can wax philosophical about the process. Sachs (1982, p. 221) goes so far as to characterize sovereign default before World War I as a "normal and accepted part of the financial system" that "typically did little to interfere with the flow of capital to other LDCs." But few nineteenth-century bondholders' committees, after wearisome negotiations, sometimes stretching over decades, with inefficient, corrupt, and recalcitrant overseas governments, would have affected comparable equanimity.

The dynamics of the lending cycle offer a congenial field for economic inquiry. They afford scope for a fruitful emphasis on practical and quantifiable problems. No wonder economists are frequently drawn to approach the multifaceted issues involved in international debt from the technical side and to treat the political and cultural conflicts that emerge during payments crises as epiphenomena. Given the fluctuations in costs and prices over every business cycle, both creditors and debtors are bound to make miscalculations. One can profitably investigate how to manage the difficulties of an individual debtor so as to minimize systemic risk. One can demonstrate mathematically that, in all but extreme cases, it will pay lender and borrower to adopt a cooperative rather than an adversarial attitude to delinquency. The judgment holds even if it requires the involuntary advance of new funds by the creditor and compensating stabilization adjustments by the debtor in order to keep capital markets open (Sachs, 1982, pp. 211-219; Cline, 1984, pp. 71-93). One can develop strategies to promote such cooperation. It becomes easier to attain that end when negotiators on both sides recognize the convergent interests of the lender and the solvent borrower. Those convergent interests may even include some latitude for effective creditor retaliation if all else fails, since elimination of that possibility would reduce the debt ceiling for future borrowing and impede the free movement of capital to where returns are highest (Eaton and Gersovitz, 1981).

Analysis along these lines leads naturally to a focus on the role of the lender of last resort. The lender of last resort cannot do much about "overtrading"; if it emerges prematurely with its safety net deployed, it indeed runs the risk of encouraging speculation. But it can help to prevent the temporary illiquidity of a solvent and well-intentioned borrower from leading to bankruptcy during the "revulsion" and "discredit" phases of the cycle. It can thus plausibly hope to shorten economic crises and depressions (Kindleberger, 1978, pp. 161-226).

The argument has embedded itself deeply in contemporary thinking. Received opinion now considers countercyclical lending during economic downturns to be a public good (Sachs, 1984b). No study of international debt can aspire to completeness without a disquisition on the position of the lender of last resort and the techniques it should employ; some analysts so far assume the familiarity of the concept that they refer in acronymic fashion to "LLR responsibility" (Cline, 1984, pp. 119-121; also Wallich, 1982; Guttentag and Herring, 1983; Makin, 1984, pp. 189-192, 227-242). Since its creation at the end of World War II and especially since 1974, the International Monetary Fund, acting both in its own right and as coordinator of other lenders of last resort, has enjoyed considerable success in that role. Adapting the old precept of Walter Bagehot to modern times, it has discounted somewhat less than freely but at considerably less than a penalty rate. Equally important, it has elaborated an institutional framework and fostered a public environment that encourages lenders and borrowers to work together when rescheduling proves unavoidable. All of this marks a sharp departure from pre-World War II experience (Killick, 1982 and 1984; Williamson, 1983).

The Volitional Component in Debt Delinquency

The diminished incidence of open confrontation in rescheduling negotiations since 1945 may account for the lessened interest of economists in the volitional component of debt delinquency. Yet even in the unstable lending environment of the last fifteen years, country-specific risks (including the political and social considerations that affect export and import trends, money-supply growth, and the level of hard-currency reserves) appear to loom substantially larger in most cases than nondiversifiable risks (for example, the changing price of imported oil) (Goodman, 1982). Specialists on the debt

problems of the 1980s tend nevertheless to assume that payments disturbances result primarily from unforeseen economic adversity. Sachs (1982, p. 235) characteristically attributes most reschedulings to a "combination of 'bad luck.' " Lever and Huhne (1986, p. 14) ascribe problems of the debtors both in the 1930s and today to the fact that they are "relatively poor countries, in the grip of economic forces outside their control." Díaz Alejandro (1984, pp. 335-337) concedes the "incompetence and torpor" of policymakers in six key Latin American nations during the early 1980s, but on balance considers them victims of an abrupt change in the "conditions and rules for international lending."

The convention of examining payments disturbances with the politics left out offers one potential advantage. If the parties to a rescheduling negotiate in an atmosphere of ostensible econometric dispassion, they may well find it easier to bridge underlying political differences without dwelling on them. The historical analyst of debt delinquency, however, labors under no compunction to observe similar restraint. He may, without ignoring economic limitations, credibly focus more attention on the element of political volition. The willingness to honor financial commitments in the face of inconvenience or adversity is not a normative value spanning all cultures and historical eras. The record points the other way. A legal framework assuring the security of private property and guaranteeing the sanctity of contract evolved in Western nations only over several centuries as concomitants to the rise of a liberal economic order. During the nineteenth century, the major industrial countries sought to impose on the wider world the legal precept that property could not be seized without fair compensation. But in the best of times international law remains a fragile construct, honored more by lip service than observance. In the twentieth century, the rise of nationalism among borrowing countries has led to an alteration in the perceived balance of legitimacy and to greater world acceptance of "sovereign rights" at the expense of "property rights" (Lipson, 1985, pp. 8-139).

Moreover, law reflects, albeit with a lag, the cruder equation of power. A hegemonic political regime, where the direct or indirect extension of military and commercial dominion accompanies capital flows, encourages borrower compliance with obligations. The relative success of the international system created by Great Britain during the nineteenth century or that orchestrated by the United States more briefly after World War II depended on such linkages. In contrast, a multipolar system, where a defaulting debtor need not anticipate armed retaliation or even the elimination of technology transfer, trade accommodation, or access to alternative capital markets, allows greater maneuvering room for sovereign rights (Gilpin, 1981).

In short, even under favorable circumstances, foreign investment (except among kindred countries with similar values and legal systems) has usually involved a political hazard on top of normal business risk. When bank economists argued—as astonishingly many did in the heady atmosphere of the early 1980s (see, for example, Porzecanski, 1982, p. 270)—that international lending involves "much less risk" than domestic lending and that Western European economies register higher loan losses than do less developed countries, they were obviously restricting their vision to short-term charge-off data. They could not have taken much account of longer-term evidence. Herbert Feis, whom we shall encounter later in this narrative as the U.S. State Department economic adviser fated to deal with the Weimar default, drew the opposite conclusion from his classic study, still pertinent today, of Europe's experience as the world's banker prior to 1914 (1930, pp. 102-103). "A loan to a foreign government is an act of faith," Feis observed pessimistically. "The financing of an enterprise in a foreign land is hardly less so." The foreign government might refuse to meet its obligations owing to misfortune, miscalculation, or simple bad intention. In most cases, the investor would find no authority willing or able to pass judgment on the rights of the parties in the face of a "borrowing world inclined to take its debts lightly."

Who, after all, is to distinguish between circumstances in which it is really impossible for a borrower to meet its international obligations and those in which it merely becomes inconvenient or politically embarrassing for it to do so? The distinction, which Lipson (1985, pp. 48-49) describes as "the crux of laissez-faire economic diplomacy," has always proven elusive to draw in practice. The willingness to accept sacrifices is not easily quantifiable. It depends on attitudes that cannot readily be externally imposed. J. P. Morgan, in his old-fashioned way, alluded to this very problem when he gave an unexpected lesson on banking principles to the 1913 Pujo Committee investigating the so-called money trust. "Is not commercial credit based primarily upon money or property?" asked the committee counsel. "No, sir," replied Morgan, "the first thing is character" (Allen, 1935, p. 184; Carosso, 1987, p. 633). That is what the international departments of commercial banks, in their models of country risk, refer to in the argot of the computer age as the "judgmental political indicator" (Heller, 1982, p. 266).

Of course, one must guard against deceptive simplicity. Neither direct nor portfolio investment across frontiers occurs in a vacuum. Investment forms one strand in a more complex pattern of diplomatic relationships. Powerful countries formulate the rules. Weaker countries must conform to them. No wonder the latter often find suspect such rhetoric as "the willingness to accept sacrifices." On the other hand, world financial institutions have generally evolved—at least since market economies replaced mercantilist ones—to reflect a degree of consensus among participants in the system. That is why prevailing arrangements have frequently broken down when conditions deteriorated to the point where a rough consensus ceased to obtain. In principle, at

least, the international monetary system facilitates trade and exchange across national boundaries for the common good. Its legitimacy and effectiveness rest on the conviction among trading partners that the system offers an equitable basis for international transactions and promotes the fair exchange of resources.

Within this framework, sovereign powers inevitably face diverse temptations to take advantage of the system. Failure to preserve the security of foreign investment by no means exhausts the possibilities. A country can maintain an exchange rate that benefits its exports and employment level at the expense of those abroad. It can impose nontariff barriers of varying subtlety to keep out competitive foreign goods and promote import substitution. In these and analogous cases, the dividing line between aggressive but permissible defense of the national interest and actions that sabotage the larger system often seems exceedingly fine. Unfairness, in other words, is relative. Moreover, accepted standards of international comity shift over time. No nation adhered throughout the Great Depression to gold-exchange-standard rules that precluded the effective management of domestic demand. Significantly, the sort of exchange-rate manipulations that routinely characterized the 1930s (Nurkse, 1944; Howson, 1980) came to appear dangerously destabilizing to the treasury officials who conceived the cooperative monetary regime of the postwar period. Then, by the late 1970s, academics, and ultimately policymakers, began to see new virtues in "managed floating." The norms for regulating direct investment have also undergone a sea change in the last two generations. The difference between ordinary commercial regulation and the expropriation of foreign assets once seemed self-evident. But recently international opinion, or at least the sort of opinion represented by the United Nations, has shown a willingness to tolerate many forms of host-country interference with the operations of foreign firms (including contract renegotiation under duress and limitations on profit repatriation) that have eroded traditional distinctions (Lipson, 1985, pp. 24-27, 85-98).

Still, relativism can stretch just so far. The concept of equity in international transactions may be elusive. Yet, however imprecisely defined, it contributes to the broad sense of trust without which world capital markets cannot function efficiently. Default on international indebtedness frequently involves situations where the case for equity proves reasonably determinable. At times, debt delinquency stems from genuine economic distress. But it also has historically constituted the most serviceable weapon of the weak. It is a method that less powerful sovereign actors in the world economy have often employed successfully to abuse the rules of the game. In effect, those who manage to write down or write off their international debts achieve a cost-free transfer of claims on real resources from those who have produced them to themselves. In the nineteenth and early twentieth centuries, individual bondholders divided their losses with other borrowers to whom they charged higher risk premiums. In the current environment, commercial bank stockholders seem likely to share their losses with the taxpayers of creditor countries, who, acting through supranational financial intermediaries, add their own advances to those proffered earlier by the banks. Generally, creditors tend to acquiesce in a measure of readjustment because they believe that they stand to gain more from the continued stability of the system than they will lose as a result of a particular failure to repay.

Even before World War I, when creditor nations enjoyed clear political predominance, those detailed to cope with debt delinquency labored in an atmosphere of exasperation and frustration. The British Foreign Office exhibited consistent reluctance to police private loan transactions. Except in cases of outright fraud or when borrowers denied British investors equal treatment, Whitehall preferred to avoid the expenses attendant on intervention in backward countries and to leave sanctions to the market. As Viscount Palmerston put it in 1848, Her Majesty's Government held that "the losses of imprudent men who have placed mistaken confidence in the good faith of foreign Governments would prove a salutary warning to others" and serve to restrict further lending to those "of known good faith and of ascertained solvency" (Platt, 1968, pp. 398-399).

That strategy, however, proved only partially effective. The Corporation of Foreign Bondholders institutionalized delinquency negotiations and obtained some results by barring the obligations of flagrant defaulters from the stock exchange. Yet, in practice, defaulted bonds passed from weak to strong hands; the buyers settled for a fraction of face value; and, in good times, investors in new issues displayed little solidarity with losers on the old. Borrowers succeeded with monotonous regularity in evading repayment; European countries like Portugal and Greece proved scarcely more scrupulous than Guatemala or Peru. Nor did the British government, despite its circumspection, manage always to hold itself aloof. Problems attributable to recalcitrant borrowers obliged it to take over Egypt, to join in extraterritorial administration of the Ottoman debt, and to land forces in Latin America no less than forty times. Other creditors did worse. The French and German governments employed military muscle with less hesitation in local controversies, in part because their investors served more directly as the foot soldiers of imperial advance. Paradoxically, the fortunes of war overwhelmed their defensive maneuvers with catastrophic consequences for their respective national loan portfolios (Platt, 1968, pp. 34-53, 330; Feis, 1930, pp. 102-117, 146-186, 331-341; Rippy, 1959; Sosa-Rodriguez, 1963).

If the period before 1914 witnessed ubiquitous chicanery, no one openly challenged the legitimacy of international property rules. Only certain North American states got away with unvarnished repudiation. After World War I, in contrast, revolutionary regimes regularly declined to recognize financial obligations incurred by predecessors, even though they hastened to lay claim to the infrastructure built with the proceeds of those obligations. The Bolshevik government in Russia, after some obfuscation concerning alleged counterclaims, repudiated the loans incurred by the Czar.[1] The Turkish regime of Kemal Atatürk hoisted the nationalist banner at Lausanne in 1923 and denounced the capitulations that had protected foreign holders of the Ottoman debt; from its new position of strength it offered only token compensation. The Mexican revolutionary government asserted ownership in its constitution of all subsoil mineral rights, and, after two decades of mounting ill humor, expropriated American oil-company holdings. The People's Republic of China offered no greater accommodation to foreign investors when it overthrew the Kuomintang in 1949 (Lipson, 1985, pp. 66-84; White, 1985; Smith, 1972; Silva Herzog, 1964). Whatever the rhetorical gloss placed on their actions, each of these regimes proceeded on the principle that the assets seized held greater value than continued access to capital markets and foreign technology, at least for the proximate future. Almost always, that calculation proved correct. The cruder forms of military or economic retaliation had now become politically inadmissible. However great the immediate outrage of bondholders or direct investors, defaulting debtor governments invariably regain access to capital markets within a generation, and frequently very much sooner. Bondholders write off their losses. Emotion fades. New exporters emerge within creditor countries eager to promote loans in order to sell their goods.

The rapidity with which adjustment characteristically proceeds following defaults of modest proportions speaks for itself. Individual investors may suffer devastating reverses. Others take their places. Hence countries at the periphery of the world economy can abuse the prevailing rules of credit and exchange without destroying the larger sense of trust that undergirds the monetary system. But what happens if a leading industrial nation disputes the fairness of the reigning political order? What if, in an era of perceived scarcity, a crucial participant in world monetary arrangements seeks to resolve a conflict over distribution of domestic resources through policies that displace the bulk of the sacrifices outward? When a pillar of the system declines to support an equitable burden, the edifice itself cannot stand for long without fundamental redesign. That is what happened in the 1920s as a result of German strategy respecting reparations and external debt.

[1] In 1986, Great Britain resigned itself to the Russian confiscation and accepted derisory compensation. "These bonds are still worth far more on your living room wall or at Sotbeby's or Christie's than you would get trying to cash them in," commented one investment banker. The United States subsequently began discussing a mutual waiver of claims on similar terms with the Soviet Union (*New York Times*, July 16, 1986).

Scholars have focused considerable attention on the unwillingness of American policymakers to assume a broad mantle of responsibility under the gold-exchange standard of the post–World War I decade. The United States stands indicted for not maintaining a market for distress goods, for not offering countercyclical loans, and for failing to provide adequate discount facilities to countries facing payments difficulties (Kindleberger, 1973). According to the orthodox interpretation, Great Britain could no longer afford to undertake such responsibilities in light of its extended imperial commitments and its mistaken decision to return to a prewar exchange parity that its declining economy could not sustain (Moggridge, 1972). A leadership vacuum supposedly resulted. Whatever the validity of this interpretive structure, it remains incomplete without comparable emphasis on the destabilizing consequences of German foreign economic policy from the 1918 Armistice to the bottom of the Great Depression.

The political and monetary authorities in Berlin could not fully control the three successive stages of violent inflation, relative stabilization, and accelerating deflation that marked the Weimar economy. But insofar as they could make conscious choices, they moved aggressively to draw what benefits they could from prevailing international economic arrangements during all three periods. Regarding themselves as disadvantaged, these policymakers gave relatively little thought to systemic stability. In the short run, they proved remarkably successful in turning their putative weakness to profitable account.

