Chapter 2

Armistice and peace conference

Sir Joseph Maclay's forecast that shipping and raw materials would not be absolutely scarce once hostilities ceased was borne out in fact, although particular difficulties over shipping remained for some months. The overriding problem for reconstruction proved to be finance, in a variety of forms.

The months between the armistice and the signature of the Treaty of Versailles on 28 June 1919 can be divided into two periods. In the first, down to the end of March, reconstruction problems largely centred on France, along with immediate relief for central and eastern Europe which is discussed in Chapter 4. The French on the one hand tried to obtain Allied cooperation in their country's reconstruction by such means as controlling raw materials and redistributing war costs. They were defeated by American refusal of cooperation and as a result turned instead to getting as much reparation as possible from Germany: in the latter form the problem continued to the signature of the peace treaty - and of course beyond it.¹ Secondly, the French wanted to continue the wartime financial arrangements of unlimited advances from the United States and Britain, to sustain the value of the franc and to pay for imports. Immediate French needs were largely met, but the attempt could not succeed for long. The United States government was trying to wind up its lending activities, and its power to make advances was running out. It wished to force Britain to match any help it gave. The British, worried about their own exchange and balance of payments, also needed transitional assistance and were unwilling to increase their own indebtedness by granting open-ended credits to others. By the end of March the French had reached an arrangement with Britain, the last such inter-governmental agreement; and American government lending was confined, by the Victory Loan Act, to limited sums for

¹ Trachtenberg, Reparation in World Politics, ch. 2, gives a full account of this aspect of French policy.
eighteen months for purchases of American grain and government surplus. In the second phase, to the end of June, while the problem of German reparations continued under discussion, attention turned to more general questions of European reconstruction. Various partial proposals were made, none was adopted. The British delegation had ideas but could not push them through. Any large scheme, bringing all the elements together, would have had to come from the United States; but whilst some Americans were conscious of the problem, the chances of a government initiative were steadily receding even before the President left Europe. One of the elements in such an overall scheme would have been inter-Allied debts. At this stage, approaches to that problem were highly tentative.

The British did not take to the peace conference any comprehensive ideas on reconstructing Europe. As far as Britain herself was concerned, they wanted to penalise German trade for a period: the provision in the Treaty of Versailles that Germany should give the Allies unilateral most-favoured-nation treatment for five years might be regarded as the last relic of the Paris Resolutions. On reparations, there was no clear understanding of what would be feasible. At the time of the pre-armistice discussions, expectations that Germany could be required to pay more than compensation for damage, and that the British Empire could get much, were not high. Under the impact of the general election campaign, however, and the protests of W.M. Hughes, the Imperial War Cabinet set up a committee to consider how Germany might pay to the limit of her capacity and without harmful effects. The committee reported that Germany ought to pay the costs of the war and would be able to pay, each year, some six times as much as the total that the Treasury had considered possible.

The Imperial War Cabinet, when it discussed the committee’s report just before Christmas, was divided. Lloyd George did not commit himself. He doubted whether Germany could pay the entire cost of the war, but upheld Britain’s case. ‘Unless’, he said, ‘President Wilson was prepared to pool the whole cost of the war, and for the United States to take its share of the whole, he was not in a position to reject our claim for indemnity.’ But Wilson, on his arrival in England on 26 December, proved very stiff on the subject of indemnity, and the Imperial War Cabinet was not prepared to

2 See Bunselmeyer, Cost of the War, ch. 5; Imperial War Cabinet, 26 Nov. 1918, IWC 39, CAB 23/43.
3 P 38, 2 Dec. 1918, CAB 29/2; committee proceedings in CAB 27/43. See Bunselmeyer, Cost of the War, ch. 6. Lloyd George’s somewhat tendentious version, claiming to have miscalculated the composition and attitude of the committee, is in his The Truth about the Peace Treaties, London 1938, Vol. 1, pp. 297–309.
risk losing American cooperation on other important aspects of the peace. The instructions proposed by Lloyd George for the British Empire delegates on reparation were very general: 'To endeavour to secure from Germany the greatest possible indemnity she can pay consistently with the economic well-being of the British Empire and the peace of the world, and without involving an army of occupation in Germany for its collection.' The delegates themselves were Hughes, Lord Cunliffe (former Governor of the Bank of England and member of the Committee on Indemnity, on which he revealed strange ideas about the basis of a country's credit), and Lord Sumner (a distinguished judge, who had no experience of international economics). Their objective at Paris was initially to claim a very large indemnity, including war costs, and to resist any priority for reparation of damage. Later the aim came to be to secure for the British Empire the largest possible share of whatever total bill was to be laid upon Germany.

Hints about sharing war costs and adjusting debts had, as has been seen, already been made to American officials and been rebuffed, and the British did not pursue the ideas at Paris. The French, on the other hand, tried to use the discussion of peace terms to secure help in reconstruction. After a last unsuccessful effort in December to persuade Hoover to adopt French ideas on controlling raw materials, Clémentel advised that the way to secure a socially and economically just peace was for the associated countries to take measures in common to restore to a position of economic equality the countries which had suffered most, secure supplies, and enable debts to be paid. The terms to be imposed on Germany would depend to some extent on the assurances the Allies gave to each other. If they did not agree in advance on the future economic order, France would have to demand integral reparation. To begin with it seemed that the Americans were prepared to consider some degree of cooperation. When on 27 January the Supreme Council decided to set up an economic drafting committee to propose economic questions for study, it was Wilson who suggested that they should include privileges to be given to devastated regions to restore their economic life. The French then put forward a memorandum calling for Allied control of raw materials and cooperation on shipping and exchange rates, and making it plain that French approval of a moderate peace would depend on the continuation of Allied cooperation. The British

5 Imperial War Cabinet, 30 and 31 Dec. 1918, IWC 47, 48, CAB 23/42; Bunselmeyer, Cost of the War, ch. 10.
6 Imperial War Cabinet, 24 Dec. 1918, IWC 46, CAB 23/42.
7 For Clémentel's proposals on raw materials, and Hoover's rejection, see Bane and Lutz, Organisation of American Relief, pp. 78–84; 'Avant-projet des clauses économiques des préliminaires de paix', with covering memorandum Clémentel to Clemenceau, 31 Dec. 1918, AN, F12 8104; Clémentel to Pichon, 19–20 Jan. 1919, F12 8039; MAE, Y Internationale, Vol. 213; Trachtenberg, Reparation in World Politics, pp. 33–5.
and American representatives agreed that the proposed Economic Commission of the conference should study these questions, but did not commit themselves to any position on them.9

The list of questions suggested by the drafting committee for the Economic Commission to consider therefore included economic measures to be taken in common for the supply of Europe and referred especially to the needs of the devastated regions. The Supreme Council decided on 21 February that transitional measures of this kind should be handed over to the newly established Supreme Economic Council, leaving the Economic Commission to discuss problems directly related to the peace terms for Germany.10 But owing to increasing American resistance to all schemes involving inter-governmental cooperation, the Supreme Economic Council never became what its title promised. It discussed questions of relief and blockade, but French reconstruction was barely touched.11

The French also urgently desired continued financial assistance from both Britain and the United States, to pay for imports and to support the exchange. Since the summer of 1918 the government had been trying to accumulate, in return for advances of francs made to the American forces in France, a fund of dollars for postwar reconstruction spending and the support of the franc. After negotiations in Washington and Paris, Crosby wrote on 16 October to André Tardieu, the French High Commissioner in the United States, offering to devote 40 per cent of the franc advances to a special fund to be spent only on goods needed for reconstruction, on condition that Britain gave similar help and that any money received from Germany by way of reparation during the first three years of peace was used to repay the American credit.12 Crosby explained to McAdoo that his principal objective had been to secure the supply of francs after the end of hostilities, and to give support to the Bank of France in buying food and raw materials, especially for restoring the devastated provinces. Serious troubles lay ahead for France, and even a cold calculation of American interest as a creditor would suggest that a helpful attitude was desirable.13

11 Minutes of the Supreme Economic Council in FRUS, PPC, Vol. 10.
Another American Treasury representative, Norman Davis, told Keynes that he favoured the United States taking over the entire burden of financing France, relieving Britain, but he believed the French request was too high and was concerned with a scheme of postwar development based on the control of raw materials. Davis thought that the Allies and the United States ought to discuss a comprehensive settlement.\textsuperscript{14}

