



FORUM: DEBT

# Defaulting Debtors, American Public Opinion, and U.S. International Relations, 1900 to 1940

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In the first half of the twentieth century, debt played an unexpectedly large role in shaping public views of American foreign relations. Debt—specifically, the public debt of other sovereign states—seems far removed from the everyday experience of Americans seeking credit from butchers and grocers or, in the global arena, decidedly dull in contrast to headlines about wars and assassinations. Yet if articles in thousands of local newspapers are an indicator, before World War I millions of Americans had been exposed to detailed coverage of the problematic indebtedness of the nearer nations of Latin America. To engaged readers in every corner of the United States, the financial entanglements of Cuba, the Dominican Republic, Nicaragua, and Honduras must have been a familiar trope—a sign of weakness if not immorality—and, as the policy of Dollar Diplomacy emerged after 1904, a harbinger of U.S. intervention.

American strategic and financial interests converged on the Caribbean Basin after 1898, and as they did newspapers warned that the foreign debt of nations in the region threatened to trigger European intervention. By 1904, the Dominican Republic's inability to pay interest on its debt became actionable to U.S. policymakers: a page-one report in the *New York Times* of April 1904 noted that Italy, Britain, France, and Germany all had “large claims” against that nation and predicted that “threats to collect debts without regard to American interests, would certainly result in action by this Government.”<sup>1</sup> In January 1905, President Theodore Roosevelt fulfilled that prediction by creating a “receivership” in the Dominican Republic. Imbedded within racial assumptions about tropical peoples, Roosevelt's justification for the receivership made financial solvency the acid test of civilization. “Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may ... ultimately require intervention by some civilized nation,” which in the Americas could only be the United States.<sup>2</sup> The receivership was also “discursively set within hierarchical assumptions in which the masculine-coded party assumed responsibility for the behavior of the feminine-coded party,” as Emily Rosenberg explains.<sup>3</sup>

Financial interventions proliferated under President Taft, and newspapers celebrated his administration's plan “to readjust and reduce the public debts of the five Central American republics, as has been done with Santo Domingo.”<sup>4</sup> Americans learned from Taft that their country had to keep the “heavy foreign debt and chaotic national finances” of those nations from triggering “the ever-present danger of international complications.”<sup>5</sup> Press coverage presented delinquent debtors as truculent children: the *Morgan Country Republican* in Versailles,

<sup>1</sup>“Special to The New York Times,” *New York Times*, Apr. 19, 1904, 1.

<sup>2</sup>Theodore Roosevelt's Annual Message to Congress for 1904; House Records HR 58A-K2; Records of the U.S. House of Representatives; Record Group 233; Center for Legislative Archives; National Archives.

<sup>3</sup>Emily Rosenberg, *Financial Missionaries to the World* (Cambridge, MA, 1999), 73.

<sup>4</sup>William E. Curtis, “Big Public Debts,” *Evening Star* (Washington), Feb. 1, 1910, 11.

<sup>5</sup>“President Taft Discusses Foreign Relations in Message to Congress,” *Evening Star* (Washington), Dec. 3, 1912, 14.

Missouri, favored “spanking as a means of collecting debts.”<sup>6</sup> Because the number of local U.S. newspapers peaked at over 22,000 in 1914, the causal connection between debt and American intervention reached into the smallest communities through the Tonopah (Nevada) *Daily Bonanza*, the *Ely Miner* (Minnesota), the Donaldsonville (Louisiana) *Chief*, and the Mena (Arkansas) *Weekly Star*, among many others.<sup>7</sup> Press coverage did not guarantee consensus about Dollar Diplomacy, as bitter wrangling in the Senate proved, but literate Americans must have been familiar with the argument that unpaid debts signaled an “impotence” that demanded manly intervention.<sup>8</sup>

The Great War reversed the U.S. position in global finance, turning the world’s greatest debtor nation into its largest creditor. One dimension of that seismic change was that a new variety of uncollectable public debt captured the interest of Americans after 1918—the unpaid war debt of erstwhile allies, foremost among them Britain and France. The opprobrium stoked for two decades in relation to defaulting American republics found a new object in the unwillingness or incapacity of the European powers to settle up the \$10 billion extended to them by the U.S. Treasury after April 1917. Europe’s war debt did not trigger the same racialized and gendered rhetoric as reporting on Caribbean defaults, yet Americans did question the morals of those seeking to cancel their wartime obligations.