Conventional historiography has focused on the reparations burden imposed on Germany as the result of its World War I defeat and the reputedly harsh financial stipulations of the Versailles treaty. In fact, as this study will demonstrate, the net capital flow ran toward Germany during both the inflation and stabilization phases of the Weimar Republic. Not only did the Reich entirely avoid paying net reparations to its wartime opponents; it actually extracted the equivalent of reparations from the Allied powers, and principally from the United States. Its methods of obtaining that income stream varied from 1919 to 1933. The resources reached Germany through speculation on the mark in the first phase and through a long- and short-term capital inflow (comprising a mix of bond finance, interbank lending, and direct investment) in the second stage. Then, a Standstill agreement that accorded preference to "essential" imports, and ultimately a default on long-term bond debt, sheltered the country from a deleterious reverse flow during the final years of the Republic and the subsequent era of Nazi rule. The gross capital inflow amounted to an astounding 5.3 percent of German national income during the entire period from 1919 to 1931. The net capital inflow, after subtracting

all reparations transferred and making generous allowance for the disguised return of German funds, still came to a minimum of 2.1 percent of national income over the same thirteen years.

This result can be calculated easily enough from balance-of-payments statistics and other familiar data. Yet the existing literature devotes almost no attention to the political implications of the flow of funds in both directions. The most perspicacious German economic historians of the present generation have renounced the phantasmagoric propaganda so often heard in the interwar years and soberly warned against exaggerating the impact on the Weimar economy of reparations actually transferred (Fischer, 1974, pp. 46-47). All the same, the debate continues to turn very largely on the outward flow alone. In a characteristic summation of current scholarly thinking, Krüger (1981, pp. 21-47) contends that even payments of modest magnitude had greater depressing effects on the German economy of the 1920s than would a similar percentage transfer on the rich industrial countries of the present era. After emphasizing the destabilizing effects on Weimar politics of the reparations controversy (quite apart from the figures), Krüger goes on to fault Allied leaders for embracing a zero-sum view of war-cost apportionment rather than the enlightened precept that international cooperation could promote recovery and growth for all. Other observers, like Keese (1967, pp. 66-67), adopt a more extreme position. Given Allied policies, they intimate, the German economy might have performed better if the Reichsbank had kept the discount rate lower in order to promote domestic investment and high employment, and if the country had bypassed American loans and risked an early "transfer crisis" under the Dawes Plan. Analysis along these lines, however, typically does not take full account of the magnitude of the capital inflow and of the role that this stream of payments played in the country's credit base.

The "reparations" to Germany allowed the maintenance of living standards in the Weimar Republic at a level appreciably higher than domestic productivity would have justified. Savings and investment remained notably low compared with either the prewar pattern or the long-term trend. The inflow of funds accommodated increased wages and salaries, even in sectors with lagging productivity gains, and despite the more precipitous decline in the length of the work week in Germany than elsewhere. These funds found reflection also in mounting government welfare expenditures before as well as after the onset of the Depression, in an uneconomic shift to white-collar employment in labor-force composition, and (although precise figures remain a matter for conjecture) in the accretion of German assets abroad that would later help finance Nazi rearmament. In Weimar's middle period, many bond issues were of course initially targeted at productive business investment. But liquid bank credit is fungible, so that given accommodative government policies all lending tends to become, as in this case, general lending. The result was the opposite of what the architects of the Versailles treaty had hoped to achieve.

How much of what happened stemmed from intentional policy? Did German bankers and statesmen consciously strive to manipulate the international system? Readers must make up their own minds after reviewing the record. From the beginning, virtually all Germans wished to remove the millstone of reparations from their necks. As a popular Berlin cabaret lyric of the early 1920s had it, the Versailles treaty was "only paper." The majority of Germans hoped that, once they had rid themselves of reparations by whatever means, they could go on to eliminate other features of what they viewed as an oppressive and unfair peace. Yet the most Machiavellian of Reichsbank officials would have denied any prior intention to attract private loans and then repudiate them. As Bismarck had put it many years earlier when asked whether he had conceived the strategy of German unification in advance: "It would be a misinterpretation of the spirit of politics to believe that a statesman can formulate a comprehensive plan and determine ahead of time what he is going to do one, two, or three years hence. . . . The statesman is like a man wandering in a forest who knows his general direction, but not the exact point at which he will emerge from the wood" (Friedjung, 1905, Vol. 2, p. 565).

For the most part, Weimar politicians retained a defensive cast of mind. They saw themselves as victims, struggling against long odds for a measure of relief from economically unreasonable foreign claims. In reality, nonetheless, German fiscal and monetary policies played a decisive role in promoting the capital inflow throughout the 1920s. The same apparent contradiction between psychology and policy manifested itself in the crisis of 1931. In that crisis, the Brüning cabinet and the Reichsbank cast about in seeming despair for a lender of last resort. But, by scheming to secure a customs union with Austria and then insisting—against the advice of Finance Ministry professionals—on a premature reparations revision, the government in Berlin had brought the crisis on itself. It thereby helped set in motion the second downward spiral in the Depression that contributed to the breakdown of the gold-exchange standard. The deepening downturn after 1931 further constricted the options open to German policymakers. All the same, this study suggests, the default that took place by stages between 1931 and 1934 occurred for political rather than for strictly financial reasons.

To what extent did the United States, by its own policies, help make that default inevitable? The evidence to be presented here indicates that American tariff legislation, at least during the period when the loans were initially made, did not substantially impede the servicing of German debit balances. Nor did Washington's insistence that the Allies fund their war debts play the deleterious role sometimes attributed to that demand. The magnitude of actual payments remained small, so that the circular flow of funds often held to

characterize the international economy of the 1920s turns out to have been exaggerated. But weak American policy did make it easier for Germany to default. The United States, as the main creditor power, failed to defend its citizens' equity vigorously after 1933 because it favored exporter over bondholder interests. For a variety of reasons Great Britain, the other major world creditor, did not suffer anywhere near the default rate that afflicted American-issued securities during the Depression.

6 CONCLUSION

Reflections on Interwar Debt Experience

The flow of capital from the United States and certain European countries to Weimar Germany in the 1920s gave rise to one of the greatest proportional transfers of real wealth in modern history. Foreigners who speculated on the mark, who bought German bonds, or who advanced bank loans to correspondents in the Reich had originally expected a positive return on investment. The payment of "reverse reparations" took place after the fact. The process resembled what was to occur in the 1970s, when the high-powered bankers who sought to recycle petrodollars creatively through the Eurocurrency market failed to realize that they were setting the stage for a massive and continuing subsidy of the third world by the industrial West.

Had the sorely tried Berlin government drawn up a master plan in 1919 to make the victorious powers subsidize consumption and leisure time in the Reich over the next thirteen years, it could scarcely have hoped for more dazzling success than that which resulted from inadvertence. No master plan existed. Yet the wellsprings of nationalist *ressentiment* ran deep in the Weimar era. From the reactionary right to the socialist and communist left, almost everyone in political life wished to liberate Germany from the reparations burden imposed by the hated Versailles treaty. The unanimity of German public opinion on this score conditioned the choices open to policymakers in dealing with a range of other financial and economic issues, both foreign and domestic.

Looking back from exile in 1938, former State Secretary Hans Schäffer—for some years the most important professional in the Berlin bureaucracy concerned with economic policy—speculated that it might always have been a pipe dream to try to loosen the fetters of Versailles gradually while keeping Germany financially and politically integrated with the West.[1] It is easier to square the circle in finance and diplomacy than in Euclidean geometry, but rarely very much easier. Still, nothing indicates that responsible figures in either the public or the private sector anticipated, when Germany began borrowing abroad in late 1924, that the country might eventually default on private obligations. On the contrary, as ex-Agent General Gilbert later put it, most German leaders continued to assume until a crisis erupted in 1931 that they could "go bankrupt in water-tight compartments."

Although Germany's maneuvers to force through a customs union with Austria in violation of treaty stipulations precipitated the crisis of 1931, the liquidity squeeze which developed that July had all the earmarks of authenticity. A Standstill arrangement for short-term debts offered the only prospect of immediate relief. Nevertheless, the country's unwillingness to adopt appropriate adjustment policies and its slide toward ostensible insolvency over the next two years reflected political priorities more than economic exigencies. Businesses with substantial foreign exposure on the whole opposed further steps toward general default. But a heterogeneous coalition comprised of Nazis, Nationalists, agrarians, domestic reflationists, and bankers became convinced that default lay in the national interest and that divisions within the creditor camp made serious retaliation improbable.

Moreover, the distinctions between German policymakers who openly advocated default and those who in principle preferred to fulfill the country's commercial obligations despite the severity of the Depression tended to blur over time. Chancellor Brüning, for example, did what he reasonably could to curb the consumptionist excesses of the 1920s and to make the Reich more competitive on world markets. He always spoke as if he hoped to maintain faith with private lenders, if only to keep open the prospect of new loans. Yet, first and foremost, he remained a politician out to steal the Nazis' thunder. That led him into inevitable contradictions. He had to weigh prospective improvements in the balance of payments against other considerations. Hence, while arguing abroad for cancellation of reparations on grounds of German poverty, he characteristically moved to assure Reichswehr commanders in April 1932 that, as soon as he had achieved that aim, he would devote a share of the resources saved to tripling the secret armaments budget and would authorize an expensive five-year program to create a battle-ready army of a million men (Bennett, 1979, pp. 59-62, 151-152).

Some German leaders found themselves borne along by the current of events. Hjalmar Schacht, the once and future Reichsbank president, navigated the rapids with uncanny concentration on his ultimate goal. Strong circumstantial evidence suggests that Schacht encouraged the shift from long- to short-term financing in 1927-29 with a view to making the reparations settlement unstable. Out of office, he promoted various schemes for default from mid-1931 on with the transparent intention of shifting the commercial-debt burden abroad. And when restored to the Reichsbank presidency on the morrow of the Nazi takeover, he put his proposals into practice forthwith. Yet even after the German debt default, Schacht continued to have admirers among his fellow central bankers. Governor Montagu Norman of the Bank of England insisted to his unbelieving friends at J. P. Morgan & Co. in 1934 that "Hitler and Schacht are the bulwarks of civilization in Germany and the only friends we have. . . . If they fail, Communism will follow in Germany, and anything may follow in Europe."[2]

[1] Schäffer Tagebuch, July 17, 1938, ED 93/25, IfZ.

[2] Russell C. Leffingwell to Thomas Lamont, July 25, 1934, Leffingwell Papers 4/96, Yale University Library, New Haven.

Schacht carefully burnished his reputation as a moderate, particularly after he developed a suspicion that autarky might not work and also that he might lose out to Hermann Göring in the internal Nazi power struggle.[3] In October 1934, he confided to the American ambassador:

> The whole modern world is crazy. The system of closed national barriers is suicidal and we must all collapse here and the standard of living everywhere be reduced. . . . Five years ago I would have said it would be impossible to make me so crazy. But I am compelled to be crazy. We are excluding raw materials all the time and must in time be ruined if we cannot export goods and the exports decline all the time. We have no money to pay our debts and soon shall have no credit anywhere (Dodd, 1941, p. 175).

This lament could not fail to remind the uncharitable of the concern lavished on the oysters in "The Walrus and the Carpenter."[4] All the same, at his postwar trial and denazification hearings, from which he emerged without judicial taint, Schacht embellished the theme with a flourish of sincerity. He had always negotiated in an "absolutely honorable" fashion and sought to regulate the interest question with creditors in "a practical and reasonable way."[5] He had aspired to "change the default" and "become an honest debtor again" by 1937; alas, he lost the power to slow down the rearmament program and fell short of his goal.[6]

At the London Debt Conference of 1952-53, the representatives of the Federal Republic squirmed in embarrassment as the American bondholders' spokesman rehearsed the events of the 1930s with greater attention to the facts. The world financial press relayed the graphic details of "Schachtage"—the technique of driving down bond prices by not paying interest and then buying back the obligations at a penny ante price. Schacht had the last laugh nonetheless. When he applied for renewal of his banker's license in Hamburg, no one mounted a challenge. As Hans Schäffer informed the administrative court: "The untrustworthiness of Schacht, who did more harm to German credit than anyone else, was famous round the world. . . . Any serious German banker whom you ask will confirm this confidentially if he dares. But not a single one will place himself at your disposal for a court battle with a man so unscrupulous as Hjalmar Schacht."[7]

[3] See the analysis by H. Fritz Berger, Schacht's associate at the Nazi Economics Ministry, in Berger to Dietmar Petzina, May 20, 1960, ZS 1684, IfZ.

[4] " 'I weep for you,' the Walrus said; / 'I deeply sympathize.' / With sobs and tears he sorted out / Those of the largest size, / Holding his pocket handkerchief / Before his streaming eyes" (Carroll, 1946, p. 198).

[5] Verhör Schacht, Protokoll der Berufungsverhandlung gegen Dr. Hjalmar Schacht, Aug. 5, 1948, p. 118, Sp 1/3, IfZ.

[6] Schacht testimony at Nuremberg, Oct. 16, 1945, copy in ZS 135, Bd. 3, IfZ.

[7] Schäffer to Herbert Weichmann, president of the Hamburg *Rechnungshof*, Aug. 28, 1952, ED 93/42, IfZ.

Although Schacht's personal foibles thus continued to engender controversy among his contemporaries, the root causes of the German default lay deeper. Neither the inclinations of a single official after 1933 nor even the exceptional character of the Nazi regime explains why the Reich encountered intractable balance-of-payments problems in the first place. The fundamental difficulties arose (despite a remarkable improvement in the current account from 1930 onward) as a result of capital flight and, to a lesser extent, capital withdrawals. Foreign investors declined to lend further after mid-1930 not simply because of the Depression, but because they accurately perceived a heightened political risk. The Reich was singularly vulnerable to the reverse flow of capital. It had overborrowed in the 1920s and squandered much of the proceeds on public or private consumption, and it had persistently failed in the early years to adjust tax, budgetary, labor, and trade policies to take account of reparations requirements added to a growing commercial debt.

Schacht bore relatively little responsibility for the total volume of loans contracted abroad between 1924 and 1930. During those years, he and his Reichsbank associates had repeatedly sought to discourage long-term issues unlikely to improve the country's export position. In the face of intense political pressures, they had struggled in the Beratungsstelle für Auslandskredite to moderate the pace of unproductive municipal borrowing. Ironically, the forces that shaped a political structure conducive to injudicious foreign borrowing were precisely those most committed in principle to making the republican regime of Weimar a success. Mayors who crafted lavish capital budgets as a means to attenuate social unrest, Reichstag strategists who boosted transfer payments with a view to promoting a more equitable society, and labor leaders who pushed for compensation packages that in effect prevented industry from financing rationalization out of retained earnings did not usually consider balance-of-payments consequences. Yet, so long as Germany remained legally bound to a fixed-rate parity under the gold-exchange standard, the nation's monetary managers ignored those consequences at their peril.

Realists could not have expected that other countries would enable Germany to run large current-account deficits forever, particularly if economic growth remained sluggish. The cumulative impact of previous borrowing would raise the perceived risk for new lenders and increase the country's vulnerability to external shocks. At some point, foreign investors would take fright. They would realize that the rate of return on capital invested in German corporations generally fell short of the borrowing rate and that the present accumulation of public debt implied the probable constriction of future consumption. Even if the Great Depression had not supervened, it seems unlikely that the Reich, given its reparations obligations, could have continued to finance through international loans a standard of living not justified by productivity. In the long view, therefore, the deepening economic downturn of 1931 provided the contingent setting rather than the essential cause of the German payments crisis.

Under the prodding of Chancellor Brüning in 1930-32, local governments, the unions, and the democratic left in the Reichstag recognized that major structural distortions had crept into the economy and acquiesced in the emergency decrees that cut back social-welfare gains. But they gave ground grudgingly, and, in light of the progressive political breakdown across the land, too late to reassure the lenders of capital. The slowness of political accommodation to balance-of-payments constraints in this case should occasion no surprise. Invariably, foreign loans are quickly assimilated into the credit structure of a debtor country. The innumerable economic interest groups in a pluralist society all seek to ensure that adjustments, when required to implement a reverse transfer, do not come at the expense of their respective sectors. Without effective pressure on the part of external creditors, governments that rely upon popular approval for legitimacy have a hard time imposing contractionary policies on a sustained basis in order to service foreign debts.