For their part the British, concerned about their own exchange and the shortage of dollars, were anxious that some of the French dollar resources should be used in London before British credits were called on. At the end of October Celier, the Director of the Mouvement Général des Fonds in the French Ministry of Finance, came to London for a conference with Treasury officials and the Bank of England. Keynes, who continued to think that the franc ought not to be supported at too high a rate, mentioned Davis's idea that the United States should take over the whole burden but said that British credits would continue, if necessary, on the previous basis provided that France did not build up balances elsewhere. He was not sure that the Americans wanted to tie their arrangements to similar British ones and thought that they simply wished to be kept informed.\textsuperscript{15} After the armistice, however, the British began to warn the French that government credits were likely to be restricted. On 28 November Bonar Law, the Chancellor of the Exchequer, wrote to his French opposite number Louis Klotz that the time had come to adapt the relations between the two Treasuries to the new circumstances. Since the summer the French Treasury had not needed help, apart from the renewal of outstanding Treasury bills, apparently because the expenditure of the British and American armies had provided enough to meet French foreign requirements. Bonar Law was not concerned with Klotz's negotiations with the Americans about a dollar fund, but said that he felt Britain could not make advances to France as long as she could meet current expenditure from these and other sources. There was a strong feeling in Britain against further advances to others when she herself was dependent on help from the United States. Existing arrangements to lend France the sums needed for interest on Treasury bills would be continued, but Bonar Law proposed that future financial assistance should be limited to that. If the situation changed, however, it would always be possible to reconsider the position.\textsuperscript{16}

This letter dismayed Klotz, who asked Clemenceau to do what he could,
on his forthcoming visit to London, to get the British to appreciate that France had made for the common cause more sacrifices than any other nation, and in consequence had had to become a debtor for the first time. The British decision to oppose further transfers of sterling to the Bank of France confronted the government with a choice between ceasing commercial purchases in Britain or seeing the franc exposed to greater depreciation than during the war. On 7 December Klotz replied to Bonar Law's letter, pointing out that British and American expenditure in France was falling with the beginning of troop withdrawals, and a balance between French expenditure and foreign resources had certainly not been reached. More generally, whilst France might expect German reparations to give her the means of paying her debts and restoring her balance, the transitional period would be extremely difficult and Klotz hoped that Bonar Law did not mean that Britain intended to abandon her. France did not think it right suddenly to abandon to their own resources the countries she had helped; he believed the United States government would agree that cooperation had not lost its raison d'etre with the armistice, and he attached great importance to the same spirit prevailing in Anglo-French relations. Klotz made no suggestions as to how British help should continue, but said he was open to any proposals.

The French financial adviser in London, Joseph Avenol, thought that the trouble was of his government's own making. Once the British had been given, earlier in the year, a detailed breakdown of French payments and then the government had raised the exchange rate and demonstrated that credits were not needed, it could not have hoped for more. And Bonar Law replied to Klotz that he appreciated French efforts to be as little dependent as possible on financial assistance, and the fact that the withdrawal of the British and American armies would mean a loss of income; but he had not been looking farther ahead than the next few months and new arrangements could always be discussed if they were needed. He went on to explain the considerations in his own mind. He thought that for the present and the immediate future, the receipts from the Allied armies would cover French external expenditure if they were freely available, and that Britain could not fairly be asked to make advances just because part of those resources had been earmarked for some other purpose. Secondly, the possibility and scale of future assistance depended very much on the attitude of the United States Treasury, which was not yet clear. Congress had apparently just been approached for authority to make advances to the Allies after the peace, but the British financial commissioner understood

17 Klotz to Clemenceau, 30 Nov. 1918, MF, F30 926 = B 31846.
18 Klotz to Bonar Law, 7 Dec. 1918, MF, F30 926 = B 31846.
19 Avenol to Fromage, MF, 2 Dec. 1918, MF, B 12676.
that these advances would only be for reconstruction in France and Belgium and possibly for food for Italy, and would not be made to Britain for any purpose. If this were really the American intention, Klotz must realize that Britain’s power to lend to other countries would cease altogether. If later on in 1919 France did need help and Britain could give it, there was much to be said for reviving the ordinary machinery of commercial borrowing.20

Bonar Law was referring to the bill laid before Congress by McAdoo, seeking authority to raise the ceiling of Liberty Bond issues to $25,000 million, and that of advances to foreign governments to $10,000 million, and for power for the government to make advances for one year after the end of the war for purchases in the United States or to pay interest to the United States. The War Finance Corporation would also be allowed to advance up to $1,000 million to American firms or individuals to finance sales to Europe. Since the United States had already advanced $8,500 million to the Allies, this meant $1,500 million of new credits, or $2,500 million including the War Finance Corporation advances, all to be spent in the United States.21 McAdoo had assured Tardieu just before the armistice that he would continue to give sympathetic consideration to requests for credits, but had pointed out that he had no power to give credits for reconstruction purposes after the end of the war, and in any case would not wish to do so before requirements were definitely known.22 He cabled to Crosby that he wished to encourage private financing even of the purchase of American commodities, and Crosby should indicate informally that a policy of retrenchment in the government’s lending was to be expected.23 When Crosby reported from London on 1 December that Bonar Law had indicated that the British government might need to borrow $100 million a month for some months, McAdoo replied that he intended to discontinue loans for purchases anywhere but the United States. Under present legislation loans could only be made for war purposes and therefore could not take the form of specific sums irrespective of use; and foreign governments must understand that the amount of United States government lending would be very much reduced.24

On 18 December, after discussions in Washington between Rathbone,
an Assistant Secretary of the US Treasury, and the British financial representative Sir Hardman Lever, the Americans agreed to advance Britain $250 million which Rathbone said he expected would be enough to cover outstanding commitments and to provide for other purchases until normal peacetime channels of finance were available. Lever replied that the Chancellor of the Exchequer thought that more would certainly be needed; and on 26 December he delivered a message from Bonar Law suggesting $500 million for the next three months, beyond which it was impossible to do more than guess at requirements. The two principal unknown factors were the date when Britain's export trade might be expected to reach its prewar dimensions – it could hardly be before the end of 1919 – and how far she would have to finance the Allies and provide liquid resources for European reconstruction. The size of this task was itself obscure, and the size of the share falling to Britain would depend on United States policy. In particular the burden on the pound was determined mainly by other countries' indebtedness to the United States and only secondarily by British purchases. But Rathbone replied that although the United States Treasury would have been glad to help, it was not in a position to advance $500 million in addition to the balance of the $250 million special credit just approved. Britain ought to be able to float a loan.

The suggestion that the United States should take over the entire task of financing French reconstruction was raised several times by Keynes in conversation with Crosby, on the lines that the loans made by Britain before the United States entered the war should be equalised. But whatever Davis had said in October, the suggestion now met with no favour in Washington. Still less did that, coming from the Chancellor of the Exchequer and the French Minister of Finance as well as from unofficial sources, that all the inter-Allied war debts should be cancelled. To both Bonar Law and Klotz Crosby replied that as far as he knew McAdoo had never entertained such an idea and he had no authority to discuss it.

27 Rathbone to Lever, 31 Dec. 1918, US Senate, Loans to Foreign Governments, pp. 23-4; Bailey to FO, 4 Jan. 1919, T 1/12256/49893/18. Before leaving London in January Crosby warned the Chancellor of the Exchequer that it would be unwise to depend on the legislation submitted to Congress for authorising loans after the end of the war, and any further case the British wanted to make should be presented soon: Crosby to Glass, 10 Jan., NA, RG 59, 102.1/1600.
28 Crosby to McAdoo, 4 Dec. 1918; McAdoo to Crosby, 7 Dec., NA, RG 59, 800.51/122.
29 Crosby to McAdoo, 4 Dec. 1918, NA, RG 59, 800.51/122; US Senate, Loans to Foreign Governments, pp. 16-17. The fact of the British approach was confirmed by Austen
McAdoo indeed was quite clear that no such suggestion could be considered. He had told the President that decisions on the consolidation of Allied debts fell solely within the authority of the Secretary of the Treasury, and he cabled to Crosby that the Treasury had no power to cancel debts and they were not a matter for the peace conference. He told House that he was convinced that Congress and the American public would not approve cancellation of the loans or any action that would reduce their value. It was going to be difficult enough to get Congress to authorise the new reconstruction credits, and any doubt cast on the earlier credits would strengthen the opposition. The loans should not be mixed up with other questions and should be kept out of the peace conference. The Treasury was not officially represented there and must not be unofficially represented.