As the U.S. government stepped back from formal commitments to Europe’s recovery in the 1920s, the war debts became a symbol of American indifference to the well-being of Europeans. Gratitude toward Americans vanished quickly. In England, American soldiers and sailors in uniform were bombarded with rocks, bottles, and rotten fruit and were insulted on trains and buses—all due to the war debt issue. The hostility was so great that the U.S. Navy asked if its sailors could wear civilian clothes to avoid standing out as Americans. “The idea that officers and men of our Navy on duty in a friendly country should refrain from wearing uniform because it exposes them to insult is too repugnant to be entertained,” replied an incensed American vice-admiral.<sup>9</sup>

Beyond their obvious self-interest as debtors, Europeans framed U.S. policy as political immaturity—an incapacity to understand the new postwar financial position of the United States. European newspapers complained that Americans were “very ignorant of our problems” and that the country often behaved like “a gigantic adolescent.”<sup>10</sup> Americans, one French newspaper scolded, “are perpetrating international idiocies.”<sup>11</sup> One London paper wrote that “the United States is responsible for the present chaotic condition and grave uncertainty of the European financial situation.”<sup>12</sup> In the 1800s European nations had had few qualms about sending gunboats to encourage debt repayment by Latin American states, but after 1918 they saw their indebtedness to the U.S.A. in a very different light.

<sup>6</sup>“Force Honduras to Pay,” *Morgan Country Republican* (Versailles, Missouri), Aug. 5, 1909, 2.

<sup>7</sup>William A. Dill, “Growth of Newspapers in the United States” (MA thesis, University of Kansas, 1928), 12. Local newspapers can be found in Library of Congress, Digital Collections, *Chronicling America*.

<sup>8</sup>On racial and gender stereotypes in popular views of Latin Americans, see Michael H. Hunt, *Ideology and U.S. Foreign Policy* (New Haven, CT, 1987), esp. 58–68.

<sup>9</sup>Commanding Officer, U.S. Naval Rigid Airship, to Force Commander, U.S. Naval Forces Operating in European Waters, Nov. 5, 1920 and Commander, U.S. Naval Forces Operating in European Waters, to Secretary of the Navy, Nov. 15, 1920, both enclosures with Secretary of the Navy to Secretary of State, Dec. 13, 1920, Decimal File 711.41/53, Box 6582, Department of State, Record Group 59, National Archives at College Park, MD [hereafter DOS, RG 59, and NACP].

<sup>10</sup>Translation of article in *L’Echo de Paris*, enclosure with Myron Herrick, Ambassador to France, to Secretary of State, Nov. 16, 1926, Decimal File, 800.51 W 89 France/432, Box 7214, DOS, RG 59, NACP.

<sup>11</sup>Translation of editorial in *Semaphore* included in Wesley Frost, American Consul, Marseille, to Department of State, 27 Oct. 1925, Decimal File, 800.51 W89 France/244, Box 7213, DOS, RG 59, NACP.

<sup>12</sup>*Morning Post* quoted in “Britain Calls on Allies to Pay Her What She Pays Us,” *New York Times*, Aug. 2, 1922, 4.

Despite warnings from John Maynard Keynes and other economists, the American people remained adamant about collecting the war debts. As refunding negotiations dragged on for years, embassies and consulates around the world sent Washington diplomatic pouches for fat with newspaper clippings denouncing the U.S. policy. “The entire civilized world has the obligation to pay enormous sums ... to a single creditor,” a business journal in Prague noted, a situation that would in time lead to chaos “as the economic sphere cannot be separated from the political.” An article from Cherbourg, France, argued that never before in history had “one nation held over so many nations” such complete control without going to war.<sup>13</sup> “A whole new generation is coming in Europe,” wrote an American from Paris, “simply saturated with the conviction that its present miseries are largely due to the policies and purposes of a rich, powerful and remorseless America.”<sup>14</sup>

Far from considering a reduction in the war debt, both the American people and their elected representatives sought ways to make Europe pay up. Members of Congress proposed putting an embargo on all imports from France to force repayment.<sup>15</sup> Ordinary Americans sent their ideas to Washington, such as having Britain and France give the United States their remaining possessions in the Caribbean, South America, and Asia to square up the debt.<sup>16</sup> As the Depression squeezed Americans in the early 1930s, private citizens and politicians saw economic salvation in collecting the war debts. Americans young and old sent ideas to the Roosevelt administration about how to make the Europeans pay up—for example, by seizing all British ships docked in U.S. ports until that nation’s leaders agreed to “talk business.”<sup>17</sup>

While American opinion about Caribbean debtors had little strategic impact, bad blood with Europe had alarming implications. If “the debt question” caused a rupture between the United States and France, the French ambassador at Washington told Secretary of State Henry Stimson in 1929, “it would be an immense calamity for France, a loss much more important than all our debts.”<sup>18</sup> The same logic motivated the few Europeans who supported paying off the war debts. Many foresaw another war and reasoned that the United States would do nothing to help them if the earlier debts remained unpaid. “If we do not pay the Americans,” one French citizen predicted, they “will refuse to help us if we are again invaded.”<sup>19</sup>

American officials agreed. “The war debt situation as it has developed carries a risk of fomenting an anti-European attitude in the United States which may make it very difficult to maintain cooperation between the United States and the other great white peoples,” a

<sup>13</sup>Lewis Einstein, U.S. Legation at Prague, to Secretary of State, Sept. 5, 1925, Decimal File 800.51 W89 Czechoslovakia/128, Box 7210; translation of article in Cherbourg-Éclair enclosed with John Corrigan, American consul, Cherbourg, to Secretary of State, Aug. 25, 1925, Decimal File 800.51 W89 France/168, Box 7212, DOS, RG 59, NACP.