Under these conditions, the political risks of international lending are invariably greater than they seem. In the 1920s, discriminating foreign lenders to Germany should have required a political-risk premium well above the normal cost of borrowing within the Reich. They did not do so. Domestic lenders, scarred by their experiences in 1919-23, exacted an inflation-risk premium that subsequently kept long-term rates in German money markets as much as 300 basis points higher on average than equivalent rates in London or New York. This differential explains why the yield to maturity on German domestic bonds issued in 1924-30, when adjusted for the circumstances in which particular flotations appeared, actually exceeded the corresponding yield on Wall Street's German loans (Eicher, 1932, p. 678). While Americans could earn a somewhat higher return in Germany than at home, they obtained a negative political-risk premium on such investments relative to German domestic rates. American bankers and investors evidently committed a serious error in judgment. That error prefigured a similar miscalculation by leading U.S. financial institutions half a century later (not coincidentally, soon after the retirement of the last executives who might have had direct personal knowledge of the earlier disappointments with international lending). In the 1970s, major U.S. commercial banks advanced large sums to Latin American and East European nations with notorious records of previous default at a spread less than 1 percent over the cost of funds and a mere 50 basis points above the rate charged to industrial member states of the Organization for Economic Cooperation and Development (Lever and Huhne, 1986, pp. 49-50). Once again, the banks in question made inadequate allow-

ance for potential political problems. Perhaps Americans, with their long tradition of institutional and economic stability, are temperamentally inclined to underestimate political risk abroad.

In his classic analysis of Latin American default experience in the 1930s, Díaz Alejandro (1983, pp. 29-33) also lays emphasis on the delicacy of the reverse-transfer mechanism. But he reserves his admonitions chiefly for the creditors. When creditors tolerate prolonged depression, resort to protection, or countenance extravagant increases in real interest rates, he contends, they may make it virtually impossible for debtor nations to pay. The impression persists today in many quarters that the peculiar severity of the 1930s downturn and the collapse of an integrated global economy fully suffice to account for the unusually high incidence of default everywhere in that decade. Undoubtedly, disturbances in the expectations prevailing when borrowing took place (for instance, regarding the future range of commodity prices) and the absence of serious policy coordination among countries had some impact on debt delinquency. The question remains, how much? Internationally minded economists, acutely conscious of the benefits that foreign lending can confer in a world awash with idle resources, began early on to give Latin American defaulters the benefit of the doubt. Henry Wallich (1943, p. 328) argued philosophically, " 'Tis better to have lent and lost than never to have lent at all." Actually, however, the principal creditor nations had radically different degrees of success in preserving the assets that they had lent abroad in the 1920s. And debtors did not live up to their obligations strictly in proportion to their luck in the "commodity lottery."

Differences in the default experience of creditors in the 1930s, as contemporaries recognized clearly, derived mainly from variations in the geographic distribution of their external assets (RIIA, 1937, p. 322). While individual companies or municipalities ran into trouble all over the world, systematic national default took place only in Central and Eastern Europe, China, and Latin America. Six East European countries (Bulgaria, Greece, Hungary, Poland, Romania, and Yugoslavia) joined Germany in default; all had suffered a variety of financial ills long prior to the Depression. China labored under the cumulative disabilities of invasion, political chaos, and hyperinflation. Every Latin American and Caribbean nation found some reason to default, with the exception of Argentina (which obtained the compensating advantage of a preferential trade agreement with Britain) and Haiti and the Dominican Republic (which remained under direct U.S. fiscal supervision).[8] Low commodity prices provided the initial motivation for most Western Hemisphere defaults. But the well-advertised reluctance of New Deal officials to consider sanctions

[8] At one point, the Dominican Republic temporarily suspended sinking-fund payments, but the 1934 renegotiation of amortization schedules met with the approval of the Foreign Bondholders Protective Council.

for fear of jeopardizing U.S. export-trade and security interests goes far to explain why defaulters south of the border declined to come to terms when the economic indices improved.

Great Britain survived the 1930s without grave losses on its overseas investments for one essential reason. By the beginning of the decade, it had concentrated 58.7 percent of its portfolio within its own Empire, and the Empire proved wholly immune to the temptations of debt delinquency. Britain stood at general risk only on the 19 percent of its holdings located in Europe, China, and Latin America exclusive of Argentina. The United States, by contrast, had placed 59.7 percent of its foreign investments in the affected areas, and it sustained losses proportionately. A cursory examination suggests that the default experiences of the two main creditors ran reasonably close together on comparable classes of securities. For example, by 1935 default had touched 35.4 percent of the capital sunk into publicly issued dollar bonds for foreign governments and municipalities (the figure rises to 48.7 percent if Canadian issues are omitted from the calculation). Concomitantly, 35 percent of the funds committed on the London Stock Exchange for public-authority flotations outside the British Commonwealth stood in default. Yet since foreign-government bonds comprised a mere 10.4 percent of British overseas holdings, compared with 36.7 percent of total American offshore investments, the defaults in question had far greater resonance in the United States.[9]

A number of economists have speculated that "loan pushing" by inexperienced U.S. banking houses may have magnified the specific risk attending individual Wall Street flotations in the 1920s (Basevi and Toniolo, 1986, pp. 643-644). But the evidence connecting that practice with the spectacular collapse of American external portfolio investment in the Depression does not appear strong. By 1935, some 72.9 percent of the value of U.S. publicly traded bonds for foreign companies outside Canada had gone into default (RIIA, 1937, p. 307). With two notable exceptions, however, the respective national decisions to suspend debt service wholly accounts for this dismal record. As the German example demonstrates, a solvent firm cannot keep its obligations in a country that declines to do so. Country risk envelops business risk. The British obtained an unexpectedly satisfactory return on fixed-income investments in the Commonwealth through the worst years of the Depression precisely because political risk played no significant role. By 1935, London Stock Exchange loans issued seven years earlier for Empire governments stood at 119 percent of par; loans for Empire corporations stood at 116 percent of par; and even loans for commodity production overseas had on average held 84 percent of their initial value (RIIA, 1937, pp. 356-363).

[9] See the full discussion in RIIA (1937); the figures presented here are calculated from tables on pp. 142, 153-154, 166, 186-187, 300-301, 306-307, 326.

These results appear even more impressive when adjusted for the 24 percent price deflation over the intervening period. The skills of the London City in minimizing specific risk could not have achieved this outcome in the absence of the multiple linkages of interest and sentiment that bound the Commonwealth together and militated against interruptions of debt service on grounds of political expediency.

It is notable that the divergence in the returns on American and British overseas investments from this era persisted long after the economic crises of the 1930s had faded into history. Eichengreen and Portes (1986, pp. 623-636) have calculated the internal rate of return to maturity on a representative sample of dollar bonds issued for public and private borrowers excluding Canada from 1924 to 1930 and on a similar, though not identical, sample of sterling bonds floated for foreign and colonial public borrowers from 1923 to 1930. The internal rate of return to maturity on the American bonds averaged 0.72 percent a year; the comparable rate of return on the British bonds averaged 5.41 percent a year. Numerous despairing American bondholders sold defaulted securities to speculators or back to the defaulting governments at deep discounts during the Depression, while British holders characteristically saw their later returns reduced adventitiously by World War II interruptions in servicing. Thus, even these figures understate the purely economic impact of default in the 1930s on the typical U.S. investor.

The political nature of the German default turns out on close inspection not to be an exception to the general pattern in the 1930s, but merely a variant on it. How else can one explain why hard-hit commodity producers in the British Commonwealth like Australia and New Zealand stumbled along somehow without reneging on debt-service requirements, while South American states with the highest economic growth rates in the world like Brazil led bondholders a merry dance? Admittedly, Great Britain ran a substantial trade deficit all through the 1930s, and in most years a modest current-account deficit as well. It thereby furnished some of the sterling that enabled its debtors to pay. What is often overlooked, however, is that Britain had traditionally registered an export surplus with the Empire, while almost the whole of its trade deficit derived from transactions with Europe and the United States (RIIA, 1937, pp. 324-327).

The Ottawa Agreements of 1932 accorded preferences to Commonwealth agricultural products and somewhat reshaped trade flows. Still, the British market proved far too restricted to absorb all the wheat, meat, and dairy surpluses that the Dominions and other members of the sterling bloc wished to sell (Holland, 1981, pp. 121-151). Argentina earned enough hard currency through privileged access to British markets under the 1933 Roca-Runciman treaty to cover its sterling debts; the benefits of bilateralism in that case proved large enough so that Buenos Aires economic planners could withstand bitter complaints from Washington and from default-minded nationalists at home. In general, however, Britain's Commonwealth partners managed in the mid-1930s to cover no more than half their interest and amortization obligations through a surplus in direct trade with the mother country. The Dominions had some incentive not to risk their special position in British markets through debt delinquency, especially given the dearth of alternative customers for primary products. But long before Whitehall threw in the towel and opened negotiations for an Anglo-American trade agreement in 1937, it became patent that the Empire by itself could not provide a sufficiently large or balanced trading unit to solve the economic problems of any of its members. Imperial preference alone cannot explain why Commonwealth countries paid their debts.

Other considerations proved at least as important (Drummond, 1981, pp. 1-118, 252-261). Bondholders in England retained tremendous political clout. The City of London had the power to employ both stick and carrot, and it did not hesitate to use either instrument. To begin with, the Colonial Stock Act gave creditors a legal claim on certain export revenues of delinquent debtors. The fact that sterling-bloc countries kept their reserves in the British capital further raised the costs of potential default. Quite aside from such constraints, a perceived community of interest held narrow calculations of advantage in check. The major Dominion banks all had close connections in London; their officers shared the outlook of the City that obligations should be kept. The personnel of the nascent Commonwealth central banks came mostly from the Bank of England and reflected underlying attitudes at the parent institution.

The Bank of England itself spared no effort in managing the flow of capital to the Empire. While new loans remained of modest size, the Dominions could count on vital assistance in refunding outstanding long-dated debt at lower interest rates. After the initial Commonwealth devaluations of 1931-33, the Bank of England also stood prepared to extend temporary financing to help sterling-bloc countries with liquidity problems and to hold exchange rates steady. At the same time, Threadneedle Street had no compunctions about refusing accommodation when it disapproved of Dominion policies. Moreover, the ministries in Whitehall applied their influence to strengthen the Bank's negotiating hand. The Treasury facilitated Empire finance through its own domestic strategy of easy money, cheap credit for commercial purposes, and a reasonably balanced budget. And it exerted moral suasion against extreme forms of deficit finance or fiat-money creation by sterling-bloc debtors.

Of course, the most strenuous endeavors to bring about policy coordination could not obviate some angry confrontations. After all, Australia and New

Zealand, along with Canada, labored under the highest per capita debt burden in the world, six times greater than that of Germany, twice that of any South American defaulter (RIIA, 1937, p. 233). Australia, under duress, waffled on its Ottawa promises and resorted to prohibitory import duties and the bilateral balancing of trade. New Zealand elected a radical Labour government that embarked on a reckless program of public expenditure and eventually needed to be bailed out; Whitehall granted an emergency export credit only on terms that left a bitter aftertaste. Still, imperial relationships remained intimate enough to compose all differences in the end. No breakdown in debt servicing took place.

Eichengreen and Portes (1986, pp. 613-617) present an illuminating regression analysis of the covariates of default in the middle 1930s. They find statistical confirmation for the intuitive expectation that, within a given region, countries experiencing the greatest deterioration in terms of trade or that raised domestic absorption through deficit spending would have a higher propensity to default. They find, conversely, that open economies vulnerable to sanctions showed less inclination to default. Yet, as they admit, a straightforward debt-capacity model cannot explain why countries in the antipodes eventually made the economic adjustments required to fulfill their obligations, while South American nations that suffered less from the Depression did not. Cultural attitudes of the debtors, the relative willingness of the predominant creditor states to support bondholder claims and when necessary to facilitate bridge financing, and the general character of regional political relationships provided the margin of difference.

It is worth recalling that the principal Latin American nations did not rate as particularly underdeveloped in the 1930s. In terms of gross domestic product per capita, they ranked in the same league with such middle-income countries as Austria, Finland, Italy, Portugal, and Japan (Balassa et al., 1986, p. 52). Brazil, the largest and most important of the South American defaulters, lagged behind the income pacesetters somewhat, but, aside from an early drop in coffee prices, it scarcely experienced the Depression at all. Gross domestic product rose 51.7 percent from 1929 to 1939, and real industrial production boomed upward by 86.2 percent (Díaz Alejandro, 1983, p. 8). Nevertheless, Brazil first truncated its foreign debts unilaterally through the so-called Aranha plan, next obliged its customers to subsidize the balance through targeted export taxes, then set current foreign suppliers and bondholders to squabbling among themselves about disposition of the revenue made available, and finally suspended payments altogether so that the army budget could increase. Leading diplomats under the Gétulio Vargas regime articulated the view that "no nation plays a clean game" and that "each one pursues only its own interests" (Hilton, 1975, p. 10). Accordingly, they ruthlessly exploited the competition of the United States, Germany, and Great Britain for access to Brazilian raw materials and markets in order to achieve domestic economic goals (Hilton, 1975, pp. 1-228).

Brazilian decisionmakers perceived a serendipitous opportunity to take advantage of Northern Hemisphere quarrels and lift themselves out of economic dependency. Supremely pragmatic, they stood happily remote from the strategic and ideological perils posed by the Third Reich. They aimed to get the rival capitalist powers to share the burden of Brazil's rapid industrialization and to subsidize the country's accelerated social and infrastructure investment. They hoped that, following hothouse economic development, Brazil would emerge as the arbiter of Latin America's destinies. The Vargas regime did not hazard a confrontation by debt repudiation or, for that matter, by open denunciation of the Brazilian-American trade treaty. It proceeded instead by polite evasions and, on the whole, succeeded brilliantly. New Deal officials did not care to defend bondholder interests any more vigorously in Brazil than in Germany. And by 1938, Washington became so frightened of Nazi penetration of Latin America that it also passively tolerated Brazil's erection of import barriers that violated prior agreements. In the interests of hemispheric defense, the U.S. government supplied new loans to Brazil from 1940 onward without much concern for what happened to the old. As President Vargas presciently observed, "The United States has a plethora of money and demonstrates good will toward us. We need to take advantage of that special situation" (Hilton, 1975, p. 218).

In negotiations with Latin American countries as in dealings with Germany, some State Department officials favored cautious verbal support for bondholders, particularly when commodity prices rebounded in the later 1930s and the borrowers' capacity to resume debt service manifestly improved. Even then, the State Department vetoed any linkage of debts with trade. But in 1939 its special envoy to Lima went so far as to threaten the Peruvian president that "neither the American government nor American private investors were prepared to play the role of Santa Claus"; until Peru agreed to scaled-down payments on its old debt in line with its economic capacities, "the prospects of future loans or credits was nil." President Roosevelt and his chief advisers, however, generally proscribed that sort of approach. Secretary of the Interior Harold Ickes expressed the characteristic administration view: "There is no compulsion to invest money in foreign enterprises and it ought to be at the risk of the investor." Treasury Secretary Morgenthau made clear to bondholders in 1940 that they should settle for what they could get. For purposes of hemispheric security, the U.S. government needed to promote financial stability in Latin America. It could tolerate no obstruction for the sake of private gain (Gellman, 1979, pp. 40-44, 160-161).

Implications for the Current Debt Crisis

If history has any heuristic value, these stories from the 1930s suggest that political choice may also play an important part in resolving the debt crises of the 1980s. The external indebtedness of the third world (excluding traditional oil-producing states) rose from $130 billion in 1973 to $612 billion in 1982 and topped the $1 trillion mark in 1987. The borrowings of the Latin American nations alone approached $400 billion by the latter date. Although earlier bursts of overseas investment had witnessed larger resource transfers relative to the size of the lending economies, the volume of international lending in the 1970s surpassed all previous episodes in absolute terms.[10] Until the late 1960s, while recollections of the political circumstances attending Depression-era defaults remained fresh, most third-world countries found themselves restricted to development loans from multilateral agencies (usually concessional in nature but limited in amount) and trade-linked credits from the export-guarantee facilities of industrial countries. Then, quite suddenly, the climate of expert opinion changed. Commercial bankers "discovered," as Henry Wallich of the Federal Reserve Board expressed it (1982, p. 247), that middle-income developing countries had become creditworthy. If the premise held, it followed that international investors had too little third-world paper in their portfolios. They needed to carry out a "one-time stock adjustment" (Díaz Alejandro, 1984, pp. 348-349) to make up for the forty years during which private nonequity capital flows had largely bypassed Latin America, mainland Asia, Eastern Europe, and Africa.

The resultant investment boom and its dolorous collapse in the 1980s now forms the subject of a large and growing literature (Sachs, 1982; Cline, 1983 and 1984; Díaz Alejandro, 1984; Delamaide, 1984; Makin, 1984; Lever and Huhne, 1986; Balassa et al., 1986; Kahler, 1986; Lomax, 1986). The current debt crisis naturally differs in many details from that of the 1930s. But the essential political problem remains fundamentally the same: how should debtors and creditors apportion the sacrifices when perceived needs outrun available resources?