McAdoo was on the point of leaving office. His successor, Carter Glass, agreed to Treasury representatives being attached to the United States delegation at the peace conference, but he lost no time in advising the President that all questions concerning the loans should be kept out of the conference’s discussions. But the fact that the United States Treasury did not wish to discuss the loans at the peace conference did not mean that it had no wish to discuss them at all, with individual debtors or to some extent together. On the contrary in writing to Wilson on 26 October McAdoo foresaw the necessity of a general discussion of the Allied debts to Britain and the United States, in connection with sharing the supply of credits for reconstruction. During November some uneasiness grew up in London as to the use that a new Secretary of the Treasury might make of the British obligations, which were nominally payable on demand. When Crosby explained the British anxieties McAdoo replied that the Secretary of the Treasury was prepared to discuss with the Allies, in Washington when they wished, all questions about the conversion and maturity of their obligations; and on 10 December Rathbone so informed the British and French financial representatives. Rathbone suggested that the various

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30 McAdoo to Wilson, 26 Oct. 1918, LC, McAdoo Papers, container 525; McAdoo to Crosby, 7 Dec., LC, Leffingwell Papers, container 6, reel 18; NA, RG 59, 102.1/1736; RG 59, 800.51/122.
31 McAdoo to House, 10 Dec. 1918, LC, Leffingwell Papers, container 7, reel 18.
33 McAdoo to Wilson, 26 Oct., 1918, LC, McAdoo Papers, container 525.
34 Crosby to McAdoo, 30 Nov., 4 Dec. 1918, NA, RG 59, 841.51/136; 800.51/122; Crosby to McAdoo, 6 and 7 Dec., RG 59, 800.51/1489, 1496; McAdoo to Crosby, 7 Dec. RG 59, 102.1/1736c; Rathbone to Crosby, 11 Dec., RG 59, 102.1/1489; de Billy, New York, to MF, 10 Dec., MF, F30 780 = B 31705; Bailey to FO, 11 Dec., T 1/12256/49893/18.
Allied debts and claims could usefully be discussed together, and the French representative de Billy suggested to Paris that his ministry should concert its views with the British Treasury; but in fact their paths diverged. Crosby found that Klotz now wished to postpone discussion until the peace conference met, and then to discuss all the debts and terms for funding along with reparations and reconstruction. This the Americans refused, but they were in no hurry to press the French to discuss conversion at present.\(^\text{35}\) On the other hand the British Treasury was ready to take up discussion of the conversion of the British obligations into long-term bonds; and even when they learned that the French preferred general discussion in Paris, they went ahead.\(^\text{36}\)

Informal discussions began with the United States Treasury in the middle of January. Lever gathered that the Americans believed the British government wanted to pay its debt as soon as it conveniently could, whatever the attitude of the other Allies might be, and hoped for a British proposal and a statement of British views on the terms to be granted to the other Allies. The Americans assumed that there would be consultation and the terms arranged would be similar; but they did not think the terms to be granted by the United States to Britain need be the same as those granted to other Allies. They thought it important to be able to sell the bonds for the British debt to the American public.\(^\text{37}\) But the British Treasury was less keen on early and separate Anglo-American discussions. Keynes was working on a scheme for setting off the inter-Allied debts against each other, and so talking about conversion might prove a waste of time. Since it had pressed for discussion, however, it could hardly withdraw, and Keynes suggested that Rathbone should be told that the problem was tied up with that of the inter-Allied debts generally and that now the peace conference had begun the British would prefer to postpone discussion in case some general proposal for redistributing the cost of the war came up. There was no prospect either of Britain paying soon, nor unless the Allies paid her.\(^\text{38}\) Lever was instructed to continue the discussions informally, saying that no definite commitment could be undertaken until the future was clearer, and pointing out that Britain’s power to pay would be largely determined by France’s and Italy’s ability to pay her. These debts therefore should have priority over Britain’s to the United States.\(^\text{39}\) This last point the United States Treasury was not willing to accept. It agreed that a definite

\(^{35}\) Crosby to McAdoo, 13 Dec. 1918; Rathbone to Crosby, 17 Dec., NA, RG 39, Country files, box 56; MF to Tardieu, 20 Dec.; de Billy to MF, 28 Dec., MF, F30 780 = B 31705.

\(^{36}\) FO to Bailey, 23 Dec. 1918, T 1/12256/49893/18; Bailey to FO, 31 Dec.; FO to Bailey, 9 Jan. 1919, T 1/12338/25131.

\(^{37}\) Bailey to FO, 19 Jan. 1919, T 1/12338/25131.

\(^{38}\) Minutes by McFadyean and Keynes, 27 and 29 Jan. 1919, T 1/12338/25131.

\(^{39}\) FO to Bailey, 6 Feb. 1919, T 1/12338/25131.
commitment should be postponed until reparations were settled, and that the various individual debt settlements should be reached in a joint conference with the various debtors, starting with the least promising cases and being crowned by a settlement between Britain and the United States. 40

There the matter rested for the time being so far as the British were concerned. The French made another attempt in the middle of January to get American agreement to a general discussion of debts and credit at the peace conference in connection with the peace terms, but received another refusal. The new Secretary of the Treasury, Carter Glass, wrote to de Billy that he agreed that any scheme of French repayments should take account of the reparations France was likely to receive from Germany, that no government should seek priority over another, and that where countries had borrowed from more than one lender all parties should be kept informed of the terms being reached. But this did not mean that everything should be discussed in Paris, only that the United States should be willing to postpone discussion - which must be bilateral and take place in Washington - until after the financial terms of the peace settlement had been decided. 41

Once the peace conference opened Paris inevitably became the scene of much of the discussion of finance. Although the United States Treasury remained adamant that debts could not be discussed there, the question of continuing credits to France still needed to be resolved, and it was tied up with problems of the exchange and of trade. The French continued to urge joint discussions. Before receiving Carter Glass's refusal to discuss debts in Paris, the Ministry of Finance instructed the representatives in Washington to ask for joint discussions on other related questions. The British were trying to reduce their commitments to the Allies because American credit to Britain had been stopped, but France's situation had deteriorated so quickly that if there were no more credits her resources would soon run out. Separate bilateral arrangements would only lead to deadlock. Moreover, once the peace conference started, there could be no useful discussion of the German indemnity with all its related questions, the reconstruction of France, and the opening of credits for the small states, unless the French, American, and British delegations had consulted together first. Negotiations could be continued in Washington and decisions taken there if necessary. 42 A similar message was sent to the new

40 Bailey to FO, 16 Feb. 1919, T 1/12338/25131.
British Chancellor of the Exchequer, Austen Chamberlain, suggesting that the moment had come for a concerted examination by the three Treasuries of the distribution of the costs of reconstruction and of the war. Without this, and a friendly effort to solve the common difficulties, it would be difficult to discuss usefully all the other financial questions involved in the peace conference.43

Avenol found Chamberlain courteous, ready for tripartite conversations, but anxious about Britain’s financial situation and unwilling to make anything more than a temporary advance.44 Carter Glass replied that he sympathised with the difficult French position and if fuller knowledge could be gained by conversations in Paris he would welcome it. The questions in which the Treasury and the Allies were interested fell, he suggested, into three categories: indemnities, which formed an integral part of the peace negotiations and must be discussed in Paris; current finance, which should be the subject of exchange of views between the Treasuries; and other questions which concerned two governments only. Norman Davis was told that he might join in discussion and make recommendations. Methods of financing reconstruction should not be discussed, but it was advisable to discuss needs.45 The American delegates in Paris were already considering what Davis thought was a concerted move by the Allies to get the United States locked into the whole financial situation in Europe, by means of plans to stabilise the exchanges, pool raw materials, and guarantee German reparation undertakings, in such a way as to create open-ended American commitments to share the costs of the war and sustain balance of trade deficits. Davis recommended to the President that the United States should not enter into general financial or economic arrangements but should simply undertake to consider sympathetically and on its merits any request by an individual government for specific assistance.46 At Wilson’s request a group of American technical advisers, Davis, Baruch, Hoover, McCormick, and Robinson, discussed, on 11 February, what could be done for reconstruction. Their recommendations amounted to pressing all governments to remove restrictions on trade as the United States government had done, and stimulating American exports with private finance. It might be necessary, they said, and helpful to American manufacturers, to continue for a while to help some of the European governments with limited advances for purchases in the United States, but advances should only be made on condition that all import and export restrictions were removed. The French were trying to block

43 Memorandum given to Sir John Bradbury, 31 Jan. 1919, MF, B 12676.
44 Avenol to MF, 5, 6, 12 Feb. 1919; Avenol to Celier, 8 Feb., MF, B 12676.
45 Glass to Davis, 11 Feb. 1919, LC, Leffingwell Papers, container 8, reel 21.
46 Davis to Wilson, 2 Feb. 1919, LC, Norman H. Davis Papers, container 11.
progress on ending the blockade and other restrictions in order to get agreement on financial and economic assistance and a large indemnity from Germany, and progress on the peace terms might be slow until the French were told definitely that the United States would not make any special financial or economic agreements extending beyond the signature of peace. The advisers thought that the French had enough dollars to last a considerable time; they could therefore be told that the United States would not make any financial arrangements now but would be willing to look at French requirements after the peace treaty was signed and in the light of their cooperation now.47

The French meanwhile were still finding the British attitude on credits extremely unhelpful and asked the Americans to intervene. On 19 February two members of the financial section of the American delegation, Davis and Strauss, met Keynes and Celier. The French and American accounts of the meeting differ: there is no contemporary British record. According to the French account, the Americans were ready to support British purchases in the United States if Britain gave France credits for purchases in the United Kingdom, but Keynes said this was not enough; and both he and the Americans objected to the French exchange rate. According to the American account, they and Keynes were chiefly concerned to convince Celier that the franc must be allowed to fall to a realistic level and France must take steps to help herself: Keynes had said that Britain could not go on making advances to the Allies beyond her own means without risking bankruptcy.48 Klotz was deeply upset and concluded that Britain was coldly resolved to abandon, on the morrow of the battle, the companion in arms whose wounds prevented him from rising. The ambassador in London, Paul Cambon, was instructed to urge Chamberlain to come to Paris at once, as a crisis was imminent. The British had already agreed to a temporary advance to France of £2 million for February, but Avenol told the Treasury that he could not go on living from hand to mouth and would have to prepare to suspend payments in Britain; the financial situation must be discussed by the ambassador with ministers. While Avenol was talking in this way to the Permanent Secretary, Sir John Bradbury, Keynes came in and reported on his visit to Paris. Avenol thought that Keynes was