<sup>14</sup>Frank H. Simonds, “Hatred of America by Peoples of Europe Presents Problem of Increasing Gravity,” *Evening Star* (Washington) Mar. 28, 1926, 1.

<sup>15</sup>H.R. 13992, 3 January 1933, 72nd Congress, 2nd Session.

<sup>16</sup>For example, W. E. Clow to Garrard Winston, Undersecretary of the Treasury, Sept. 25, 1925, Box 51, Entry 145; and J. F. Estill to Andrew Mellon, Secretary of the Treasury, June 20, 1927, Box 52, Entry 145, both in Department of Treasury, Records of Bureau of Accounts, Records Relating to Government Agencies or Functions, Correspondence, and other records relating to fiscal relationships between the United States and other nations, 1918–1941, France, RG 39, NACP.

<sup>17</sup>James Berner to Henry Morgenthau, Secretary of Treasury, Nov. 26, 1934, Box 118, Entry 145, Department of Treasury, Records of Bureau of Accounts, Correspondence, 1918–1941, Britain: Loans by U.S., newspaper clippings, comments, inquiries, RG 39, NACP.

<sup>18</sup>French Ambassador to Secretary of State Henry L. Stimson, enclosure with note of July 1, 1929, Decimal File, 800.51 W 89 France/585, Box 119, DOS RG 59, NACP.

<sup>19</sup>Translation of article by L. Marcellin in *La Depeche Algerienne* enclosed with U.S. Consul, Algiers, to Secretary of State, Jan. 2, 1925, Decimal File, 800.51 W89 France/63, Box 7211, DOS RG 59, NACP.

State Department official noted in 1933.<sup>20</sup> Another “great white people,” the British, expressed the same concern. “Everyone has the same experience I have in talking to Americans about cooperation,” lamented one member of parliament. “They always come back to the debt problem, which they say is one thing that is making it difficult for them to cooperate with us.” Britain could find itself at war again sooner rather than later, warned M. P. Herbert Samuel, “and in that case our failure in these days to meet admitted obligations cannot but have a seriously deleterious effect upon our credit in the United States.”<sup>21</sup>

Fears that the defaulted war debts would undermine U.S. support for the democracies in the event of a second world war proved founded. In March 1938, public opinion polls found 47 percent of Americans still favored collecting the war debts in full, with just 11 percent open to cancellation.<sup>22</sup> When, in June 1939, pollsters asked “if England and France pay something on the War debts they now owe us, should the United States lend them more money?” Seventy-nine percent responded no.<sup>23</sup> In late May 1940—that is, during the Battle of France—60 percent of respondents said no to amending the Johnson Act of 1934, which criminalized the making of private loans to nations in arrears on their war debt, in order to allow the besieged democracies to borrow again in the United States.<sup>24</sup>

By the early 1940s U.S. policymakers came around to the Keynes’s view of the war debts as “paper shackles,” and the Roosevelt administration’s Lend-Lease program buried the issue of repayment to avoid a repeat of the debt controversy after World War II. Nevertheless, from the early twentieth century up to World War II, the stigma of debt shaped American attitudes toward nations with which the country had important financial, commercial, and strategic relations—the Caribbean and Central America before the Great War, the former allies of Western Europe after it. In the earlier period, the inability of small, weak, and poor Caribbean and Central American states to pay their debts supported a policy of intervention, while the unpaid allied war debts supplied a key plank of a neutrality program to keep the country out of an imminent Second World War. Though unpaid debts underpinned very different foreign policies before and after the Great War, in both cases the stigma of default that tainted other nations allowed Americans to claim the moral high ground.

<sup>20</sup>“What If Great Britain Should Default,” Memo from Office of Economic Advisor, Oct. 3, 1933, Box 118, Entry 145, Department of Treasury, Records of the Bureau of Accounts, Correspondence, 1918–1941, England: Loans by U.S., RG 39, NACP.

<sup>21</sup>“Accord on U.S. Debt is Urged on Britain,” *New York Times*, Apr. 23, 1936, 9; “Britain Criticized on Debt Omission,” *New York Times*, Apr. 19, 1934, 16.

<sup>22</sup>George Gallup and Claude Robinson, “American Institute of Public Opinion—Surveys, 1935–38,” *Public Opinion Quarterly* 2, no. 3 (July 1938): 389.

<sup>23</sup>“American Institute of Public Opinion—Surveys, 1938–1939,” *Public Opinion Quarterly* 3, no. 4 (Oct. 1939): 600.

<sup>24</sup>Hadley Cantril, “America Faces the War: A Study in Public Opinion,” *Public Opinion Quarterly* 4, no. 3 (Sept. 1940): 392.