It appeared during the 1970s, to analysts who judged solely from economic indicators, that the leading international banks were performing a signal service by moving capital to those who could make the best use of it. Between 1970 and 1978, according to World Bank data, middle-income countries grew

[10] See the figures on the growth of net overseas long-term assets, 1855-1938, in Fishlow (1986, pp. 42-43). Between 1900 and 1913, Great Britain increased its net overseas assets by 61 percent of 1913 GNP; France acquired new overseas assets equivalent to 41 percent of 1913 GNP (calculated from Mitchell, 1978, pp. 411, 416, 424). Neither American offshore lending in the 1920s nor lending by OECD countries to the developing countries in the 1970s approached that torrid pace.

at an average annual rate of 5.7 percent, almost as fast as the capital-surplus oil-exporting countries, which achieved an average annual growth rate of 6.0 percent. Even the habitually laggard low-income countries, with their assortment of intractable problems, managed an average annual growth rate of 3.6 percent. In contrast, the advanced industrial countries, hobbled by soaring oil and raw-material prices, a serious recession, and destabilizing inflation, attained a comparatively anemic 3.2 percent average annual growth rate from 1970 to 1978 (Heller, 1982, p. 262).

The impressive economic progress of the third world before the second oil shock of 1979 did not derive from the availability of foreign capital alone. The influential "dependency school" of economists had long prophesied a continuing secular decline in the relative prices received by primary producers. Yet, remarkably, the terms of trade for most developing countries, although volatile, generally improved through the 1970s. Producers of coffee, cocoa, and sugar reaped particularly large windfall profits, and other nations, not so lucky in the commodity lottery, gained through higher export volumes (Cline and associates, 1981, pp. 11-19, 48-49). In consequence, the leading middle-income countries in Asia and Latin America succeeded in boosting domestic savings and investment, often in dramatic fashion, as well as in attracting foreign loans (Sachs, 1982, pp. 233-235; Balassa et al., 1986, pp. 98-100).

When the newly qualified borrowers solidified their credit standing, they found it possible to obtain funds for financing current-account deficits and smoothing domestic consumption as well as for investment. By pushing up oil prices without any relation to production costs in the 1970s, the Organization of Petroleum Exporting Countries in effect imposed the equivalent of a gigantic reparations levy on those who imported oil. The developing countries bore part of this charge, and they greatly increased other imports as well. Still, the real debt-service burden on most developing countries did not rise alarmingly before 1980 because inflation continuously eroded the value of existing dollar-denominated obligations (Cline, 1984, pp. 1-11; Díaz Alejandro, 1984, pp. 337-349). As the United States turned to monetary expansion and external currency depreciation as a means of solving domestic problems, third-world leaders began to bank on low or even negative real interest rates. In August 1979, Philippine President Marcos typically declared it "axiomatic . . . to borrow when the prices are still down and then to repay five [or] ten years from now when everybody says the dollar will be cheaper and prices may be higher" (Cline and associates, 1981, p. 29).

In retrospect, borrowing predicated on such assumptions looks like the riskiest of speculations. Neither lenders nor borrowers should have expected commodity prices to remain high or the dollar to float below purchasing-power parity indefinitely. Apparently some experts, particularly in Latin America, had the notion even then that, in the event of crisis, debtor countries could use their political bargaining power to whittle away foreign obligations, much as they had done in the 1930s (Díaz Alejandro, 1984, pp. 347-348). More importantly, the modest inflation-adjusted debt-service ratios seem to have produced everywhere a false sense of security. So prescient an observer as Chairman Paul Volcker of the Federal Reserve Board stated reassuringly in March 1980 that "the recycling process has not yet pushed exposure of either borrowers or lenders to an unsustainable point in the aggregate" (Lever and Huhne, 1986, p. 49).

In the interwar period, individual bondholders had borne the principal risks of long-term lending overseas; financial institutions had functioned primarily as underwriters. In the 1970s, commercial banks granted loans directly. Bankers thought they could protect themselves by employing a new financial instrument, the medium-term syndicated rollover credit. This product facilitated diversification of loan portfolios, and it transferred the risk of interest-rate volatility to the borrower. The prevailing wisdom held that bank credit offered considerable advantages over the issue of bonds: it provided the continuity of a banker-client relationship and the prospect of a more flexible response in the event of servicing problems. Yet the syndicated rollover credit carried perils of its own. The usual five- to twelve-year maturity allowed insufficient time for infrastructure investment to yield a positive payback, and the shift of contractual interest-rate risk to the borrower did not ensure that the borrower would actually pay in the event of wide rate swings.

As in the 1920s, bankers had a tendency to minimize prospective difficulties because of short-term preoccupations. Lending institutions in the five key industrial nations faced low domestic profit margins. They could, however, earn lucrative up-front management fees by serving as intermediaries in the recycling of oil revenues. The petroleum-exporting countries could not spend their new wealth as fast as they acquired it. Between 1973 and 1980, they placed much of their $366 billion current-account surplus in Western banks, while at the same time the non–oil-producing developing countries needed to finance a $287 billion current-account deficit (Saint-Etienne, 1984, p. 73). Given the rapid geographical diversification of multinational corporations and the advancing globalization of financial markets, money-center banks that declined to join the syndication game had good reason to fear that they would be left behind in the scramble for other business (Wallich, 1982, pp. 249-252). Furthermore, since major banks now competed all over the world on fine price differentials, they found themselves increasingly dependent on the favor of home-market regulators. The latter often promoted politically useful lending abroad by applying prudential rules selectively, structuring market incentives, and channeling tax funds to international agencies that could bail out floundering debtors for a while with a minimum of public accountability (Wellons, 1986; Wellons, 1987).

Many bankers credulously believed that they had obtained an extra margin of safety because more than three-quarters of post-1970 loans went directly to sovereign governments or carried an official guarantee. According to Walter Wriston of Citibank, at once a pioneer and a booster of the new international lending, nations might experience temporary cash-flow problems, but they could never go bankrupt. Given sound programs and time to let them work, sovereign borrowers could always resume payment (Lever and Huhne, 1986, p. 45). American bankers had vigorously debated this "sovereign-risk hypothesis" in the 1920s (Delamaide, 1984, pp. 97-98). The defaults of the following decade ought to have settled the question conclusively. In practice, nations do become insolvent or at any rate choose to appear so, and the penalties visited upon them rarely cut very deep or last very long.[11] But the system through which bankers are recruited and promoted, at least in the United States, does not foster an acute historical sensibility. Bankers tend to be present-minded. Evidently, the computer models used to judge debt-service capacity in the 1970s took no special notice of prewar default experience (Heller, 1982).

The palmy days for borrowers came to an end between 1979 and 1982, for reasons only some of which prudent planners could reasonably have foreseen. The OPEC cartel hiked international oil prices again, in this round to eighteen times the 1970 dollar level. The industrial countries toppled into recession and temporarily curtailed their purchases from abroad. An era of commodity-price deflation began. Non–oil-producing developing countries experienced a decline in their terms of trade and, in some cases, even in the absolute value of their exports. Meanwhile, the American monetary authorities realized that the accommodative strategies through which they had coped with domestic social pressures as well as the OPEC oil bill in earlier years might finally cause inflation to spin out of control. They raised interest rates sharply. This had consequences for debtors overseas as well as at home. From 1971 through 1980, the London Interbank Offered Rate (LIBOR)—the benchmark for international lending—had lagged on average 0.8 percent behind U.S. wholesale-price inflation. In 1981-82, by contrast, LIBOR exceeded U.S. inflation on average by 9.2 percent (Cline, 1983, pp. 22-23). The true cost of funds had rarely risen so high. In addition, the dollar began its recovery relative to other currencies, so that the real weight of dollar-denominated principal increased. Third-world policymakers had accustomed themselves for a decade to borrowing with no effective cost at all. They had not reckoned on disinflation. No wonder that, by the end of 1982, thirty-four countries had fallen behind on their payments. Debtors wishing to honor their obligations would have to make major adjustments.

[11] See Max Winkler's (1933, esp. pp. 12-46) historical review of sovereign default through the ages, which received wide popular circulation when it appeared.

Sovereign borrowers that limited domestic consumption, pruned extravagant state subsidies, encouraged private-sector savings and investment, avoided an overvalued exchange rate, cracked down on capital flight, and channeled national energies into exports soon found their external accounts moving back toward balance. The capital markets rewarded their compliance. South Korea, Singapore, Taiwan, and their Pacific Rim neighbors experienced little trouble in obtaining additional foreign investment on a voluntary basis in the 1980s. Despite some social strains, these countries resumed their economic growth paths and shortly reached new heights of prosperity. The less open and flexible economies of Eastern Europe that sought to avoid prolonged delinquency—Romania and Hungary, for example—had to pay the penalty of greater austerity. Nonetheless, these cases too reinforced the demonstration that, when decisionmakers possess the political muscle to impose appropriate policies, the technical economic difficulties involved in adjusting the current account invariably yield to solution. Many important debtors, however, in Latin America, Africa, and elsewhere, hesitated to make the indicated domestic-policy changes or carried them through belatedly and halfheartedly. They and their sympathizers in the advanced countries began instead to bemoan the prospective "negative resource transfer"—that is, the reluctance of foreign banks to provide new loans in excess of the interest due on the old (Lever and Huhne, 1986, pp. 56-75). Yet as Krugman (1984, p. 391) has sagaciously remarked, if countries follow irresponsible policies and lose the confidence of lenders as a result, the falloff in available funding scarcely constitutes an exogenous event.

With few exceptions, countries that failed to surmount the liquidity crisis of 1982-83 within a reasonable period of time had either squandered their resources during the "fat" years or deliberately evaded adjustment thereafter for reasons of political expediency. In contrast to the situation prevailing in the 1930s, delinquent debtors half a century later did not have the excuse of a prolonged world depression. By the mid-1980s, objective economic circumstances for most debtors had improved or at least stabilized. Industrial countries had begun to grow fairly satisfactorily again. While certain commodities did better than others, export markets for the developing countries generally revived. The United States, in particular, helped by running a trade deficit of unprecedented size. The dollar once more declined precipitously, in the process shrinking the real developing-country debt burden. Interest rates eased. And oil prices fell back. Notwithstanding these favorable trends, few debtors acknowledged that they had received adequate relief. On the contrary, the litany of complaints and the list of coerced reschedulings grew ever longer. International debt became a political football in the so-called North-South conflict. In the early 1970s, spokesmen for the poor countries in the United Nations Conference on Trade and Development and similar forums had called for a "new international economic order" comprising vast unilateral transfers of wealth from the richer parts of the world to the less developed ones. Now many third-world rulers saw an opportunity to achieve that goal by forcing the concessionary treatment of existing debt.

What had the borrowers of a trillion dollars done with the money? Some had invested it, more or less wisely. The answer for the more troubled debtor nations involved variations on one of three themes: unproductive use of funds, overconsumption, and appropriation of the proceeds by local elites. Many Latin American nations, caught up in ideological enthusiasm, had practiced inefficient import substitution in the 1970s. They created bloated state-run enterprises with no reference to comparative advantage, dissipated borrowings on infrastructure development in excess of foreseeable needs, raised both tariffs and obstacles to direct foreign investment in order to eliminate competition, and discriminated against agricultural and other exports. This inward-looking economic strategy caused marginal capital-output ratios to rise; investment efficiency deteriorated (Balassa et al., 1986, pp. 65-74; Sanders, 1986, pp. 33-49). The emergent nations of sub-Saharan Africa had also shunned a strategy of export-led growth. They too dribbled away development funds on show projects. They particularly penalized market agriculture, subsidized foodstuffs for city dwellers who had no prospect of gainful employment, and let population growth get out of hand (Ravenhill, 1986). In many parts of the world, developing-country planners aspiring to provide a better life for their peoples had allowed consumption to outrun productivity gains and failed utterly to take into consideration the higher cost of energy. Even Brazil, in certain respects a model for third-world development, had gambled perilously by fostering the hothouse growth of domestic demand (Cline, 1984, pp. 262-268; Fraga, 1986, pp. 11-19; Frieden, 1987, pp. 97-116).

Inexperience and overoptimism accounted for some of these policy errors. In other cases, perfervid nationalism and corruption passed beyond the bounds of venial miscalculation. Argentina, for example, wasted billions in its attempt to wrest the Falklands from Great Britain. Peru acquired a formidable air force for which it had little demonstrable external need (Delamaide, 1984, pp. 62-65, 113-114). All around the globe, sovereign debtors frittered away scarce hard-currency resources arming against their neighbors. Numerous third-world potentates, moreover, succeeded in blurring the distinction between public assets and private ones. Marcos of the Philippines, Mobutu Sese Seko of Zaire, and López Portillo of Mexico stood out only by the amount of fungible investment capital that they managed to sequester under their own names. In large parts of Latin America and Africa, peculation became systemic rather than individual. Several Latin American countries slid into a crisis of governability recalling the formative years of nineteenth-century nation building, when *caudillo* elites regularly plundered an impoverished state while deflecting popular discontent through the contrivances of nationalism (Gootenberg, 1987, Chap. 1).

The Latin American upper classes enriched themselves in the 1970s through a fairly standard set of government policies: overvalued exchange rates in tandem with rudimentary taxation, outsized budget deficits, unsound monetary expansion, and negative real interest rates. As low-cost foreign capital became available for business purposes, the favored strata of Latin American society shifted their private household wealth abroad. Public authorities abetted this maneuver by maintaining free convertibility and facilitating dirt-cheap loans for domestic corporations. When a liquidity squeeze developed in 1981-83, Latin governments then bailed out failing corporations, in effect socializing entrepreneurial losses while leaving entrepreneurs with their personal assets comfortably sheltered from attachment or taxation in London, Zurich, Miami, and New York. By the mid-1980s, flight capital amounted on average to 43.9 percent of the borrowings of eighteen key debtor nations around the world.[12] Flight capital equaled fully one-half the external debt of Mexico and Argentina and the whole external debt of Venezuela (Balassa et al., 1986, pp. 80-81). Díaz Alejandro (1984, p. 379) describes this situation as "a crisis of legitimacy for the role of the private sector in Latin American development." The U.S. bankers left holding the bag no doubt had less delicate ways of expressing themselves.

A formula that would allow third-world governments to service, if not repay, their borrowings drew on no arcane economic knowledge. In the early 1930s, a genuine controversy had raged about optimal strategies for dealing with external debt. Half a century later, economists had reached a broad consensus about the consequences of various policy options. The underlying political nature of the dispute became all the more apparent. Nations that elected to keep current on their debt would have to begin with fiscal and monetary discipline. They would have to curb the instability caused by inflation, encourage savings through positive real interest rates, and end the crowding out of private investment resulting from uncontrolled budget deficits. They would have to commit themselves to an outward orientation. They needed to maintain a competitive exchange rate so that the increased production of tradables compensated for the diminished output of nontradables attendant on fiscal contraction. And they needed to promote greater investment efficiency. That, in turn, required reducing the role of the state both in direct production and in the awarding of subsidies, freeing the market sector from excessive regulation and bureaucratic red tape, and opening the economy to the competition inherent in a foreign-capital inflow in equity form (Balassa et al., 1986, pp. 24-43; Sachs, 1984a; Cline, 1984, pp. 123-201).

The essential items on this agenda appeared in every International Monetary Fund adjustment plan. But how could the community of lenders induce compliance? The IMF, which bankers had long counted upon to orchestrate

[12] Morgan Guaranty Trust Co. figures, cited in *New York Times*, June 9, 1986.

the process of accommodation, turned out to be a paper tiger in the face of debtor intransigence. Of thirty adjustment programs initiated under the auspices of the IMF Extended Fund Facility between 1978 and 1984, twenty-four broke down. The IMF staff attributed the failures in 60 percent of the cases to "political constraints" or "weak administrative systems" (Haggard, 1986, pp. 157-158). More recently, nations as different as Peru and Brazil have refused to deal with the IMF at all.