47 Baruch to Wilson, 12 Feb. 1919, Davis Papers, container 46. Davis also reported that Hoover was worried that Allied control of buying of food staples and retention of the blockade threatened to depress American prices, and that McCormick had told the Blockade Committee that the United States might have to act alone in relaxing blockade measures in south-east Europe: Davis to Rathbone, 18 Feb., RG 59, 102.1/1729.

not ill-disposed nor prejudiced against advances, but was worried by the
size of the French requests and anxious to work out how Britain could
avoid going bankrupt through helping her Allies.\footnote{Avenol to MF, 21 Feb. 1919, MF, B 12591.} Avenol had been
making enquiries in London about financing French purchases through
bank consortia and now reported that the banks were favourable in
principle but were receiving many other requests. Avenol thought,
however, that bank financing was the only solution: the Treasury was
willing to furnish precise sums for particular needs, but would not agree to
support the exchange rate nor would it furnish credit for indeterminate
operations, thus increasing Britain’s own foreign commitments.\footnote{Avenol to MF, 23 Feb. 1919, MF, B 12591.}

Cambon now went to see Chamberlain, who said that he appreciated
French difficulties but his were no less. Apart from the domestic demand
for money, which was so great that he could not at present authorise the
emission of a French loan in London, the key to the question was the
Treasury’s situation in the United States and he could not make a long-
term agreement with France without one with the United States. He would
gladly come to Paris as soon as his budget was prepared. Meanwhile he
would prevent a suspension of French payments and would ensure that
there were funds for French purchases in the British Empire; but he would
not take part in French exchange operations. Cambon commented that the
French government ought to have taken the initiative in negotiating a new
agreement, but neither he nor Avenol could act without instructions. The
British would try to prevent their exchange being used for commercial
purposes, but they and the Americans were genuinely sympathetic about
French reconstruction and would help if given precise proposals based on
figures and details which could have been prepared in the months since the
armistice. The Americans in particular, said Cambon, were astonished that
this had not been done and that the French were wrapping themselves up in
vague general formulae.\footnote{Cambon to Ministry of Foreign Affairs, hereafter MAE, 22 and 24 Feb., 1919, MF, B 12676.}

Avenol, too, sent home a long memorandum on
the British position, designed perhaps to counteract Klotz’s emotion. He
did not think the Treasury’s present niggardliness was due to lack of
sympathy for an ally. Bonar Law had said in successive letters that Britain’s
help was conditioned by her own situation \textit{vis-à-vis} the United States, but
the Treasury was worried about what would happen to sterling when peace
was signed and the neutrals could draw on their balances. Any credit
granted in London increased Britain’s obligation to the United States, and
this was not acceptable without an American assurance. The British were
conscious of an obligation to join in the reconstruction of France; but the hope of German reparation did not help France.\footnote{Memorandum by Avenol, 24 Feb. 1919, MF, F30 781 = B 31706. At this stage, in the Commission on Reparation, both the French and the British delegates were insisting, as against the Americans, on the inclusion of war costs. The French were also asking for priority for reparation of damage and in the Financial Commission on 20 February Klotz emphasised the link between France's reparation claims and the settlement of inter-Allied financial questions. See Philip Mason Burnett, \textit{Reparation at the Paris Peace Conference}, New York 1940, ch. 3 and related documents; Peace Conference, \textit{Recueil des Actes}, Part IV, B, 6, p. 25; Trachtenberg, \textit{Reparation in World Politics}, pp. 53-4.}

On 25 February the Cabinet discussed policy on help to France. Keynes reported that the French were asking the United States for $650 million and for £100 million from Britain, partly for purchases and partly to support their credit. The United States would only lend for expenditure in the United States: the French would accept British credit limited to purchases in the Empire, but that would not help British exchange difficulties. Britain was under an obligation to give France some help, but ought she to do so for general purposes and for restoring French trade? It was not worth doing on a small scale, and a large scale could not be afforded. Lloyd George thought that the United States ought to be pressed to help France. Churchill said that a loan should only be for purchases in Britain; but Chamberlain pointed out that even that meant expenditure on imported raw materials. Bonar Law said that France could not be allowed to go bankrupt. The Cabinet agreed to approve the advance of £2 million already promised to France, and to urge the United States to help. Chamberlain would go to Paris in the following week.\footnote{Cabinet, 25 Feb. 1919, WC 536A, CAB 23/115.}

In advance of the meeting in Paris Rathbone told the British Embassy in Washington that he could not understand the statement that Britain's resources had been strictly limited. The Treasury was willing to continue financial help to France for purchases in the United States, but not to lend money to enable France to make purchases in or pay debts to Britain. All the associated governments should cooperate: otherwise French credit could not be maintained. Rathbone wanted to wind up the system by which Allied governments paid dollars to Britain for purchases made on their behalf and suggested that in future any such reimbursements should be applied to paying the British obligations to the United States. He realised that this would reduce Britain's dollar resources, but the Treasury was willing to consider an application for advances to meet British purchases in the United States which could not be provided through private channels.\footnote{Rathbone to Reading, 4 Mar. 1919, FO 115/2522; LC, Leffingwell Papers, container 8, reel 22. The so-called 'dollar reimbursements' were largely book-keeping transactions arising from the fact that whilst the United States Treasury preferred to keep the loan...}
assuring him of the Treasury's desire to help solve France's financial problems and his conviction that the restoration of France was of great importance to all the associated governments. But it must be understood that United States government aid to France was limited to French requirements in the United States that could not be met through private channels, and must not be used directly or indirectly to enable the French government or French nationals to make any kind of payments to Allied or other governments or nationals. The French government must not use any dollars that it acquired to make any payments to Allied governments without United States Treasury consent. Rathbone also cabled to Davis in Paris that if it would help an arrangement whereby Britain would extend further credit to France, further credits might if necessary be established in favour of Britain. He had talked to Blackett, a British Treasury official who was visiting Washington, and thought he had removed British misapprehensions.

Chamberlain's conversations in Paris began on 7 March. Once again, a proper British record is lacking, and most of the evidence is American. The French had given Colonel House, on 5 March, a memorandum setting out in general terms their financial situation and need for credits. Chamberlain, when he arrived, went with Klotz to call on President Wilson, but instead saw House. Klotz expounded his views; the Americans indicated that France must take steps to help herself, end restrictions on trade, and unpeg the artificially high franc; her problems could not be solved by constant appeals for help. On 8 March, after an Anglo-American conversation about the necessity of letting the franc fall, there was a further meeting with Klotz but without House. Chamberlain explained that accounts with each Allied government separate, some purchases were made in bulk by one government (nearly always the British) for some of the others as well as itself. Britain also provided shipping services. The purchasing government received the necessary funds from the United States Treasury; when the supplies had been allocated the Treasury advanced the funds to reimburse the purchasing government for their respective shares; and so the indebtedness of the purchasing government on the Treasury's books would be reduced and that of the other governments increased. See Moulton and Pasvolsky, War Debts and World Prosperity, pp. 43-5.

56 Rathbone to Davis, 6 Mar. 1919, LC, Leffingwell Papers, container 8, reel 22.
57 In February 1924, when Klotz's book De la guerre à la paix was published and Keynes was writing an article in reply, he asked Chamberlain for his recollections of the meetings and sought help from the Treasury. Keynes learned that the Treasury archives relating to that period were 'in a most chaotic condition', and his informant there could not recall ever having seen a connected account of events leading to the March agreement with the French. Chamberlain's recollection was good, but inevitably not very precise: University of Birmingham, Austen Chamberlain Papers, Chamberlain to Keynes, 7 Feb. 1924; Keynes to Chamberlain, 10 and 28 Feb., AC 35/7/5, 7, 10.
58 Memorandum, 5 Mar. 1919, MF, B 12676.
British resources were only just enough to cover their own trade deficit and to meet the claims of neutrals, and the British Empire was not a financial unit. Klotz asked for American help in meeting France’s sterling requirements and was told not only that it was impossible but that any more talk about reapportioning war costs would harm such help as might be forthcoming. Chamberlain gave Klotz a paper outlining what the British government was prepared to do. He proposed to discount a further £25 million of French Treasury bills, make available the sterling equivalent of francs furnished to the British government for French purchases in London, buy the French gold deposited in London for a further sum of approximately £21,500,000, and fund the interest on existing French obligations. The total would amount to about £76,500,000 in place of the £100 million the French were asking for. He would not help to support the franc exchange in London, and this would be the last instalment of aid. The Americans did not make any offer to help Britain, except to say that if as a result of her advances to France her dollar requirements increased, it might be possible to work out some limited plan of help.

On 10 March Klotz gave the British and the Americans another memorandum asking for credits to support the franc. He also asked the British for delay in introducing Chamberlain’s proposals and consent for raising commercial credits in London. At the same time Chamberlain received the text of Rathbone’s letter to Reading of 4 March and reacted angrily, in a letter to the American peace mission, saying that the United States Treasury seemed to be threatening him with the termination without notice of existing arrangements; and if it considered itself entitled simply to interrupt the ordinary course of payments for shipments of wheat and sugar to France he could not be responsible for continuing the shipments. Apart from this, the United States government seemed to be unwilling to help France except by providing dollars for purchases in the United States. His proposals to Klotz should give enough for French purchases in the United Kingdom. The difficulty was over the need to pay for purchases elsewhere. Did the United States really mean to refuse to continue existing arrangements unless Britain took the full liability for the French exchange, with which she refused any association?

To his wife, Chamberlain described the United States Treasury as ‘insupportable’, and he telegraphed to London that he, too, wished to end the system of dollar reimbursements but could not stop providing purchas-
ing services at once without causing disastrous consequences for France. He had told Davis that the United States Treasury's apparent attempt to force Britain to make further loans to the Allies by threatening to withhold dollars due to her had made a painful impression. Britain could not go on interposing her credit between the United States and the real recipients, by making loans to the Allies which involved her in additional borrowing in the United States. The American mission in Paris also expostulated to Washington. The British proposal to the French, they said, would not cover purchases in the Empire, let alone neutral countries, and was not going to be improved. In an effort to induce the British to raise it Davis had suggested, as indicated by Rathbone, that an additional American credit to Britain might be opened. Keynes had replied that Britain would need about $125 million for her own needs regardless of what might be done for France, and the problem was to avoid increasing the unfavourable British trade balance. The delegation was very anxious to maintain close relations with the British, and also to prevent serious disturbance to the French financial situation at present; the peace negotiations were at a critical stage and it would be better if the mission were informed before the Treasury sent abrupt letters to the British and French representatives in Washington.

By the beginning of March the French attempt to link all the economic and financial questions together and so to put pressure on the United States had failed. The Americans were totally averse to allowing such a linkage and were in a position to sustain their refusal. The United States Treasury to some extent aggravated the difficulties by its efforts to tidy up procedures affecting other governments without consulting them, and by its epistolary style. In addition to announcing termination of the system for dollar reimbursements, Carter Glass had just written an extremely curt letter to de Billy and to the Italian financial representative regarding reports that at the Financial Commission of the peace conference the Italians had proposed to include reapportionment of war debts among the subjects for discussion. Glass instructed Davis to consult the President as to whether the Treasury should refuse to make further advances to France and Italy while they were pressing the debt question at the conference, and wrote to

de Billy and Alliata saying that the Treasury would not consent to discussion of the debts at the peace conference and would not continue advances to any Allied government which lent its support to any plan that would create uncertainty as to its due repayment of advances already made. The Americans in Paris told the French unofficially that unless attempts to discuss reapportionment of debts, and efforts to get the United States to support the exchange, were dropped, Washington might be so annoyed that the Treasury would not be able to help France as it wished. Klotz replied that the French government had not made a declaration on debts in the sense that had caused the upset, and the matter then dropped.

On the dollar reimbursements Rathbone acknowledged there had been a muddle because the Treasury wanted to end the old running account, but new arrangements could be made. He had understood that the French could provide for their purchases outside the United States and the British Empire (he was still confusing the United Kingdom and the Empire), but if this were not the case he agreed that the British Treasury could not be asked to assume the whole burden. Rathbone then wrote a long letter which he proposed to send to Reading, saying that he was willing to share the burden of French purchases in neutral countries but not to finance the whole of them. He desired close relations with Britain. He told Davis that he would be willing not to send the letter provided that Chamberlain was given its substance, and he would show it to Reading and Blackett for information.

Meanwhile after further discussions between Keynes and Celier, Klotz had accepted, on 13 March, a financial agreement with Britain under which Britain gave France a further credit of £25 million for purchases already made, and a further £30 million in return for part of the gold deposited in London and for dollar transfers and francs made available to the British government. After two months the sterling equivalent of these francs, and

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65 Davis, Lamont and Strauss to Rathbone, 12 Mar. 1919; de Billy to Rathbone, 18 Mar., NA, RG 39, Country files, box 56; RG 59, 102.1/1804; Klotz to de Billy, 15 Mar., MF F30 781 = B 31706. In the Financial Commission in the middle of April Klotz made another proposal for reapportioning war costs, but it was not discussed: Peace Conference, Recueil des actes, Part IV, B, 6, pp. 230–5; Germain Calmette, Recueil de documents sur l’histoire de la question des réparations (1919–3 mai 1921), Paris 1924, pp. 39–42.

66 Rathbone to Davis, 15 and 18 Mar. 1919, NA, RG 59, 102.1/1809, 1825.
part of the dollar transfers, would be freely available to the French government but the British Treasury would not discount any more French Treasury bills except to renew earlier ones. The Treasury would not oppose French commercial borrowing in London. On 24 March the signature of the Victory Loan Bill signified the end of American government advances; from now on, the United States Treasury could not lend outside the amounts or the purposes laid down in the Act. And the exchanges being unpegged, the European currencies began to fall against the dollar.

Some of the Americans in Paris were beginning to think that something more than sweeping away controls was needed to get the European economies moving again. On 29 March Baruch wrote to Wilson, pointing out that whilst the Allied governments were insisting on reparation terms which would at best hamper the resumption of German trade, the whole of Europe was facing financial difficulties which might eventually involve the United States. Baruch thought the United States must do something to adjust the terms of the Allied debts, make further advances to France, Italy, and Belgium for reconstruction, and make some advances to new states to help them re-equip their railways and buy raw materials for industry. Baruch hoped that Wilson would depute him to deal with the aspects other than reparations, and wanted discussions with the British, for which Cecil, now British representative on the Supreme Economic Council, suggested a team of bankers and Treasury officials. At the same time Thomas Lamont, a partner of J. P. Morgan who was one of the American financial experts, was considering the effect of the war debts on the prospects of reconstruction. At the end of March he drafted, but apparently did not send, a letter to Russell Leffingwell, an Assistant Secretary of the Treasury, on the subject. He thought that uncertainty over the debts was the great obstacle to the restoration of normal business and trade. It was not enough to say that the Allied governments knew that the United States government would not use the debts in such a way as to cripple them, for the people did not know this and in any case the Allied governments could not make funding arrangements with their debtors as long as the United States did not do so. Whereas when he came to Europe Lamont had thought it would

67 Keynes to Celier, 12 Mar. 1919; Klotz to Chamberlain, Chamberlain to Klotz, 13 Mar.; Anglo-French agreement, 13 Mar., MF, B 12676; T 176/1A.
68 Artaud, Question des dettes, pp. 103–4. The pound fell from $4.40 in March 1919 to $3.30 in March 1920.
70 Cecil to Lloyd George, 30 Mar. 1919, Lloyd George Papers, F/6/6/22. Cecil had been told by some of the partners of the banking house of Lazard Bros. that a large lump sum was needed from the United States to start the reconstruction of French and Belgian industry: Cecil, ‘Diary at the Peace Conference’, 4 Mar. 1919, BL, Add. MS 51131.
be better to leave funding arrangements for the principal of the Allied debts until the situation was clearer, he had changed his mind and would now recommend immediate talks with the British and French representatives in Washington, telling them precisely what the United States Treasury intended to do and undertaking to fund the interest. Lamont thought the French idea of a general discussion of debts and all related problems was quite impracticable, but the United States held the key to the door and the peace of the world depended on whether she decided to unlock it.\textsuperscript{71} Norman Davis, too, suggested funding debt interest; but he was told by Rathbone that it was impossible because Congress had struck out of the Victory Loan Act the authority, for which the Treasury had asked, to add interest payments due to the principal of the debts.\textsuperscript{72}

In other areas, too, American advisers were shying away from the possibility of inter-governmental cooperation for fear of being manipulated. When the League of Nations was first discussed in a plenary session of the peace conference Klotz tabled a draft proposal for a financial section, with the duty of preparing plans for carrying out League decisions. The proposal, referred to the Financial Commission of the conference, proved to be one for an organ to supervise the execution of the financial clauses of the peace treaty. The British representative, Edwin Montagu, proposed instead charging the section with the task of advising the League of Nations on financial questions submitted to it. The United States delegate, supporting Montagu’s proposal, remarked that it was extremely undesirable that the financial section should be made an organ for the collection of debts.\textsuperscript{73} When Wilson came back from the United States in March and the drafting of the Covenant was taken up actively, Cecil suggested to House and Miller, the American expert on the League, that there should be a financial council, but Wilson did not care for the suggestion. House believed the President meant to confine the activities of a financial section to harmless matters.\textsuperscript{74}

However, on 26 March Léon Bourgeois, the French expert on the League, proposed a new clause for the Covenant declaring that in view of the very unequal financial repercussions of the war on different countries, special measures should be taken to restore equitable conditions and budget charges. Bourgeois said that he was not asking for any particular arrangement to be adopted now, but he wanted a reference to a financial

\textsuperscript{71} Lamont to Leffingwell, 29 Mar. 1919, Lamont Papers, IV-A, 165–8.
\textsuperscript{72} Rathbone to Davis, 7 Apr. 1919, NA, RG 59, 102.1/1926b.
\textsuperscript{73} \textit{FRUS, PPC}, Vol. 3, p. 199; \textit{Peace Conference, Recueil des actes}, Part IV, B, 6, pp. 5–9, 29–33, 39–40.
section and he wanted his observations to be recorded.75 In this he was successful, and the Hurst–Miller draft of the Covenant, of 31 March, contained an article about constituting a financial section to advise the League on all financial questions; but Miller himself advised against its inclusion, and it was dropped from the final version of the Covenant.76 At the plenary session of the conference on 28 April, Klotz moved that the proposal to set up a financial section be conveyed to the League.77 The League did itself set up a financial section after the Brussels conference of 1920, and as will be seen later it played a useful part in reconstruction; but it did not redistribute the financial burdens of the war.