In the middle 1980s, the reluctance of numerous sovereign borrowers to make serious sacrifices became manifest. The new debt crisis raised political issues quite different from those that had agitated the interwar era. Yet a striking parallel developed in the endeavors of debtors during both periods to throw the adjustment burden largely on creditors. If anything, debtors and their champions during the latest cycle enjoyed greater success in seizing the high moral ground than had their counterparts half a century earlier. Pope John Paul II, who became widely admired in Latin America precisely because of his talent for voicing the aspirations of the disadvantaged within a framework carrying transcendent ethical appeal, offered this perception of the international debt problem in 1984:

> Christ is speaking of the whole universal dimension of injustice and evil. He is speaking of what today we are accustomed to call the North-South contrast. Yes, the South, becoming always poorer, and the North, becoming always richer. In the light of Christ's words, . . . the poor people and the poor nations . . . will judge those people who take these goods away from them, amassing to themselves the imperialistic monopoly of economic and political supremacy at the expense of others.[13]

The pope's pronouncement skirted some awkward facts. For two decades, the so-called poor countries had grown more rapidly than the rich ones. International loans before 1980 had carried negative real interest rates and conferred important benefits on prudent borrowers. Given the unequal distribution of income and access to government largesse in most developing societies, the chief beneficiaries frequently possessed substantial means already. To complicate the matter further, the bank stockholders who had the most to lose if sovereign debtors defaulted bore no resemblance to caricature monopolists battening on the misery of the overseas poor. They comprised, in the main, people of modest station who had invested their pension funds

[13] *New York Times*, Sept. 18, 1984. The pope formally codified his views on international debt in the 1988 encyclical letter, *Sollicitudo Rei Socialis* [The Social Concerns of the Church], excerpted in the *New York Times*, Feb. 20, 1988. See also the November 1986 pastoral letter of U.S. Catholic bishops, which demanded "immediate relief" for third-world debtor nations and specifically urged a moratorium on interest payments, a write-down of principal, the conversion of some loans to local-currency obligations, and "perhaps" outright cancellation (*New York Times*, Nov. 14, 1986).

through institutions. At least in the United States, they recalled the sorts of individuals who had bought foreign bonds in the 1920s. Under these circumstances, if sovereign borrowers mustered the political clout to escape adjustment, people with limited assets in well-off countries would end up surprisingly often subsidizing wealthy people in poor countries.

In short, the moral rights and wrongs of the matter turned out to be more complicated than they appeared at first glance. Conflicts over debt did not really lend themselves to clear-cut ethical resolution. Certainly, the borrowers could not make a compelling argument for global leniency on grounds of equity alone. The best-informed specialists preferred to steer around that aspect of the problem and to examine the capacity of each debtor to pay on a case-by-case basis (Cline, 1984, pp. 199-201). But public opinion in the advanced industrial countries suffered from a troubled conscience. A climate developed, especially in the United States, in which creditor banks faced heavy pressure to show patience and flexibility. Several forces that had militated against vigorous debt collection in the 1930s surfaced again. Manufacturers fretted about slumping exports if debtors abruptly had to balance their current accounts. The foreign-policy establishment worried lest a tough line undermine political stability in strategically located lands. (Had not the failure to make timely concessions to Brüning, so went the analogy among the historically minded, led to the advent of Hitler the last time around?) And articulate liberals waxed indignant at the prospect that debt servicing might require a slowdown, however temporary, in the growth of third-world living standards.

Thus Lord Lever of Manchester, writing in a journal that at once molded and reflected the convictions of East Coast intellectuals, inquired rhetorically, "Can it be seriously expected that hundreds of millions of the world's poorest populations would be content for long to toil away in order to transfer resources to their rich rentier creditors?"[14] Richard E. Feinberg of the Overseas Development Council rehearsed the same argument with yet greater emotional affect. "In a perversion of economics and ethics," he complained, "the third world is now assisting the industrialized nations."[15] Anthony Lewis, the *New York Times* columnist, emphasized possible diplomatic linkages: "The trend toward democracy, now evident in Latin America and welcome to us, could be reversed. . . . It will be hard for democracy to survive if the financial screw is tightened."[16] As the 1988 election campaign got under way, Senator Bill Bradley, point man for Congressional Democrats on the issue, recapitulated these converging sentiments as he appealed for interna-

[14] Harold Lever, "The Debt Won't Be Paid," *New York Review of Books*, June 28, 1984.

[15] Interview in the *Boston Globe*, Mar. 8, 1987; identical claim in his *New York Times* "Op Ed," Sept. 19, 1984; further elaboration in Feinberg and Ffrench-Davis (1987).

[16] *New York Times*, June 25, 1984.

tional coordination to provide both interest relief and some debt forgiveness: "Money allocated for interest is money not spent on our exports. . . . The debt issue gives the Soviet Union an opening for influence in Latin America. . . . In effect, there is a referendum in the third world about the ability of democracy to fight poverty. We cannot permit it to lose."[17]

The steady reiteration of such views could not help but shape the judgments of the financial community about the political constraints in operation. Given the size of the Eurocurrency market, even hegemonic powers cannot control their banks directly. Nevertheless, creditor institutions involved in multiple sensitive reschedulings inevitably had to fashion a negotiating position that government departments and the wider public at home considered reasonable. As one banker plaintively observed during talks with Argentina, "We don't want to look like the bad guys" (Cohen, 1986, p. 144). Wall Street harbored doubts from the start whether the banks could muster the requisite domestic support to prevail in a knockdown struggle with defaulting debtor regimes. Barton Biggs of Morgan Stanley & Co. gave voice to the prevailing pessimism: "Somehow the conventional wisdom of 200 million sullen South Americans sweating away in the hot sun for the next decade to earn the interest on their debt so Citicorp can raise its dividend twice a year does not square with my image of political reality" (Delamaide, 1984, pp. 228-229).

In the 1930s, Hjalmar Schacht and his Latin American counterparts had quickly learned to exploit the divisions among their creditors. They had pushed their advantage after recognizing the Roosevelt administration's fundamental indifference to bondholder concerns. Half a century later, debtor governments, whether more or less genuinely hard pressed, once again made shrewd political calculations about the pros and cons of delinquency on foreign obligations. Precisely because international financial arrangements now rested on built-in stabilizers unavailable in the Depression, prospective free riders had greater room to maneuver. A crash like that of 1931 could not easily recur. Developed nations understood the functions of the lender of last resort too well. The IMF, the Paris Club of official creditors, the multilateral development banks, the U.S. Treasury and the Group of 7 finance ministers, the Federal Reserve and OECD central banks, and the Federal Deposit Insurance Corporation formed a veritable hierarchy of lenders of last resort, all resolved to ensure that no single failure to pay, or even a succession of them, upset the monetary system.

Yet this layered defense against the last depression had the defect implicit in its virtues. Debtors had no need to fear that any delinquency of theirs might imperil the money-center banks on which the world depended for trade accommodation. During the early stages of the debt crisis in 1982-83,

[17] *New York Times* "Op Ed," June 9, 1987.

IMF Managing Director Jacques de Larosière had spoken optimistically of assisting nations caught in a liquidity squeeze by "bailing them in" through rescheduling operations (Makin, 1984, p. 164). In those innocent days, economists characteristically drew a sharp distinction between an outright failure to pay, on the one hand, and the capitalization of arrears while preserving the book value of existing obligations, on the other. "In no sense is private debt rescheduling merely a polite name for default," contended Sachs (1982, p. 226). Within a few years, however, it became clear that, in the absence of durable reforms that increased a debtor's capacity to pay, repeated restructuring offered hardly greater promise than a Ponzi scheme. Such operations might postpone the day of reckoning while banks built up their primary capital and loan-loss reserves. They did not solve the underlying problem from the creditor's point of view. Indeed, borrowers managed to secure a tacit reduction of their obligations by hard bargaining over the terms of rescheduling. At a time when Latin American debt instruments traded in the secondary market at anywhere from a 20 to 85 percent discount from their face value, the nations in question still aimed to renegotiate their debts at an interest rate no more than 1 percent over LIBOR, and generally they succeeded.[18]

Notwithstanding the amelioration of world economic conditions after 1982-83, the public clamor in debtor countries for permanent relief grew louder by degrees. Delicately balanced governments subject to popular approval found it particularly difficult to advocate adjustment to the external environment and to impose austerity policies. In mid-1984, the eleven Latin American nations forming the so-called Cartagena group took the lead in demanding various forms of compensatory financing free of IMF restrictions. While the Cartagena bloc never turned into a debtors' cartel or threatened organized default, it contributed to the intense politicization of the debt controversy and propagated the notion that regional development ought to take precedence over the satisfaction of creditor claims. Sovereign borrowers on other continents avidly followed the progress of this campaign, fully conscious of its implications for their own position. "We'd like to take a hard line like that," one West African official admitted candidly, "but we just don't owe enough money for anyone to be frightened of us."[19]

In 1985, matters began to take a radical turn. The socialist president of Peru, Alan García Pérez, unilaterally implemented one of the Cartagena group's principal recommendations. Declaring, "We cannot pay the banks by sacrificing the people," García limited external remittances to 10 percent of Peru's "official" exports. The idea had no more economic merit than when Hugenberg had proposed it to Hitler back in 1933. The level of exports is not an independent variable. It obviously depends, given a constant level of

[18] Discount figures from the *Financial Times*, Sept. 26, 1986.
[19] *New York Times*, July 1, 1984.

world demand, on the structuring of domestic incentives and on fiscal and monetary policy. García increased absorption at home by raising wages, hiking agricultural-support prices, and slashing interest rates, and he virtually condemned the country's main legal export to stagnation by canceling foreign oil-development contracts. Adding injury to insult, García offset the resulting current-account deficit with almost $1 billion of revenue from the officially unrecorded foreign sale of coca leaf and its derivatives (enough by itself to cover some two-thirds of the current interest owed abroad). Yet creditor powers reacted mildly, in part because Peru ranks as a relatively small borrower. The Andean nation lost its access to additional loans, but it faced no serious impediments to external trade or alternative sanctions of consequence. It even retained its accustomed share of the U.S. sugar quota.[20] The immediate outcome of the Peruvian experiment did not serve as a deterrent to other sovereign borrowers tempted to try their luck with various formulae linking debt payments to exports. By early 1987, only five other countries—Bolivia, Nicaragua, Poland, Sudan, and Zaire—had fallen into formal default, and in none of these except Poland (whose troubles reflected special political circumstances) did the leading money-center banks have substantial exposure.[21] Still, a dangerous precedent had been set.

Then, in February 1987, Brazil, the largest of the third-world borrowers, elected to suspend payment (at least temporarily) on the bulk of its long-dated debt. It also peremptorily froze short-term credits from foreign commercial banks in order to forestall reprisals. By no stretch of the imagination could Brazil qualify as a hardship case. Economists, in fact, had habitually regarded

[20] See the *Financial Times* supplement on Peru, Sept. 26, 1986. In the summer of 1987, the Peruvian government tried to restore its tarnished image by undertaking to deliver copper and other hard-to-sell commodities to two favored creditors that agreed in return to discount overdue interest. Bank regulators took a frosty view of these "countertrade" arrangements. They expressed the fear that debt-for-exports swaps, like debt-equity swaps generally, risked saddling banks with nonnegotiable assets that they had little competence to manage. One expert compared those sorts of transactions to "a man buying a dog for $1 million, realizing it was a bad deal, and swapping the dog for two cats." The willingness of such highly regarded institutions as the Midland Bank and the First Interstate Bank to proceed in the face of this criticism offered eloquent testimony to the lenders' continuing lack of solidarity in dealing with Peru. See "Dogs or Cats? First Interstate's Recent Debt-for-Exports Swap with Peru," *The Banker*, Aug. 1987, p. 18; also *International Herald-Tribune*, Sept. 18, 1987.

[21] See *Barron's*, Mar. 16, 1987. All five defaulting nations had suffered genuine economic reverses. Yet their leaders, in most cases, grounded a refusal to continue payment at least partially in political choice. Prime Minister Sadiq al-Mahdi of the Sudan, for example, explicitly declined to deal with debts on the "customary commercial basis." Instead, he proposed to distinguish between "that which is legitimate and that which is not legitimate." He elaborated for the benefit of the United Nations General Assembly: "We will pay what we can in a manner that does not disturb the norms of life of our people while bearing in mind the need to provide them with the necessities of keeping up with the *requested* level of development" (italics supplied). See the *New York Times*, Oct. 8, 1986.

it as an exemplar of material progress in the Latin world. Brazil had experienced three years of unaccustomed stagnation—and in the capital-goods sector genuine depression—at the beginning of the 1980s. But it had bounced back strongly and once again boasted a growth rate far higher than that of its principal creditors. The widespread perception of a continuing economic crunch in the Southern Hemisphere, however, presented the politicians in Brasília with an opportunity to recycle the old stratagems that had served the Vargas regime so well in the 1930s and to pass the bill for the country's rapid expansion to lenders overseas.[22]

Finance Minister Ernane Galvêas let the cat part way out of the bag as early as July 1984: "We're not going to pay off our debt. The bankers know it, the official financial institutions know it, and the governments know it. We're going to pay our interest to the extent of our possibilities, and when we cannot, the bankers will lend us the money."[23] Candor carried to this extreme seemed poorly designed to capture the hearts and minds of potential sympathizers abroad. Yet Galvêas represented precisely those outwardly focused banking circles that, under the umbrella of military rule, had fashioned the Brazilian "economic miracle" of 1967-80 by tapping the Eurodollar market. His group still hoped to regain the magic touch by preserving at least correct relations with foreign financiers. In March 1985, however, an anti-austerity coalition supplanted the military and took over the seals of office. The new team had the support of domestic-oriented manufacturers, industrial workers, bureaucrats, and the urban middle class generally. All these forces had reason to favor rapid growth at home over international respectability.

Paradoxically, because the civilian government rested on a broad popular base, it could win a tolerant hearing abroad for what amounted to an inward-looking economic strategy. President José Sarney lost little time in devising rhetoric to suit the purpose. In September 1985, he made a ringing declaration to the UN General Assembly: "A debt paid for with poverty is an account paid for with democracy."[24] Although personally a moderate, Sarney turned out to be an irresolute leader who did not dare offend the Brazilian Democratic Movement, the majority political party, which deprecated cuts in social spending and rigid curbs on wages. The president's economic advisers accordingly turned to the "Cruzado plan," a scheme for consumption-led growth that combined a price freeze with fiat-money inflation. Over the three previous years, Brazil had enjoyed a trade surplus that largely sufficed to cover its external debts. The uncontrolled consumer boom set off by the Cru-

[22] *New York Times* and *Wall Street Journal*, Feb. 21-28, 1987.

[23] *New York Times*, July 30, 1984.

[24] Quoted in Roett (1986, p. 37); note also Sarney's repetition of the slogan in his address to the Brazilian people justifying the 1987 delinquency (*New York Times*, Feb. 22, 1987). For a political analysis of the Sarney coalition, see Frieden (1987, pp. 120-122).

zado plan, as numerous observers had predicted from the outset, dissipated that surplus and ran down the country's hard-currency reserves to dangerous levels.[25] "There was no external factor to justify Brazil's insolvency," admitted former planning minister Roberto Campos. The result derived entirely from "management incompetence and imprudence."[26]

As a rising tide of acrimony over debt issues threatened to submerge the procedural dikes that had preserved financial comity in the postwar world, many academic economists in the United States placed their hopes for relief in some sort of lender of last resort. The plans that attracted the greatest public attention involved the creation of an international agency empowered to purchase at a discount developing-country obligations held by banks. The schemes most in vogue proposed a mechanism for inducing the banks to mark down loans to present market value and elaborated a method for apportioning the losses among the taxpayers of lending countries and the banking institutions concerned. Some variants called for a quid pro quo from developing-country beneficiaries, which would have to promise to stop trafficking in narcotics, to allow freer trade, or to negotiate a modest volume of debt-equity swaps.[27]

Generally, these plans simply assumed that, if debtor nations were granted

[25] For early warnings, see Anatole Kaletsky and Andrew Whitley, "A Boom that Makes Bankers Uneasy," *Financial Times*, Nov. 13, 1985.

[26] *New York Times*, Feb. 21, 1987. In November 1987, Brazil agreed to cover the year's back interest out of fresh money to be advanced by a lenders' syndicate. That temporary arrangement enabled the banks to avoid classifying Brazilian loans as formally delinquent for regulatory purposes. Subsequently, in early 1988, a newly appointed and more moderate Brazilian finance minister, Maílson Ferreira da Nóbrega, made a token remittance from his country's own funds, resumed relations with the IMF, and spoke of wishing to "return to normalcy." After a few weeks' bargaining, Nóbrega's representatives reached a preliminary understanding with the Bank Advisory Committee for Brazil. The creditor institutions consented to lend another $5.8 billion to help defray 1988-89 interest on Brazil's existing $113 billion foreign debt; in return, that country signaled an intention to drop its payments moratorium. The contractual interest rate on the new funds, a mere 13/16 of 1 percent over LIBOR, underscored the strength of Brazil's position after a year of voluntary delinquency. The creditor group, moreover, had no way of predicting how long Nóbrega and his allies at Brazil's central bank were likely to keep their footing in the shifting sands of domestic politics. Its members could therefore nurture no more than a measured degree of confidence that the modus vivendi, however welcome, would lead to resolution of the underlying conflict (*New York Times*, Feb. 2, 19, 22, and 29, 1988).

[27] For a summary of thirty-three of the best-known proposals, along with an explanation why no scheme requiring concessional financing on a global scale falls within the realm of practical politics, see Lomax (1986, pp. 255-280). Remarkably, hardly any authorities think it feasible to insist that third-world countries mobilize the private foreign assets of their own nationals for purposes of debt service. Great Britain demonstrated during both world wars that a strong government can oblige its citizens in an emergency to exchange their external holdings for local-currency bonds. But nationalist militancy and the concentration of political power in third-world states seemingly rule out significant foreign-asset mobilization under present conditions (Felix, 1987, pp. 40-41).

a one-time reduction in the principal owed in accordance with capacity to pay, they would have more incentive to keep current on the remainder. In a world where political facility often prevails over economic rationality, it is hard to predict whether the recipients of such largesse would accept reduced obligations in good faith or, after a decent interval, merely fire up a campaign for additional concessions. The reaction of other sovereign debtors to the 1987 Brazilian delinquency suggests few grounds for optimism. In neighboring Argentina, for instance, Economy Minister Juan Sourrouille, by no means an extremist by Southern Cone standards, shortly began to echo the Sarney line: "Attacking inflation through recession and a decline in real salaries does not form part of the methodology of this democratic government."[28] And Uruguayan Foreign Minister Enrique Iglesias (soon to win designation as president of the Inter-American Development Bank) discerned a "growing consensus" among his hemispheric counterparts in favor of limiting interest payments by fiat on all existing debt to not more than 2 or 3 percent annually.[29] The rumblings from other third-world nations became so ominous that, in the spring and summer of 1987, many major banks in the United States, Europe, and Japan deemed it necessary to dramatically increase their loan-loss reserves.

In a mood of intensified militancy, eight Latin American presidents met at Acapulco toward the end of that year and compiled an ambitious shopping list of demands for debt reform. They called in particular for the creation of "mechanisms" that would permit their countries to "benefit from discounts in the value of their debts" on secondary markets. In face of the barrage coming from south of the Rio Grande, the Morgan Guaranty Trust Co.—the international bank best situated by virtue of its capital position to withstand losses—made a potentially fateful concession. A Morgan-led syndicate proposed to swap up to $20 billion of Mexican paper for new instruments at a rate to be fixed at auction, by implication one just modestly above the discounted market value of existing obligations. In return for forgiveness of, say, a third of the current debt, Mexico would supposedly guarantee the reduced sum by purchasing twenty-year zero-coupon U.S. Treasury bonds of an equivalent face amount. In fact, the underlying U.S. securities would have a present value scarcely over 20 percent of their nominal worth, and would be nonnegotiable in the bargain. The world had witnessed no more transparent use of deep-discount funny money since creation of the reparations C-bonds sixty-seven years before. The president-elect of Mexico, moreover, issued a reminder that the observance of external commitments, old or new, depended on the resumption of economic growth satisfactory to himself. Although the Eastern liberal press chorused its approval of the Morgan Guaranty plan, the

[28] *New York Times*, Feb. 26, 1987.

[29] *New York Times*, May 29, 1987.

private reaction of other money-center bankers reportedly ranged from cautious to rude. It did not escape them that the marginal enhancement in the security of new bonds would almost surely come at the expense of present creditors. On its face, the proposal seemed better designed to meet the needs of regional banks looking for disguised "exit bonds" than those of larger institutions concerned to maximize the value of a geographically diversified loan portfolio. Not surprisingly, an auction held in March 1988 elicited bids acceptable to the Mexican government for the exchange of a mere $3.67 billion of current obligations, less than one-fifth the amount originally projected, and the highly touted new bonds quickly sold off to a sizable discount from par. But, whatever the ultimate outcome in Mexico, the Morgan Guaranty plan had changed the ground rules for future rescheduling operations. Never again could the banks credibly maintain that they expected to recover all of their money.[30]

The debt crises of the 1980s have yet to run their course. Perhaps the institutional arrangements devised since World War II to promote cooperative solutions to sovereign-borrower liquidity problems will in the end avert a chain of sequential defaults. The stakes are high, for borrowers as well as lenders. Another collapse of international lending comparable to that of the 1930s would have a catastrophic effect on, among other things, the prospects for third-world growth. Yet the evidence thus far reinforces the sobering conclusions that emerge from studying the interwar debt experience. Borrowed funds are quickly assimilated into the credit structure of recipient lands. All lending, however closely targeted to specific projects, therefore becomes general lending. Such capital inflows create political expectations for a rising standard of living. Governments that depend upon popular approval invariably meet with difficulties if they seek to restrain consumption when a reverse flow becomes necessary. Since the world economy fluctuates, at some point debtor governments will find it tempting to equivocate rather than to make domestic adjustments. Unless they encounter severe external constraints, sovereign borrowers in a squeeze have every incentive to rank social requirements at home above financial obligations abroad. Historical precedent suggests that, when a conflict erupts, the governments of capital-exporting nations usually place the dictates of national security first, the need to sustain exports and domestic employment second, and the interests of creditors a distant third. Lenders, accordingly, cannot always count on their home governments to provide effective backing for sanctions. Under these circumstances, international lending, save between states with longstanding political and

[30] *New York Times*, Nov. 28-30, Dec. 31, 1987, Jan. 10-12, 20, Feb. 26, Mar. 5, 1988; *Wall Street Journal*, Dec. 30-31, 1987, Jan. 5, 1988; *The Economist*, Feb. 6, 1988; *Financial Times*, Mar. 5/6, 1988.

cultural affinities, carries hazards that do not appear in medium-term charge-off data.

It does not necessarily follow, as George Champion, sometime chairman of the Chase Manhattan Bank, has argued in disillusionment, that commercial banks have no business at all making loans to developing countries (Delamaide, 1984, pp. 235-236). As a practical matter, money-center institutions must sustain a worldwide presence in order to provide a full range of services to corporate clients. They could not withdraw completely from direct international lending, even if they wanted to do so. Still, bank lending officers would do well in the future to factor into the computer model by which they judge debtor capacity the maxim with which La Rochefoucauld (1678, No. 38) titillated the salon of Madame de Sablé three hundred years ago: "We promise on the basis of our hopes. We perform in accordance with our fears."

REFERENCES

Abs, Hermann J., "Germany and the London and Paris Agreements," *International Affairs*, 31 (April 1955), pp. 167-173.

Agent General, *Reports of the Agent General for Reparation Payments*, Berlin, 1925-29.

———, *Report of the Agent General for Reparation Payments* [Final Report], Berlin, 1930.

Akten der Reichskanzlei, Weimarer Republik, *Die Kabinette Brüning I u. II, 30. März 1930 bis 1. Juni 1932* [ARK Brüning], Tilman Koops, ed., Vols. 1 and 2, Boppard am Rhein, Harald Boldt Verlag, 1982.

———, Regierung Hitler 1933-1938, *Die Regierung Hitler, Teil I: 1933/34, 30. Januar 1933 bis 27. August 1934* [ARK Hitler], Karl-Heinz Minuth, ed., Vol. 1, Boppard am Rhein, Harald Boldt Verlag, 1983.

———, Weimarer Republik, *Das Kabinett Müller II, 28. Juni 1928 bis 27. März 1930* [ARK Müller], Martin Vogt, ed., Vol. 1, Boppard am Rhein, Harald Boldt Verlag, 1970.

———, Weimarer Republik, *Die Kabinette Wirth I und II, 10. Mai 1921 bis 22. November 1922* [ARK Wirth], Ingrid Schulze-Bidlingmaier, ed., Vol. 1, Boppard am Rhein, Harald Boldt Verlag, 1973.

Aldcroft, Derek H., *From Versailles to Wall Street, 1919-1929*, Berkeley, University of California Press, 1977.

Allen, Frederick Lewis, *The Lords of Creation*, New York, Harper, 1935.

Andic, Suphan, and Jindřich Veverka, "The Growth of Government Expenditure in Germany since the Unification," *Finanzarchiv*, 23 (No. 2, 1964), pp. 169-278.

ARK. See Akten der Reichskanzlei (alphabetically under names of individual chancellors).

Artaud, Denise, *La Question des dettes interalliées et la reconstruction de l'Europe (1917-1929)*, Vols. 1 and 2, Lille and Paris, Librairie Honoré Champion, 1978.

Balassa, Bela, Gerardo M. Bueno, Pedro-Pablo Kuczynski, and Mario Henrique Simonsen, *Toward Renewed Economic Growth in Latin America*, Mexico City, Rio de Janeiro, and Washington, El Colegio de México, Fundação Getúlio Vargas, and Institute for International Economics, 1986.

Balderston, Theodore, "The Origins of Economic Instability in Germany, 1924-1930: Market Forces versus Economic Policy," *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte*, 59 (No. 4, 1982), pp. 488-514.

———, "Links between Inflation and Depression: German Capital and Labour Markets, 1924-1931," in Gerald D. Feldman, ed., *Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924-1933*, Munich, R. Oldenbourg Verlag, 1985, pp. 157-185.

Bank for International Settlements, *Annual Reports*, Basel, 1931-34.

———, *Fifth Annual Report (Apr. 1, 1934–Mar. 31, 1935)*, Basel, 1935.

Bariéty, Jacques, *Les Relations franco-allemandes après la première guerre mondiale, 10 novembre 1918–10 janvier 1925: De l'exécution à la négociation*, Paris, Editions Pédone, 1977.

Basevi, Giorgio, and Gianni Toniolo, "Comments: 'Debt and Default in the 1930s: Causes and Consequences,'" *European Economic Review*, 30 (June 1986), pp. 641-647.

Bennett, Edward W., *Germany and the Diplomacy of the Financial Crisis, 1931*, Cambridge, Mass., Harvard University Press, 1962.

———, *German Rearmament and the West, 1932-1933*, Princeton, N.J., Princeton University Press, 1979.

Blaich, Fritz, *Die Wirtschaftskrise 1925/26 und die Reichsregierung: Von der Erwerbslosenfürsorge zur Konjunkturpolitik*, Kallmünz, Lassleben, 1977.

Blum, John Morton, *From the Morgenthau Diaries: Years of Urgency, 1938-1941*, Boston, Houghton Mifflin, 1965.

Borchardt, Knut, "Zur Frage der währungspolitischen Optionen Deutschlands in der Weltwirtschaftskrise," in Knut Borchardt and Franz Holzheu, eds., *Theorie und Politik der internationalen Wirtschaftsbeziehungen: H. Müller zum 65. Geburtstag*, Stuttgart, Fischer, 1980, pp. 165-182.

———, *Wachstum, Krisen, Handlungsspielräume der Wirtschaftspolitik: Studien zur Wirtschaftsgeschichte des 19. und 20. Jahrhunderts*, Göttingen, Vandenhoeck & Ruprecht, 1982.

———, "Die deutsche Kastastrophe," *Frankfurter Allgemeine Zeitung*, Jan. 29, 1983.

Born, Karl Erich, *Die deutsche Bankenkrise 1931: Finanzen und Politik*, Munich, Piper Verlag, 1967.

Brady, Robert A., *The Rationalization Movement in German Industry: A Study in the Evolution of Economic Planning*, Berkeley, University of California Press, 1933.

Brown, William Adams, Jr., *The International Gold Standard Reinterpreted, 1914-1934*, Vols. 1 and 2, New York, National Bureau of Economic Research, 1940.

Brüning, Heinrich, *Memoiren 1918-1934*, Stuttgart, Deutsche Verlags-Anstalt, 1970.

Bry, Gerhard, assisted by Charlotte Boschan, *Wages in Germany, 1871-1945*, Princeton, N.J., Princeton University Press for the National Bureau of Economic Research, 1960.

Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1957*, Washington, U.S. Census Bureau, 1960.

———, *Historical Statistics of the United States, Colonial Times to 1970*, Vol. 1, Washington, U.S. Census Bureau, 1975.

Büttner, Ursula, *Hamburg in der Staats- und Wirtschaftskrise 1928-31*, Hamburg, Hans Christians Verlag, 1982.

Carosso, Vincent P., *Investment Banking in America: A History*, Cambridge, Mass., Harvard University Press, 1970.

———, *The Morgans: Private International Bankers, 1854-1913*, Cambridge, Mass., Harvard University Press, 1987.

Carroll, Lewis, *Alice in Wonderland and Through the Looking Glass.* Reprinted, New York, Grosset & Dunlap, 1946.

Child, Frank C., *The Theory and Practice of Exchange Control in Germany*, The Hague, Martinus Nijhoff, 1958.

Childers, Thomas, *The Nazi Voter: The Social Foundations of Fascism in Germany, 1919-1933*, Chapel Hill, University of North Carolina Press, 1983.

Clarke, Stephen V. O., *Central Bank Cooperation, 1924-31*, New York, Federal Reserve Bank of New York, 1967.

Cleveland, Harold van B., and Thomas F. Huertas, *Citibank, 1812-1970*, Cambridge, Mass., Harvard University Press, 1985.

Cline, William R., *International Debt and the Stability of the World Economy*, Washington, Institute for International Economics, distributed by MIT Press, Cambridge, Mass., 1983.

———, *International Debt: Systemic Risk and Policy Response*, Washington, Institute for International Economics, distributed by MIT Press, Cambridge, Mass., 1984.

Cline, William R., and associates, *World Inflation and the Developing Countries*, Washington, The Brookings Institution, 1981.

Cohen, Benjamin J., "International Debt and Linkage Strategies: Some Foreign-Policy Implications for the United States," in Miles Kahler, ed., *The Politics of International Debt*, Ithaca, N.Y., Cornell University Press, 1986, pp. 127-155.

Costigliola, Frank, *Awkward Dominion: American Political, Economic, and Cultural Relations with Europe, 1919-1933*, Ithaca, N.Y., Cornell University Press, 1984.

Dahlberg, Robert, "Heinrich Brüning, the Center Party, and Germany's Middle Way," Washington, The Johns Hopkins University, School of Advanced International Studies, 1983, Ph.D. dissertation.

Dallek, Robert, *Democrat and Diplomat: The Life of William E. Dodd*, New York, Oxford University Press, 1968.

Davis, Joseph S., *The World between the Wars, 1919-39: An Economist's View*, Baltimore, The Johns Hopkins University Press, 1975.

Delamaide, Darrell, *Debt Shock: The Full Story of the World Credit Crisis*, Garden City, N.Y., Doubleday, 1984.

Department of Commerce, *The Balance of International Payments of the United States in 1936*, Washington, Bureau of Foreign and Domestic Commerce, 1937.

Díaz Alejandro, Carlos F., "Stories of the 1930s for the 1980s," with a Comment by Miguel Mancera, in Pedro Aspe Armella, Rudiger Dornbusch, and Maurice Obstfeld, eds., *Financial Policies and the World Capital Market: The Problem of Latin American Countries*, Chicago, University of Chicago Press, 1983, pp. 5-40.

———, "Latin American Debt: I Don't Think We Are in Kansas Anymore," *Brookings Papers on Economic Activity* (No. 2, 1984), pp. 335-403.

Diehl, Karl, ed., *Wirkungen und Ursachen des hohen Zinsfußes in Deutschland*, Jena, Verlag von Gustav Fischer, 1932.

Documents on German Foreign Policy, 1918-1945, Series C (1933-1937), *The Third Reich: First Phase*, Vol. 1, *Jan. 30–Oct. 14, 1933*, Washington, Government Printing Office, 1957.

Dodd, William E., *Ambassador Dodd's Diary, 1933-1938*, William E. Dodd, Jr., and Martha Dodd, eds., New York, Harcourt, Brace, 1941.

Drummond, Ian M., *The Floating Pound and the Sterling Area, 1931-1939*, Cambridge, England, Cambridge University Press, 1981.

Eaton, Jonathan, and Mark Gersovitz, *Poor Country Borrowing in Private Financial Markets and the Repudiation Issue*, Studies in International Finance No. 47, Princeton, N.J., Princeton University, International Finance Section, 1981.

Eichengreen, Barry, and Jeffrey Sachs, "Exchange Rates and Economic Recovery in the 1930s," *Journal of Economic History*, 45 (December 1985), pp. 925-946.

Eichengreen, Barry, and Richard Portes, "Debt and Default in the 1930s: Causes and Consequences," *European Economic Review*, 30 (June 1986), pp. 599-640.

Eicher, Friedrich, "Auslandskredit und Beratungsstelle, unter besonderer Berücksichtigung der durch Auslandskredite erzielten Zinsersparnisse," in Karl Diehl, ed., *Wirkungen und Ursachen des hohen Zinsfußes in Deutschland*, Jena, Verlag von Gustav Fischer, 1932, pp. 638-682.