The Americans were not more helpful about a British proposal of 5 April to the Supreme Economic Council for a comprehensive Allied policy on the stabilisation of currencies and the supply of capital and raw materials. Baruch, despite what he had written to Wilson, condemned the idea of government intervention in economic matters.78 Cecil contested Baruch’s assumption that private initiative could solve the problem. He was increasingly worried about the economic situation in Europe and the prospects of getting either American help or an appropriate British policy.79 He went back to London to speak in the House of Commons on 16 April, drawing a grave picture of the condition of central Europe and stressing that what was needed, beyond food relief and the end of the blockade, was credit to set the people to work again, and that would mean effort and sacrifice by everyone in Britain and ‘the Anglo-Saxon race throughout the world’.80

The question of credits for reviving trade was also exercising British businessmen and government departments from the domestic point of view. On 5 April Lord Derby, the ambassador in Paris, wrote to Curzon that he was worried that the Board of Trade seemed in effect to be discouraging Anglo-French trade for lack of credit. Chamberlain, consulted by Curzon, replied that there was no objection to commercial credits for French trade but there were limits to what the government could do. Britain had to obtain foreign credits to buy food and raw materials, including raw materials for the export industries; and exporting on credit instead of for cash increased Britain’s indebtedness to other countries. She must not refuse all credits to the Allies, and would doubtless have to

increase the commitments already undertaken for relief and reconstruction; but to create or guarantee credits for the general encouragement of British exports would in effect stimulate trade with customers who could not pay at the expense of trade with those who could, at a time when the restoration of British trade was most urgently needed. On the other hand the Board of Trade and Department of Overseas Trade were asking for credits to finance British trade with eastern European countries, on the grounds that they would help employment at home and the countries concerned had been so ravaged by the war that they were unlikely to be able to get private credit. On 17 April the Cabinet discussed the question. Chamberlain was doubtful about government guarantees but agreed to give some assistance so long as each transaction was submitted for Treasury approval. The outcome was the first British Export Credit Guarantee scheme, under which the Board of Trade was empowered to make advances up to an amount outstanding at any time of £26 million, in respect of goods produced or manufactured in the United Kingdom and exported to Poland, Romania, or Yugoslavia.

Schemes of this kind were avowedly conceived in the interest of British business and employment. On a much larger scale Keynes was producing a plan for financing European reconstruction. Just after the armistice he had submitted in the Treasury a memorandum proposing the all-round cancellation of inter-Allied debts, which did not get discussed. In March 1919 he produced a new version. Cancellation, Keynes wrote, would result in net losses to the United States and the United Kingdom; and net gains to France, Italy, Russia, Belgium, Serbia, Romania, Greece, and Portugal. Without cancellation it would be impossible to solve the problem of reparations, since the Allies’ demands were based ‘not on any reasonable calculation of what Germany can, in fact, pay, but on a well-founded appreciation of the intolerable financial situation in which these countries will find themselves unless she pays’. France, for example, would not be able to get from Germany even the amount needed to restore the devastated regions, but would have to pay her friends and allies more than four times the amount of the indemnity imposed on her by Germany in 1871. It might be an exaggeration to say that the debts could not be paid; but they would be a crushing burden which the European allies would do their best to avoid paying, and they would be a source of friction and ill will

81 Curzon to Chamberlain, 5 Apr. 1919; Chamberlain to Curzon, 11 Apr., T 172/1058.
82 Memorandum by A. Geddes, GT 7112, 15 Apr. 1919, CAB 24/78; Advisory Committee to Department of Overseas Trade, Paper No. 13, n.d., BT 90/15; Cabinet, 17 Apr., WC 558, CAB 23/10.
for years. The existence of the debts was a menace to financial stability everywhere. More fundamentally, Keynes criticised the whole liberal banking view of international indebtedness. The debts of the nineteenth century, he believed, formed a fragile system which had only survived because the burden on the paying countries had not been oppressive, because it represented productive assets and was bound up with the system of property, and because the sums involved were not large in relation to those it was hoped to borrow. But the war debts were not only much larger; they represented a heavy tribute which did not square with human nature nor march with the spirit of the age, and Keynes did not believe that the Europeans would go on paying for more than a few years.85

Keynes proposed to discuss the matter quietly with the Americans. A copy of his paper was given to Wilson, and Lamont had one;86 but American hostility to any talk of debt cancellation had not abated, and there is no record of a discussion before Keynes produced, in the middle of April, his scheme for the rehabilitation of European credit and the financing of relief and reconstruction. Warmly commended by Austen Chamberlain to Lloyd George, and sent by Lloyd George to Wilson on 23 April,87 the scheme proposed the issue of bonds, to a present value of £1,500 million, by Germany, the other European enemy states, and the new states (£1,000 million from Germany). One fifth of the enemy countries' bonds would be left in the hands of their respective governments for the purchase of food and raw materials; the rest would be handed over to the allies on account of sums due for reparations (except for £76 million from Germany to be used to pay outstanding debts to neutral countries). The bonds handed over to the Allies would be divided between them in the proportion agreed for the division of reparation receipts. The Allies would accept the bonds between themselves in payment of their debts to each other. The bonds would be jointly guaranteed by the enemy states and, in case of their failure, by the Allied and Associated governments and neutral governments in the proportions: United States, United Kingdom, and France 20 per cent each, Italy and Japan 10 per cent each, Belgium 5 per cent, the Scandinavian countries, Holland, and Switzerland 15 per cent together. The central banks of the issuing and guaranteeing states would accept the bonds as first-class collateral for loans. In the covering letter sent to Wilson, Keynes wrote that the problem of restoring Europe was too great for private enterprise alone: the risks, and the amount of credit

86 Lamont Papers, IV-A, 165–21.
87 Chamberlain to Lloyd George, 17 Apr. 1919; Lloyd George to Wilson, 23 Apr., Lloyd George Papers, F/7/2/27, 34; T 172/988.
needed, were too large. The only alternatives were direct assistance from the more prosperous Allies, which would mean hand-outs, mostly from the United States; or an attempt to recreate the European credit system and enable countries to capitalise on their future productive prospects or trade on their expectations of reparation. The British government was prepared to take part and invited American comment.88

Not all the British delegation was equally impressed by Keynes’s scheme: the banker Robert Brand, for example, objected that it did not meet the problem of French and Belgian indebtedness.89 But what mattered most was that the Americans turned Keynes’s plan down flat. The United States Treasury sent long cables of criticism to the delegation in Paris;90 its members were equally condemnatory;91 and on 3 May Wilson wrote to Lloyd George that the scheme was not economically or financially sound, that Congress would not guarantee European bonds and would only authorise aid on independent lines, and that the Treasury was strongly of the view that credit should go through private channels. Finally, asked Wilson, how could the experts be expected to work out a new plan to furnish working capital to Germany when we deliberately start out by taking all Germany’s present capital? How can anyone expect America to turn over to Germany in any considerable measure new working capital to take the place of that which the European countries have determined to take from her?92

89 Diary at the Peace Conference, 20 and 22 Apr. 1919, BL, Add. MS 51131; Chamberlain to Cecil, 17 Apr., T 172/988.
90 Leffingwell and Rathbone to Davis, 26 Apr. 1919; Leffingwell to Davis, 28 Apr., 1 May; Rathbone to Davis, 28 Apr.; LC, Leffingwell Papers, container 10, reel 24; NA, RG 59, 102.1/2003c; Lamont Papers, IV-A, 165–12.
91 Lamont diary, 25 Apr. 1919; Davis and Lamont to Leffingwell and Rathbone, 29 Apr.; McKnight, American Relief Administration, to Lamont, 29 Apr., Lamont Papers, IV-A, 164–14, 164–18, 165–12; Davis to Baruch, 1 May, Davis Papers, container 46; Davis and Lamont to Rathbone, Leffingwell and Strauss, 1 May, NA, RG 59, 102.1/2000. See Artaud, Question des dettes, pp. 131–3; Schrecker, Hired Money, pp. 69–71.
92 Wilson to Lloyd George, 3 May 1919, Lloyd George Papers, F/60/1/14; printed in Baker, Woodrow Wilson and World Settlement, Vol. 3, pp. 344–6; Burnett, Reparation at the Paris Peace Conference, Vol. 1, pp. 1127–9; Calmette, Recueil de documents, pp. 49–51; extract in Keynes, Collected Writings, Vol. 16, pp. 440–1. See Artaud, Question des dettes, pp. 134–5; Schrecker, Hired Money, p. 71. By this time the reparation clauses of the peace treaty were virtually complete (the terms were handed to the German delegation on 7 May). The quest for a fixed sum had been abandoned; a Reparation Commission was to fix, by May 1921, Germany’s debt by adding up damages listed by category in the treaty (including, at British insistence, war pensions); it would then decide how the debt was to be paid. There would be certain payments in kind. Before May 1921 Germany was to pay 20 billion gold marks (£1,000 million) to cover occupation costs and
Armistice and peace conference

Keynes admitted the force of the last point, but contended that Wilson had declared the necessity of reparation and could not now disclaim responsibility for what went into the peace treaty, and the advantage of his proposal was that by counting the bonds to be issued as part of the first 20 billion gold marks which the Americans had agreed to demand from Germany, the immediate needs of the devastated countries would be met without depriving Germany of all her working assets. 93 However, there was little point in arguing about this. Since the Americans would not even discuss Keynes's plan, the more important question was whether they had any other proposals for reconstruction.