Engeli, Christian, *Gustav Böß, Oberbürgermeister von Berlin 1921 bis 1930*, Stuttgart, Kohlhammer, 1971.

Falkus, M. E., "The German Business Cycle in the 1920's," *Economic History Review*, 28 (August 1975), pp. 451-465.

———, "United States Economic Policy and the 'Dollar Gap' of the 1920's," *Economic History Review*, 24 (November 1971), pp. 599-623.

Feinberg, Richard, and Ricardo Ffrench-Davis, eds., *Development and External Debt in Latin America: Bases for a New Consensus*, Notre Dame, Ind., University of Notre Dame Press, 1987.

Feis, Herbert, *Europe the World's Banker, 1870-1914: An Account of European Foreign Investment and the Connection of World Finance with Diplomacy before World War I*, New Haven, Yale University Press, 1930.

Felix, David, "Alternative Outcomes of the Latin American Debt Crisis: Lessons from the Past," *Latin American Research Review*, 22 (No. 2, 1987), pp. 3-46.

Fischer, Wolfram, "Die Weimarer Republik unter den weltwirtschaftlichen Bedingungen der Zwischenkriegszeit," in Hans Mommsen, Dietmar Petzina, and Bernd Weisbrod, eds., *Industrielles System und politische Entwicklung in der Weimarer Republik*, Düsseldorf, Droste Verlag, 1974, pp. 26-50.

Fisher, Lawrence, "Determinants of Risk Premiums on Corporate Bonds," *Journal of Political Economy*, 67 (June 1959), pp. 217-237.

Fishlow, Albert, "Lessons from the Past: Capital Markets during the 19th Century and the Interwar Period," in Miles Kahler, ed., *The Politics of International Debt*, Ithaca, N.Y., Cornell University Press, 1986, pp. 37-93.

Fraga, Arminio, *German Reparations and Brazilian Debt: A Comparative Study*, Essays in International Finance No. 163, Princeton, N.J., Princeton University, International Finance Section, 1986.

Freidel, Frank, *Franklin D. Roosevelt: Launching the New Deal*, Boston, Little Brown, 1973.

Frieden, Jeffry A., "The Brazilian Borrowing Experience: From Miracle to Debacle and Back," *Latin American Research Review*, 22 (No. 1, 1987), pp. 95-131.

Friedjung, Heinrich, *Der Kampf um die Vorherrschaft in Deutschland 1859 bis 1866*, 6. Auflage, Stuttgart, J. G. Cotta'sche Buchhandlung Nachfolger, Vol. 2, 1905.

Friedman, Milton, and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960*, Princeton, N.J., Princeton University Press for the National Bureau of Economic Research, 1963.

Gardner, Lloyd C., *Economic Aspects of New Deal Diplomacy*, Madison, University of Wisconsin Press, 1964.

Garrett, Garet, *A Bubble That Broke the World*, Boston, Little Brown, 1932. Reprinted in Garet Garrett and Murray N. Rothbard, *The Great Depression and New Deal Monetary Policy*, San Francisco, Cato Institute, 1980, pp. 1-78.

Gellman, Irwin F., *Good Neighbor Diplomacy: United States Policies in Latin America, 1933-1945*, Baltimore, The Johns Hopkins University Press, 1979.

Gilbert, G. M., *Nuremberg Diary*, New York, Farrar Straus, 1947.

Gilpin, Robert, *War and Change in World Politics*, New York, Cambridge University Press, 1981.

Goodman, Laurie S., "The Importance of Diversification in International Bank Lending," in Paul Wachtel, ed., *Crises in the Economic and Financial Structure*, Lexington, Mass., Heath, 1982, pp. 257-262.

Gootenberg, Paul, "Between Silver and Guano: Protectionist Elites to a Liberal State in Peru, 1820-1850," Princeton, N.J., Institute for Advanced Studies, 1987, unpublished manuscript.

Graham, Frank D., *Exchange, Prices, and Production in Hyper-Inflation: Germany, 1920-1923*, Princeton, N.J., Princeton University Press for the International Finance Section of Princeton University, 1930.

Guttentag, Jack, and Richard Herring, *The Lender-of-Last-Resort Function in an International Context*, Essays in International Finance No. 151, Princeton, N.J., Princeton University, International Finance Section, 1983.

Haggard, Stephen, "The Politics of Adjustment: Lessons from the IMF's Extended Fund Facility," in Miles Kahler, ed., *The Politics of International Debt*, Ithaca, N.Y., Cornell University Press, 1986, pp. 157-186.

Hansmeyer, Karl-Heinrich, ed., *Kommunale Finanzpolitik in der Weimarer Republik*, Stuttgart, W. Kohlhammer, 1973.

Hardach, Gerd, *Weltmarktorientierung und relative Stagnation: Währungspolitik in Deutschland 1924-1931*, Berlin, Duncker und Humblot, 1976.

Harris, C. R. S., *Germany's Foreign Indebtedness*, London, Oxford University Press, 1935.

Hartmann, Walter, "Wie wirkt der hohe Kapitalzinsfuß auf Auslese und Sicherheit im Immobiliar-Kreditwesen?" in Karl Diehl, ed., *Wirkungen und Ursachen des hohen Zinsfußes in Deutschland*, Jena, Verlag von Gustav Fischer, 1932, pp. 438-447.

Hartwich, Hans-Hermann, *Arbeitsmarkt, Verbände und Staat 1918-1933: Die öffentliche Bindung unternehmerischer Funktionen in der Weimarer Republik*, Berlin, Walter de Gruyter, 1967.

Hasenclever, Walter, *Der Froschkönig*, restored by Peter Hacks, Berlin, Berliner Handpresse, 1975.

Hathaway, Robert M., "1933-1945: Economic Diplomacy in a Time of Crisis," in William H. Becker and Samuel F. Wells, Jr., eds., *Economics and World Power: An Assessment of American Diplomacy since 1789*, New York, Columbia University Press, 1984, pp. 277-331.

Helbich, Wolfgang J., *Die Reparationen in der Ära Brüning: Zur Bedeutung des Young-Plans für die deutsche Politik 1930 bis 1932*, Berlin-Dahlem, Colloquium Verlag, 1962.

Heller, H. Robert, "Country Risk and International Bank Lending," in Paul Wachtel, ed., *Crises in the Economic and Financial Structure*, Lexington, Mass., Heath, 1982, pp. 262-268.

Henning, Friedrich-Wilhelm, *Das industrialisierte Deutschland 1914 bis 1972*, Paderborn, Ferdinand Schöningh, 1974.

Hertz-Eichenrode, Dieter, *Wirtschaftskrise und Arbeitsbeschaffung: Konjunkturpolitik 1925/26 und die Grundlagen der Krisenpolitik Brünings*, Frankfurt, Campus Verlag, 1982.

Higham, Charles, *Trading with the Enemy: An Exposé of the Nazi-American Money Plot, 1933-1949*, New York, Delacorte Press, 1983.

Hilton, Stanley E., *Brazil and the Great Powers, 1930-1939: The Politics of Trade Rivalry*, Austin, University of Texas Press, 1975.

Hoffmann, Walther G., with the assistance of Franz Grumbach and Helmut Hesse, *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts*, Berlin, Springer-Verlag, 1965.

Holland, R. F., *Britain and the Commonwealth Alliance, 1918-1939*, London, Macmillan, 1981.

Holtfrerich, Carl-Ludwig, "Amerikanischer Kapitalexport und Wiederaufbau der deutschen Wirtschaft 1919-23 im Vergleich zu 1924-29," *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte*, 64 (No. 4, 1977a), pp. 497-529.

———, "Internationale Verteilungsfolgen der deutschen Inflation 1918-1923," *Kyklos*, 30 (No. 2, 1977b), pp. 271-292.

———, *Die deutsche Inflation 1914-1923: Ursachen und Folgen in internationaler Perspektive*, Berlin and New York, Walter de Gruyter, 1980.

———, "Domestic and Foreign Expectations and the Demand for Money during the German Inflation, 1920-1923," in Charles P. Kindleberger and Jean-Pierre Laffargue, eds., *Financial Crises: Theory, History, and Policy*, Cambridge, England, Cambridge University Press, and Paris, Editions de la Maison des Sciences de l'Homme, 1982, pp. 117-132.

———, "Zu hohe Löhne in der Weimarer Republik? Bemerkungen zur Borchardt-These," *Geschichte und Gesellschaft*, 10 (No. 1, 1984), pp. 122-141.

———, "Pathologie des Untergangs," *Frankfurter Allgemeine Zeitung*, Mar. 12, 1986.

Howson, Susan, *Sterling's Managed Float: The Operations of the Exchange Equalisation Account, 1932-39*, Studies in International Finance No. 46, Princeton, N.J., Princeton University, International Finance Section, 1980.

Hughes, Michael L., "Equity and Good Faith: Inflation, Revaluation, and the Distribution of Wealth and Power in Weimar Germany," Berkeley, University of California, 1981, Ph.D. dissertation.

Hull, Cordell, *The Memoirs of Cordell Hull*, Vol. 1, New York, Macmillan, 1948.

Jacobson, Jon, "Is There a New International History of the 1920s?" *American Historical Review*, 88 (June 1983), pp. 617-645.
James, Harold, *The Reichsbank and Public Policy in Germany, 1924-1933: A Study of the Politics of Economics during the Great Depression*, Frankfurt a.M., Fritz Knapp Verlag, 1985.
———, *The German Slump: Politics and Economics, 1924-1936*, Oxford, Clarendon Press, 1986.
Johnson, Elizabeth, ed., *The Collected Writings of John Maynard Keynes*, Vol. 18, *Activities, 1922-1932: The End of Reparations*, London, Macmillan Press/Cambridge University Press for the Royal Economic Society, 1978.
Jones, Joseph M., Jr., *Tariff Retaliation: Repercussions of the Hawley-Smoot Bill*, Philadelphia, University of Pennsylvania Press, 1934.
Jones, Larry Eugene, "In the Shadow of Stabilization: German Liberalism and the Legitimacy Crisis of the Weimar Party System, 1924-30," in Gerald D. Feldman, ed., *Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924-1933*, Munich, R. Oldenbourg Verlag, 1985, pp. 21-41.
Jostock, Paul, "The Long-Term Growth of National Income in Germany," in Simon Kuznets, ed., *Income and Wealth*, Series No. 5, International Association for Research in Income and Wealth, London, Bowes & Bowes, 1955, pp. 79-122.

Kahler, Miles, ed., *The Politics of International Debt*, Ithaca, N.Y., Cornell University Press, 1986.
Keese, Dietmar, "Die volkswirtschaftlichen Gesamtgrößen für das Deutsche Reich in den Jahren 1925-1936," in Werner Conze and Hans Raupach, eds., *Die Staats- und Wirtschaftskrise des Deutschen Reichs 1929/33*, Stuttgart, Klett, 1967, pp. 35-81.
Keeton, Edward D., "Economics and Politics in Briand's German Policy, 1925-1931," in Carole Fink, Isabel V. Hull, and MacGregor Knox, eds., *German Nationalism and the European Response, 1890-1945*, Norman, University of Oklahoma Press, 1985, pp. 157-180.
Kelly, William B., Jr., "Antecedants of Present Commercial Policy, 1922-1934," in William B. Kelly, Jr., ed., *Studies in United States Commercial Policy*, Chapel Hill, University of North Carolina Press, 1963, pp. 3-68.
Kendrick, John W., assisted by Maude R. Pech, *Productivity Trends in the United States*, Princeton, N.J., Princeton University Press for the National Bureau of Economic Research, 1961.
Keynes, John Maynard, *The Economic Consequences of the Peace*, London, Macmillan, 1919.
———, *The General Theory of Employment, Interest, and Money*, London, Macmillan, 1936.
———, *The Collected Writings*. See Johnson, ed. (1978).
Killick, Tony, ed., *Adjustment and Financing in the Developing World: The Role of the International Monetary Fund*, Washington, The International Monetary Fund and the Overseas Development Institute, 1982.
———, ed., *The IMF and Stabilization: Developing Country Experiences*, New York, St. Martin's Press, 1984.

Kindleberger, Charles P., *The World in Depression, 1929-1939*, Berkeley, University of California Press, 1973.
———, *Manias, Panics, and Crashes: A History of Financial Crises*, New York, Basic Books, 1978.
———, "Debt Situation of the Developing Countries in Historical Perspective (1800-1945)," *Außenwirtschaft*, 36 (No. 4, 1981), pp. 372-380.
———, "A Structural View of the German Inflation," in Gerald D. Feldman, Carl-Ludwig Holtfrerich, Gerhard A. Ritter, and Peter-Christian Witt, eds., *The Experience of Inflation: International and Comparative Studies / Die Erfahrungen der Inflation im internationalen Zusammenhang und Vergleich*, Berlin, Walter de Gruyter, 1984, pp. 10-33.
Kottman, Richard N., *Reciprocity and the North Atlantic Triangle, 1932-1938*, Ithaca, N.Y., Cornell University Press, 1968.
Krohn, Claus-Dieter, *Stabilisierung und ökonomische Interessen: Die Finanzpolitik des Deutschen Reiches 1923-1927*, Düsseldorf, Bertelsmann Universitätsverlag, 1974.
Kruedener, Jürgen von, "Die Überforderung der Weimarer Republik als Sozialstaat," *Geschichte und Gesellschaft*, 11 (No. 3, 1985), pp. 358-376.
Krüger, Peter, "Das Reparationsproblem der Weimarer Republik in fragwürdiger Sicht," *Vierteljahrshefte für Zeitgeschichte*, 81 (January 1981), pp. 21-47.
Krugman, Paul, "Comment" on Carlos F. Díaz Alejandro, "'Latin American Debt: I Don't Think We Are in Kansas Anymore," *Brookings Papers on Economic Activity* (No. 2, 1984), pp. 390-393.
Kuczynski, Robert R., *Deutsche Anleihen im Ausland 1924-1928*, Berlin, Verlag des Institute of Economics, Washington, 1929.
———, *Bankers' Profits from German Loans*, Washington, The Brookings Institution, 1932.
Kunz, Diane B., *The Battle for Britain's Gold Standard in 1931*, London, Croom Helm, 1987.

La Rochefoucauld, François, duc de, *Réflexions ou sentences et maximes morales*, Paris, Claude Barbin, 1678. Reprinted in *Oeuvres complètes*, L. Martin-Chauffier, ed., Paris, Gallimard, 1950.
Lary, Hal B., and associates, *The United States in the World Economy: The International Transactions of the United States in the Interwar Period*, Economic Series, No. 23, Washington, Bureau of Foreign and Domestic Commerce, 1943.
League of Nations [Bertil Ohlin], *The Course and Phases of the World Economic Depression*, Geneva, Secretariat of the League of Nations, 1931.
———, *Memorandum on Trade and Balances of Payments*, Vol. 2, *Balances of Payments, 1930*, Geneva, League of Nations, 1932.
——— [Folke Hilgerdt, Economic, Financial, and Transit Department], *Industrialization and Foreign Trade*, [Princeton, N.J.], League of Nations, 1945.
Leffler, Melvyn P., *The Elusive Quest: America's Pursuit of European Stability and French Security, 1919-1933*, Chapel Hill, University of North Carolina Press, 1979.
Lekachman, Robert, "Introduction" to John Maynard Keynes, *The Economic Consequences of the Peace*, New York, Harper & Row, 1971, pp. ix-xxxvii.

Leopold, John A., *Alfred Hugenberg: The Radical Nationalist Campaign against the Weimar Republic*, New Haven, Yale University Press, 1977.
Lever, Harold, and Christopher Huhne, *Debt and Danger: The World Financial Crisis*, Boston, Atlantic Monthly Press, 1986.
Lewis, Cleona, *Debtor and Creditor Countries: 1938, 1944*, Washington, The Brookings Institution, 1945.
———, *The United States and Foreign Investment Problems*, Washington, The Brookings Institution, 1948.
Link, Werner, *Die amerikanische Stabilisierungspolitik in Deutschland 1921-32*, Düsseldorf, Droste Verlag, 1970.
Lipsey, Robert E., *Price and Quantity Trends in the Foreign Trade of the United States*, Princeton, N.J., Princeton University Press for the National Bureau of Economic Research, 1963.
Lipson, Charles, *Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries*, Berkeley, University of California Press, 1985.
Lomax, David F., *The Developing Country Debt Crisis*, New York, St. Martin's Press, 1986.

Machlup, Fritz, *International Payments, Debts and Gold: Collected Essays*, New York, Scribner's, 1964.
Madden, John T., Marcus Nadler, and Harry C. Sauvain, *America's Experience as a Creditor Nation*, New York, Prentice-Hall, 1937.
Maier, Charles S., "Between Taylorism and Technocracy: European Ideologies and the Vision of Industrial Productivity in the 1920s," *Journal of Contemporary History*, 5 (April 1970), pp. 27-61.
———, *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the Decade after World War I*, Princeton, N.J., Princeton University Press, 1975.
———, "The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Europe," with Comments by Stephen A. Schuker and Charles P. Kindleberger, *American Historical Review*, 86 (April 1981), pp. 327-367.
Makin, John H., *The Global Debt Crisis: America's Growing Involvement*, New York, Basic Books, 1984.
Marks, Sally, "Reparations Reconsidered: A Reminder," *Central European History*, 2 (December 1969), pp. 356-365.
———, "The Myths of Reparations," *Central European History*, 11 (September 1978), pp. 231-255.
Maurer, Ilse, *Reichsfinanzen und große Koalition: Zur Geschichte des Reichskabinetts Müller (1928-1930)*, Bern and Frankfurt a.M., Peter Lang, 1973.
Maurer, Ilse, and Udo Wengst, with the assistance of Jürgen Heideking, eds., *Politik und Wirtschaft in der Krise 1930-1932: Quellen zur Ära Brüning*, Vols. 1 and 2, Düsseldorf, Droste Verlag, 1980.
Mayne, Richard, *The Recovery of Europe, 1945-1973*, New York, Anchor Press/Doubleday, 1973.
McDougall, Walter A., *France's Rhineland Diplomacy, 1914-1924: The Last Bid for a Balance of Power in Europe*, Princeton, N.J., Princeton University Press, 1978.

McCann, Frank D., Jr., *The Brazilian-American Alliance, 1937-1945*, Princeton, N.J., Princeton University Press, 1973.
McNeil, William C., "American Money and the German Economy: Economics and Politics on the Eve of the Great Depression," Berkeley, University of California, 1981, Ph.D. dissertation.
———, *American Money and the Weimar Republic: Economics and Politics on the Eve of the Great Depression*, New York, Columbia University Press, 1986.
Metzler, Lloyd A., "The Transfer Problem Reconsidered," *Journal of Political Economy*, 50 (June 1942), pp. 397-414. Reprinted in American Economic Association, *Readings in the Theory of International Trade*, Philadelphia, Blakiston, 1949, pp. 179-197.
Milward, Alan S., *War, Economy and Society, 1939-1945*, Berkeley, University of California Press, 1977.
Minsky, Hyman P., "Financial Stability Revisited: The Economics of Disaster," in Board of Governors of the Federal Reserve System, *Reappraisal of the Federal Reserve Discount Mechanism*, Washington, Publications Services of the Federal Reserve System, Vol. 3, 1972, pp. 95-136.
Mintz, Ilse, *Deterioration in the Quality of Foreign Bonds Issued in the United States, 1920-1930*, New York, National Bureau of Economic Research, 1951.
Mitchell, B. R., *European Historical Statistics, 1750-1970*, New York, Columbia University Press, 1978.
Moggridge, Donald E., "British Controls on Long Term Capital Movements, 1924-31," in Donald N. McCloskey, ed., *Essays on a Mature Economy: Britain after 1840*, Princeton, N.J., Princeton University Press, 1971, pp. 113-142.
———, *British Monetary Policy, 1924-1931: The Norman Conquest of $4.86*, Cambridge, England, Cambridge University Press, 1972.
Moley, Raymond, with the assistance of Elliot A. Rosen, *The First New Deal*, New York, Harcourt, Brace & World, 1966.
Moulton, Harold G., and Constantine E. McGuire, *Germany's Capacity to Pay*, New York, McGraw-Hill, 1923.

Nixon, Edgar B., ed., *Franklin D. Roosevelt and Foreign Affairs*, Vol. 1 [January 1933–February 1934], Cambridge, Mass., Harvard University Press, 1969.
Nurkse, Ragnar [League of Nations], *International Currency Experience: Lessons of the Interwar Period*, Geneva, Secretariat of the League of Nations, 1944.

Olson, Mancur, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, New Haven, Yale University Press, 1982.

Parrish, Michael E., *Securities Regulation and the New Deal*, New Haven, Yale University Press, 1970.
Pastor, Robert A., *Congress and the Politics of U.S. Foreign Economic Policy, 1929-1976*, Berkeley, University of California Press, 1980.
Pegg, Carl H., *The Evolution of the European Idea, 1914-1932*, Chapel Hill, University of North Carolina Press, 1983.
Phelps Brown, E. H., with the assistance of Margaret H. Browne, *A Century of Pay:*

The Course of Pay and Production in France, Germany, Sweden, the United Kingdom, and the United States of America, 1860-1960, New York, St. Martin's Press, 1968.

Picker, Henry, ed., *Hitlers Tischgespräche im Führerhauptquartier 1941-1942*, Stuttgart, Seewald, 1965.

Platt, D. C. M., *Finance, Trade, and Politics in British Foreign Policy, 1815-1914*, Oxford, Clarendon Press, 1968.

Porzecanski, Arturo C., "Some Thoughts on Risk in International Bank Lending," in Paul Wachtel, ed., *Crises in the Economic and Financial Structure*, Lexington, Mass., Heath, 1982, pp. 268-271.

Preller, Ludwig, *Sozialpolitik in der Weimarer Republik*, Stuttgart, Franz Mittelbach Verlag, 1949.

Ravenhill, John, ed., *Africa in Economic Crisis*, London, Macmillan, 1986.

Rebentisch, Dieter, *Ludwig Landmann: Frankfurter Oberbürgermeister der Weimarer Republik*, Wiesbaden, Franz Steiner Verlag, 1975.

Reparation Commission, *Official Documents*, Vol. 14, *The Experts' Plan for Reparation Payments*, London, H.M. Stationery Office, 1927.

Reulecke, Jürgen, "Auswirkungen der Inflation auf die städtischen Finanzen," in Gerald D. Feldman, ed., *Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924-1933*, Munich, R. Oldenbourg Verlag, 1985, pp. 97-116.

Rhodes, Benjamin D., "The United States and the War Debt Question, 1917-1934," Boulder, University of Colorado, 1965, Ph.D. dissertation.

———, "Reassessing Uncle Shylock: The United States and the French War Debt, 1917-1929," *Journal of American History*, 55 (March 1969), pp. 787-803.

RIIA. See Royal Institute of International Affairs.

Rippy, J. Fred, *British Investments in Latin America, 1822-1949: A Case Study in the Operations of Private Enterprise in Retarded Regions*, Minneapolis, University of Minnesota Press, 1959.

Roett, Riordan, "Beyond the Baker Initiative," *SAIS Review*, 6 (No. 2, 1986), pp. 27-37.

Rosenman, Samuel I., ed., *The Public Papers and Addresses of Franklin D. Roosevelt*, Vol. 1, New York, Random House, 1938.

Royal Institute of International Affairs [RIIA], *The Problem of International Investment*, New York, Oxford University Press, 1937.

Rueff, Jacques, *De l'aube au crépuscule: Autobiographie de l'auteur*, Vol. 1 of Emil-Maria Claassen and George Lane, eds., *Oeuvres complètes [de Jacques Rueff]*, Paris, Plon, 1977.

Sachs, Jeffrey, "LDC Debt in the 1980s: Risk and Reforms," in Paul Wachtel, ed., *Crises in the Economic and Financial Structure*, Lexington, Mass., Heath, 1982, pp. 197-243.

———, "Comment" on Carlos F. Díaz Alejandro, "Latin American Debt: I Don't Think We Are in Kansas Anymore," *Brookings Papers on Economic Activity* (No. 2, 1984a), pp. 393-401.

———, *Theoretical Issues in International Borrowing*, Studies in International Finance No. 54, Princeton, N.J., Princeton University, International Finance Section, 1984b.

Saint-Etienne, Christian, *The Great Depression, 1929-1938: Lessons for the 1980s*, Stanford, Hoover Institution Press, 1984.

Sanders, Sol W., *Mexico: Chaos on our Doorstep*, Lanham, Md., Madison Books, 1986.

Schattschneider, E. E., *Politics, Pressures, and the Tariff: A Study of Free Private Enterprise in Pressure Politics, as Shown in the 1929-30 Revision of the Tariff*, New York, Prentice-Hall, 1935.

Schiemann, Jürgen, *Die deutsche Währung in der Weltwirtschaftskrise, 1929-1933: Währungspolitik und Abwertungskontroverse unter den Bedingungen der Reparationen*, Bern, Paul Haupt, 1980.

Schröder, Hans-Jürgen, *Deutschland und die Vereinigten Staaten, 1933-1939: Wirtschaft und Politik in der Entwicklung des deutsch-amerikanischen Gegensatzes*, Wiesbaden, Franz Steiner Verlag, 1970.

Schuker, Stephen A., *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan*, Chapel Hill, University of North Carolina Press, 1976.

———, "Finance and Foreign Policy in the Era of the German Inflation: British, French, and German Strategies for Economic Reconstruction after the First World War," in Otto Büsch and Gerald D. Feldman, eds., *Historische Prozesse der deutschen Inflation 1914-1924*, Berlin, Colloquium Verlag, 1978, pp. 343-361.

Schwarz, Hans-Peter, ed., *Die Wiederherstellung des deutschen Kredits: Das Londoner Schuldenabkommen*, Rhöndorfer Gespräche, Bd. 4, Stuttgart and Zurich, Belsa Verlag, 1982.

Schwarzschild, Leopold, *World in Trance: From Versailles to Pearl Harbor*, translated by Norbert Guterman, New York, Fischer, 1942.

Silva-Herzog, Jesús, *Historia de la expropriación de las empresas petroleras*, México, D. F., Instituto Mexicano de Investigaciones Económicas, 1964.

Silverman, Dan P., *Reconstructing Europe after the Great War*, Cambridge, Mass., Harvard University Press, 1982.

Skiba, Rainer, with the assistance of Hermann Adam, *Das Westdeutsche Lohnniveau zwischen den beiden Weltkriegen und nach der Währungsreform*, Cologne, Bund-Verlag, 1974.

Smith, Robert F., *The United States and Revolutionary Nationalism in Mexico, 1916-1932*, Chicago, University of Chicago Press, 1972.

Somary, Felix, *Erinnerungen aus meinem Leben*, Zurich, Manesse Verlag, [1955].

Sosa-Rodriguez, Raul, *Les Problèmes structurels des relations économiques internationales de l'Amérique latine*, Geneva, Droz, 1963.

Specht, Agnete von, *Politische und wirtschaftliche Hintergründe der deutschen Inflation 1918-1923*, Frankfurt a.M. and Bern, Peter Lang, 1982.

Statistisches Reichsamt, *Das deutsche Volkseinkommen vor und nach dem Kriege*, bearbeitet im Statistischen Reichsamt, Einzelschriften zur Statistik des Deutschen Reichs, Nr. 24, Berlin, Verlag von Reimar Hobbing, 1932a.

———, "Die deutsche Auslandsverschuldung," in *Wirtschaft und Statistik*, August

1932b, pp. 490-493; May 1933a, pp. 273-276; August 1933b, pp. 486-488; March 1934a, pp. 134-136.
———, *Die deutsche Zahlungsbilanz der Jahre 1924-1933*, Sonderhefte zu Wirtschaft und Statistik, Nr. 14, Berlin, Verlag von Reimar Hobbing, 1934b.
Stehkämper, Hugo, ed., *Konrad Adenauer, Oberbürgermeister von Köln: Festgabe der Stadt Köln zum 100. Geburtstag ihres Ehrenbürgers am 5. Januar 1976*, Cologne, Historisches Archiv, 1976.
Steward, Dick, *Trade and Hemisphere: The Good Neighbor Policy and Reciprocal Trade*, Columbia, Mo., University of Missouri Press, 1975.
Sutton, Willie, with Edward Linn, *Where the Money Was*, New York, Viking Press, 1976.
Sweezy, Maxine Yaple, "German Corporate Profits: 1926-1938," *Quarterly Journal of Economics*, 54 (May 1940), pp. 384-398.

Temin, Peter, "The Beginning of the Depression in Germany," *Economic History Review*, 24 (May 1971), pp. 240-248.
———, *Did Monetary Forces Cause the Great Depression?*, New York, Norton, 1976.
Timm, Helga, *Die deutsche Sozialpolitik und der Bruch der großen Koalition im März 1930*, Düsseldorf, Droste Verlag, 1952.
Trachtenberg, Marc, *Reparation in World Politics: France and European Economic Diplomacy, 1916-1923*, New York, Columbia University Press, 1980.
Tugwell, Rexford, *The Brains Trust*, New York, Viking Press, 1968.
Turner, Henry Ashby, Jr., *German Big Business and the Rise of Hitler*, New York, Oxford University Press, 1985a.
Turner, Henry Ashby, Jr., ed., *Hitler: Memoirs of a Confidant* [Otto Wagener], New Haven, Yale University Press, 1985b.

Wallich, Henry C., "The Future of Latin American Dollar Bonds," *American Economic Review*, 33 (June 1943), pp. 321-335.
———, "Rescheduling as Seen by the Supervisor and the Lender of Last Resort," in Paul Wachtel, ed., *Crises in the Economic and Financial Structure*, Lexington, Mass., Heath, 1982, pp. 247-255.
Webb, Steven B., "The Supply of Money and Reichsbank Financing of Government and Corporate Debt in Germany, 1919-1923," *Journal of Economic History*, 44 (June 1984), pp. 499-507.
———, "Capitalism, Democracy, and Reparations: Allied Demands and the German Inflation after World War I," paper presented at the Economic History Association, September 21, 1985.
Weill-Raynal, Etienne, *Les Réparations allemandes et la France*, Vols. 1-3, Paris, Nouvelles Editions Latines, 1947.
Weinberg, Gerhard, "Schachts Besuch in den USA im Jahre 1933," *Vierteljahrshefte für Zeitgeschichte*, 11 (April 1963), pp. 166-180.
———, *The Foreign Policy of Hitler's Germany: Diplomatic Revolution in Europe, 1933-36*, Chicago, University of Chicago Press, 1970.
Weinstein, Michael M., *Recovery and Redistribution under the NIRA*, Amsterdam, North-Holland, 1980.

———, "Some Macroeconomic Impacts of the National Industrial Recovery Act, 1933-1935," with Comments by Phillip Cagan, in Karl Brunner, ed., *The Great Depression Revisited*, Boston and The Hague, Martinus Nijhoff, 1981, pp. 262-285.
Weisbrod, Bernd, *Schwerindustrie in der Weimarer Republik: Interessenpolitik zwischen Stabilisierung und Krise*, Wuppertal, Peter Hammer Verlag, 1978.
Wellons, Philip A., "International Debt: The Behavior of Banks in a Politicized Environment," in Miles Kahler, ed., *The Politics of International Debt*, Ithaca, N.Y., Cornell University Press, 1986, pp. 95-125.
———, *Passing the Buck: Banks, Governments, and Third World Debt*, Boston, Harvard Business School Press, 1987.
Welter, Erich, *Die Ursachen des Kapitalmangels in Deutschland*, Tübingen, J. C. B. Mohr, 1931.
Wendt, Bernd Jürgen, *Economic Appeasement: Handel und Finanz in der britischen Deutschland-Politik von 1933-1939*, Düsseldorf, Bertelsmann Universitätsverlag, 1971.
White, Stephen, *The Origins of Detente: The Genoa Conference and Soviet-Western Relations, 1921-1922*, Cambridge, England, Cambridge University Press, 1985.
Wilkins, Mira, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970*, Cambridge, Mass., Harvard University Press, 1974.
Williamson, John, ed., *IMF Conditionality*, Washington, Institute of International Economics, 1983.
Winkler, Heinrich August, *Der Schein der Normalität: Arbeiter und Arbeiterbewegung in der Weimarer Republik 1924 bis 1930*, Berlin and Bonn, Verlag J. H. W. Dietz Nachf., 1985.
Winkler, Max, *Foreign Bonds, an Autopsy: A Study of Defaults and Repudiations of Government Obligations*, Philadelphia, Roland Swain Co., 1933.
Witt, Peter-Christian, "Finanzpolitik und sozialer Wandel in Krieg und Inflation 1918-1924," in Hans Mommsen, Dietmar Petzina, and Bernd Weisbrod, eds., *Industrielles System und politische Entwicklung in der Weimarer Republik*, Düsseldorf, Droste Verlag, 1974, pp. 395-426.
———, "Die Auswirkungen der Inflation auf die Finanzpolitik des Deutschen Reiches 1924-1935," in Gerald D. Feldman, ed., *Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924-1933*, Munich, R. Oldenbourg Verlag, 1985, pp. 43-95.