American advisers in Paris in fact analysed the situation in a way very similar to the British. Although opposed to any talk of debt cancellation they did think that some arrangement about the interest was necessary. 94 After receiving Keynes's scheme Wilson asked Lamont to draw up some constructive suggestions 'on American lines', and gave it to be understood that he believed the United States must help the smaller countries and the European situation in general. 95 Other members of the delegation agreed that the United States would have to assume, one way or another, much of the burden of reconstructing Europe; but opinions differed as to how much the government should do. On 1 May Davis and Lamont cabled to Washington that the situation in Europe was very serious and if there was anything the United States could 'prudently and safely' do to help solve the problem she ought to try to do so. They agreed that as far as possible assistance should be obtained through private channels, 'but frankly we are very much in the dark as to any comprehensive solution'. 96 Leffingwell and Strauss were not able to offer much help. The former cabled on 6 May that public opinion was in no mood to tolerate the assumption by the government of further burdens to help Europe: it believed that the war was over. On the other hand there were signs of increasing interest among businessmen, and the funds of the War Finance Corporation were available. Strauss replied that account must be taken of the limits to the Treasury's authority essential food and raw materials as well as to go towards reparations; and she was to issue 60 billion gold marks' worth of bonds. These were expected to be sold, and so to produce the cash and credit that France needed for reconstruction. See Burnett, Reparation at the Paris Peace Conference, Vol. 2, pp. 1077–99; Trachtenberg, Reparation in World Politics, pp. 84–5.

93 Keynes to Kerr, 10 May 1919, Collected Writings, Vol. 16, pp. 441–2.
95 Lamont, Diary, 25 Apr. 1919, Lamont Papers, IV-A, 164–18.
96 McCormick and McFadden to State Department, 25 Apr. 1919, Lamont Papers, IV-A, 170–5; Mc Knight to Lamont, 29 Apr., Lamont Papers, IV-A, 165–12; Baruch to Davis, 30 Apr., Davis to Baruch, 1 May, Davis Papers, container 46; Davis and Lamont to Rathbone, Leffingwell and Strauss, 1 May, NA, RG 59, 102.1/2000.
and of the fact that Congress was most unlikely to extend it. The real remedy would necessarily be slow in developing and would have to be based on private initiative and the prospect of profit. On 7 May Baruch addressed the President himself. It was the United States’ duty, he wrote, to complete the work of liberating the new states by helping them to establish themselves in the world. The United States should help Europe, in cooperation with Britain, France, and any other country that would join in, but on her own, not jointly, and on condition that economic barriers were removed, preferences cancelled, and equal opportunity secured. The Secretary of the Treasury should be empowered to adjust the terms of payment of the war debts, thus easing the exchanges, and to establish special commercial credits for purchases in the United States. Other governments should do the same. On 16 May Hoover suggested that the War Finance Corporation be empowered to guarantee export credits, interest be not demanded from the Allies for three years provided they did the same for their debtors, some credit be provided for currency stabilisation, and perhaps some special credits for Germany and Austria, repayment taking priority over reparations.

This suggestion of Hoover’s was an alternative to the scheme submitted to Wilson on 15 May by Davis, Lamont, McCormick, and Baruch. The European states, they said, apart from the neutrals and Britain, were in a most serious condition. The United States was involved through her trade, and it was hardly conceivable that she would not try to meet the situation. The principles on which American cooperation must be based were: (1) Europe needed credits that were not tied to purchases in the United States, and whilst there should be the earliest possible return to private channels, some governmental help and government guarantees were needed at present. The European countries and the neutrals should give credits, too. (2) Europe must be treated as a whole, with plans drawn up with the cooperation of public and private interests. (3) American assistance would be subject to conditions: the receiving countries must handle their finances in such a way as to command the confidence of American investors; they must not use loans or credits for military purposes or for public improvements other than those to transport; and they must not have discriminatory tariffs, preferences, or concessions prejudicial to American interests. Immediate measures were necessary. Five problems had to be solved: (i) The new states needed credits of some $500 million, in particular to stabilise their currencies; (ii) France, Belgium, and Italy needed immedi-

97 Leffingwell to Davis, 6 May 1919; Strauss to Davis, 7 May, LC, Leffingwell Papers, container 10, reel 25.
98 Baruch to Wilson, 7 May 1919, copy in Lamont Papers, IV-A, 165-8.
ate credits for raw materials but estimates of the amount varied; (iii) France and perhaps Belgium needed later credits, probably not large, for reconstruction; (iv) Germany and the other defeated countries needed working capital: this was for the reparation commission to work out, as the United States had no further suggestions to offer; (v) something ought to be done about the interest on war debts, and funding of the principal would be a great help to the exchange situation.

But having, at least implicitly, raised the prospect of a large-scale American government effort, the advisers recommended as practical measures only the creation of a small committee of bankers and businessmen to coordinate a general scheme and to study projects for loans, an American committee of bankers to work with the Treasury and tap the resources of the American money market, legislation to allow the United States government to make further advances to Europe to be spent by the end of 1920, legislation to enable the Treasury to suspend interest payments on Allied debts for three years, and a campaign launched by the President to educate American public opinion about the problems of European reconstruction.100

By the time this memorandum was submitted to Wilson the Council of Four had, on 9 May, at Wilson's own proposal, asked a special committee of two economic advisers from each of the principal powers to submit a scheme for helping countries that were in immediate need of food, raw materials, and credits.101 The British representatives on the committee, Cecil, Keynes, and Brand, found their American counterparts uncertain whether help should be confined to the new states and unable to think of a way of helping Germany which did not help the Allies to extract reparations. Lamont and Baruch thought a concerted scheme for the smaller countries could be drawn up at once, whereas Davis was reluctant to mention anything so definite as a plan: he read Cecil a long statement from the United States Treasury about the difficulty of raising money in the United States and its fear that American money would be wasted.102

After a meeting on 13 May Brand, who was given a draft of the American


101 FRUS, PPC, Vol. 5, pp. 521–5. The Supreme Economic Council, at its meeting on 5 May, had adopted a resolution for the Council of Four stressing Europe's urgent need of raw materials (FRUS, PPC, Vol. 10, pp. 233, 244–6), and Cecil expounded the general economic problem at the Council of Four's meeting on 9 May.

102 Keynes to Bradbury and Chamberlain, 4 May 1919, Collected Writings, Vol. 16, pp. 437–40; memorandum by Brand, 4 May 1919, Oxford, Bodleian Library, R.H. Brand Papers, file 18; Cecil, 'Diary at the Peace Conference', 9 May 1919, BL, Add. MS 51131. The US Treasury telegram may be one of those to Davis from Leffingwell and Strauss of 6 and 7 May: see p. 58 and n. 97.
experts' report to the President, concluded that only the smaller states could usefully be discussed at present. The United States was providing dollars for France and Italy for some months, but the American representatives at Paris were not likely to agree to any large plan until the peace terms had been settled. Sterling would be a greater problem for these countries than dollars. The United States would do nothing about Germany until the reparation terms were settled. It was generally agreed that the smaller states must be helped and indirect government assistance was necessary, that measures should be devised to assist private trade, that the effectiveness of such schemes would largely depend on currency reforms in the countries concerned and the Allied governments should help in this, but that it would take months and meanwhile immediate help should be given in any way that was open, and that all steps should be taken to put traders in touch with one another. Brand recommended, for British action, further discussion with Davis about immediate relief and credits, and, for the longer-term problems, working out schemes for helping trade by government guarantees or insurance of exchange risks, appointing commercial and agricultural experts in some of the countries, investigating currency reform, and a campaign to encourage trade. There should be as much cooperation as possible with other governments, and the Dominions should be asked to help.103

On 15 May Brand and Monnet of the French delegation had a further discussion with Lamont. They suggested, for the smaller countries, that the United States and the Allied governments should work out their own schemes for helping private trade, but any advisers appointed to the receiving countries would cooperate. Governments should tackle the currency problem. But meanwhile direct government assistance would no doubt be necessary, and they asked whether the United States government would help. Lamont said he thought the amount of money needed might have been exaggerated, but he believed the United States would help - the more readily if Britain and France agreed to help over currency and if it were accepted that each country would finance the supply of raw materials from its own territory. As regards western Europe Brand said he could understand that it would be difficult for the United States to agree on a detailed plan but he himself thought it unlikely that private credit would be sufficient and he feared that individual government schemes to assist private enterprise would fail. Lamont agreed, but hoped that something

103 Memorandum by Brand, 14 May 1919, Brand Papers, file 18. It is not clear what his reference to the reparation terms being settled meant. The German observations on the peace terms, including alternative proposals on reparations, were delivered on 29 May: see FRUS, PPC, Vol. 6, pp. 795–901; Trachtenberg, Reparation in World Politics, pp. 87–9.
feasible could be found, and he outlined three American ideas now under consideration, for insuring risks, discounting exporters' bills, and creating new export corporations. Brand repeated that European problems were so great and the exchange risks so serious that private credit would not be enough and it was very important that the United States government should be in a position to help if the need arose. He and Monnet thought the President ought to obtain authority from Congress to lend considerable sums to European countries if necessary: Monnet suggested a total of $3,000 million. Lamont did not think that nearly so much would be needed, but agreed on the principle and said that he had suggested it in a memorandum which was about to go to the President. He also agreed that, apart from raw materials for the smaller countries, credits should not be limited to purchases in the United States. Brand pointed out Britain's unfavourable balance of trade and the demands on her credit from all over the world. Her recovery depended on her ability to export but it was impossible to say as yet how much credit she could give without getting into serious difficulties. He himself thought considerable risks would have to be taken, but Britain's power to help would be much reduced by a narrow policy on the part of the United States. Lamont said he hoped Wilson would shortly approve some plan, but he did not know whether it could be put before Congress before the President returned home.  

Brand himself proceeded to explore the question of private British credit and government help for trade. He found the general impression among British bankers to be that the problem was so large that it would have to be dealt with by governments in some way. A meeting at the Board of Trade to consider the feasibility of the government insuring or guaranteeing private trade concluded that it would be possible to devise a scheme that would work with the smaller countries if the Treasury agreed; but the western European problem was too large to be dealt with in this way. Lamont for his part repeated to Wilson, whom he visited with Davis, Baruch, and McCormick on 19 May, the view that not much in the way of loans would be needed except to the new states for the stabilisation of their currencies and gave his suggestions on educating American opinion: the people should be told that their help was still needed, so that they should save for another two years and lend the proceeds to European countries to put them on their feet again. Wilson thought the best time to launch such a campaign would be when he returned home and presented the peace treaty to Congress. He agreed that the powers of the War Finance Corporation

104 Memorandum by Brand, 15 May 1919, Brand Papers, file 18.
105 Brand to Cecil, 26 May 1919, Brand Papers, file 12. The undated memorandum of about this time in file 18 is probably the one sent to Cecil and Lamont and referred to by Lamont in his letter to Brand of 10 June, file 12.
should be widened, and Congress should be asked to allow the consolidation of interest on the Allied debts.106

The special committee set up by the Council of Four produced on 30 May a report giving an outline of the problem. In the existing conditions of political and monetary disorder in the new states, private credit would not be able to provide the necessary funds, so that although in the long run international trade must be re-established on the basis of private credit, in the mean time the Allied and Associated governments would need to provide guarantees to their exporters and should contribute to a fund for currency stabilisation and raw material credits. Germany, too, was in dire need of food and raw materials, and some means should be found to enable her to raise credit in neutral countries. As regards western Europe, the French and Italian representatives had drawn attention to their countries' unfavourable balance of trade and need for credit. Doubts had been expressed as to whether private credit and initiative could cope with the situation. The American representative had pointed out that the United States Treasury had no power to make new advances after the conclusion of peace, and that it was very unlikely that legislation allowing further advances would be forthcoming; but the War Finance Corporation had power to help American exporters and these facilities, supplemented by private credit, should be enough to cover Allied purchases in the United States. Finally the report said that for the next two or three years it would be very difficult for Britain, France, and Italy to pay for essential raw materials and restore their trade balances to the point of being able to pay the interest on their obligations. Reparation receipts were expected to provide the necessary funds eventually, but could not do so in the immediate future. For a real solution a larger plan than that for the rest of Europe might be needed; but the committee made no suggestions as to what it might include, ending the report with the vague statement that until the western Allies could restore their trade balances and pay interest on their obligations, currency stabilisation and the restoration of confidence that was necessary for private enterprise would be delayed.107

During the committee's discussions the British and French representatives understood Davis to say that the President was prepared to recommend to Congress that interest on the Allied debts should be remitted or postponed for three years and the powers of the War Finance Corporation

106 Memorandum by Lamont, 19 May 1919, Lamont Papers, IV-A, 165-13. On 27 May Davis and Lamont cabled to Leffingwell a summary of the conclusions reached. The President, they said, was taking an active interest in the matter: Davis and Lamont to Leffingwell, 27 May, Davis Papers, container 46.

to make advances extended; but Davis denied that he had gone so far and was alarmed that Cecil had reported anything to Lloyd George.\textsuperscript{108} He went to see Cecil and Lloyd George and, as he afterwards reported to Wilson, told them that the President had authorised him to say informally and confidentially that he was prepared to ask Congress for authority to consolidate (not remit) the interest on Allied obligations for three years, on certain conditions. Two of these conditions would be that the governments concerned should take all necessary measures to help themselves and help others to the utmost of their ability, and that they should not make any discriminatory financial or commercial agreements. He had been told that France and Italy needed sterling credits and he hoped the British Treasury could help, especially if the interest on British obligations to the United States were consolidated. He thought the powers of the War Finance Corporation were adequate if they were supplemented by private initiative, but if a further slight extension proved advisable it would be recommended. He ended the conversation by emphasising that nothing he had said could be taken as a commitment on the part of the United States.\textsuperscript{109}

The report of the special committee was shelved by the Council of Four on 6 June and was never brought up again.\textsuperscript{110} Cecil's brief optimism, based on his understanding of Davis's attitude, had already been dashed; and the latter's caution was justified by the response from the United States Treasury to reports of the ideas being considered by the delegation in Paris. Glass begged the President not to commit himself to any specific plan until he had conferred with the Treasury and advised him not even to mention future financial help to Europe in the message he would presumably send to the Senate with the peace treaty. Pessimistic reports by American bankers about the condition of Europe had done a great deal of harm, and the President should determine his course not only by his knowledge of the situation in Europe but by his own judgement of the state of opinion at home.\textsuperscript{111}

This factor was certainly one element in the American refusal, by the time the Treaty of Versailles was signed, to undertake any commitment to specific action for European reconstruction. But from the attitudes and advice of the experts on the delegation in Paris, who were much closer to the problems of Europe and farther removed from those of public opinion

\textsuperscript{108} Keynes to Bradbury, 22 and 27 May 1919, \textit{Collected Writings}, Vol. 16, pp. 445–8, 464–5; memorandum by Avenol, 28 May, MF, F30 1359 = B 32265; Cecil to Davis, 31 May; Cecil to Lloyd George, 31 May; Davis to Cecil, 3 Jun., Davis Papers, container 11; Lloyd George Papers, F/6/6/49.

\textsuperscript{109} Cecil to Davis, 4 Jun. 1919; Davis to Wilson, 7 Jun., Davis Papers, container 11; Lloyd George Papers, F/6/6/49.

\textsuperscript{110} \textit{FRUS, PPC}, Vol. 6, p. 223.

\textsuperscript{111} Glass to Davis, 24 Jun. 1919, LC, Leffingwell Papers, container 10, reel 26. For reports from Americans visiting Europe see below.
at home, it is evident that other factors were as important. All distrusted
government control; most doubted the need even for government partici-
pation. But most of all, the Americans were absolutely determined to
maintain complete independence of decision and action, and to prevent the
formation of any European bloc that might threaten their interests. The
British for their part were anxious to cooperate with the United States but
less so with the European Allies, and were afraid of being let in for
commitments to European reconstruction that would be too burdensome
on sterling unless United States backing were assured. As Wilson was
leaving Paris, Lloyd George wrote a reply to his rejection of Keynes’s
scheme. After pointing out that in the discussions of reparation the
Americans had not opposed the idea of Germany paying 20 billion gold
marks in the first two years, although they now made it the chief point of
their criticism of Keynes, Lloyd George claimed that Britain, which had
bled itself white for the sake of the Allies during the war, had the right to
ask her colleagues both to compel Germany to pay what she could, and to
make their own credit available for the regeneration of the world. Europe
could not at present finance its own purchases of raw materials; Britain had
no surplus capital for the purpose; the United States, as the only country
which was both very prosperous and not overwhelmed by debt, bore the
chief responsibility for the reconstruction of the world.112 This appeal only
underlined the fact that nothing definite on reconstruction had been done
at Paris.

112 Lloyd George to Wilson, 26 Jun. 1919, Lloyd George Papers, F/7/3/12.