American Automobile Manufacturers Operating in Interwar Europe: The Reasons for Initial Competitive Advantages, and the Eventual Return to Normal Markets

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ABSTRACT

Throughout the 1920's, America was realizing its newly acquired status and hegemony across the Globe. As American and other nations struggled to free themselves from the consequences of World War I, and the legacies of colonialism, many found a new focus toward imperialistic behaviors rooted in economics of dollars–rather than in armies of men. However, the international landscape, which was now being asked to support this massive new undertaking was perhaps ill-equipped and ill-informed of the powers and duties which would need to be realized, codified into law, and then enforced by capable international bodies. United States automobile production and sales, along with oil, and other natural resources, became a key mechanism utilizing consumerism within the foreign policy of the United States. As it came to pass, the nations of the 1920's, and 1930's were either unwilling or unable to make such concessions to an international, i.e. "outside/foreign" conglomerate. Accordingly, the early forms of nation building and foreign aid which occurred within the inter war period were undertaken without the previously held doctrines of colonialism, or the heretofore unknown dictates of international governing bodies able to enact and enforce international law. Thus, the ventures taken and lessons learned between the Treaty of Versailles and the Rise of the Third Reich have served each successive generation with time tested lessons to be learned, and then also of new and emboldened initiatives to be employed.

The Role of Consumerism

Prior to the stock market crash in October 1929, and on back towards the beginning of the 20th century, the wheels of industry turned at an amazing rate. This concerns not only production, and the mechanized improvements realized during that time, but also of the increased expectations in standards of living, and the re-definition of luxury(s) which were evidenced by the production factors. This nearly intangible factor, the standard of living, which is now measured on any number of indices, at the turn of the last century, was truly an oddity, and one which was the topic of many discussions. Since the industrial revolution from the mid-18th and 19th centuries; the workers, or wage earners, of the mechanized world had grown accustomed to expecting to acquire only the things which they needed for substance and relative comfort. Yet, because of the tremendous advancements in production which have been made, the scarcity of luxury items are no longer outweighed by a population able to afford them. With an increase in supply, the demand increases, while the price decreases.[1]

As such, with better and more efficient production methods, an increased and more affordable stream of commodities are now available for the American consumer. Goods of all kinds–electric appliances, clothing, power tools, housing, radios, furniture, packaged foods, and automobiles[2], among others, flooded the marketplace. The nuances of such abundance of what were heretofore known as items of luxury were know termed as items of necessity; and as the availability increased, corresponding with wages and credit mechanisms, the things produced began to become expected. This was termed by Samuel Strauss as Consumptionism, and he heralded its arrival by the harbinger of the arrival a new problem. In the past, the effort was to produce enough of what men wanted, "the problem now is how to make men want and use more than enough things–'the science of plenty it has been called'.[3] The manner in which this idea of

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[1] Stuart Chase, *Prosperity, Fact or Myth* (New York: Charles Boni Jr., 1929), 29.

[2] Ibid: 73, *and* the use of the word "automobile" is, from here throughout this paper, inclusive of cars and trucks, whether they be for personal and/or commercial use. This is evidenced in many table of the era, showing the two as separate in use, but "totaled" in number, and those total numbers given are the ones utilized throughout this study.

[3] Samuel Strauss, "Things Are In the Saddle," *The Atlantic Monthly* Vol. 134, no. 5 (November 1924): 577-578.

necessity was funded is another phenomenon of that period, and one which is still with us into the present day, at nearly every turn. The formation of credit, and more specifically, installment payment plans, made it possible for the average wage earner of the early 20th century to have purchasing power. Installment plans had long been in use, especially for the purchase of household goods and furniture, and were historically "in house" productions, i.e. the individual stores extended the credit.[4]

This funded the majority of credit needs, and satisfied most markets. However, by the mid 1910's and then through the 1920's, automobiles were becoming more and more prevalent in American society. In 1909, annual auto sales in the US increased from about 130,000 vehicles to over 2 million vehicles in 1920.[5] Coinciding with, and assisting these sales amounts was the existence of credit, for the express use of auto purchases. In 1910, the first dealership credit was being used, and in 1913, a creditor in San Francisco began dealing in automobile paper. By 1922, some 1,000 companies were supplying credit to purchase automobiles, as well as other necessary items. In 1926, only ¼ of the nation's automobile sales were handled without the use of credit.[6]

This domestic activity translated easily into the international market. "The success of the Model T led to a substantial increase in US exports so that by 1913 US vehicles accounted for 25 per cent of world motor vehicle exports. The halt in European exports during the Second World War enabled American companies to increase exports so that by 1923 US vehicles represented

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[4] Evans Clark, *Financing the Consumer* (New York: Harper and Brothers, 1930), 15.

[5] Carl H. A. Dassbach, "The Social Organization of Production, Competitive Advantage and Foreign Investment: American Automobile Companies in the 1920s and Japanese Automobile Companies in the1980s," *Review of International Political Economy*, Vol. 1, no. 3 (Autumn 1994): 491-492.

[6] Evans Clark, *Financing the Consumer* (New York: Harper and Brothers, 1930), 20-21.

54 per cent of world trade in motor vehicles."[7] This pyridine shift enabled U.S. automakers to expand rapidly into the post-World War I global market.

United States foreign policy, in the modern age, begins with the Spanish American war in 1898. From this period, the U.S. would seek to expand its interests far beyond the continental area of the lower 48 States, expanding across the Pacific and Atlantic oceans, as well as Southward into the Latin American territories, colonies, and countries of central and South America. In many ways, with the advent of new and expanded foreign concerns, the business climate of America also necessarily grew. In the time between 1898 and the end of World War II, there were effectively very few, if any, international financial institutions, as most foreign investment, especially prior to the end of World War I, were by definition, colonial, and as such, very much National endeavors.[8] In the beginning days of the 20th century, leading up to World War I, this emerging view on international business was founded on a "clear shift from essentially imperialistic, treaty-enforced dependency status to what might be called "colonialism-by-contract.""[9] Along with this new brand of internationalism, came the realization by governments, that business conducted by citizens, domestically and abroad, could have real and lasting consequences upon a nation's standing in the world.

Thus, foreign policy and consumerism, i.e. investment and spending, began to become interwoven, and in many ways began to be viewed just as, if not more important, than the traditional actions of foreign policy, which would have namely been those of military

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[7] Carl H. A. Dassbach, "The Social Organization of Production, Competitive Advantage and Foreign Investment: American Automobile Companies in the 1920s and Japanese Automobile Companies in the1980s," *Review of International Political Economy*, Vol. 1, no. 3 (Autumn 1994): 491.

[8] Emily S. Rosenberg, and Norman L. Rosenberg, "From Colonialism to Professionalism: The Public-Private Dynamic in United States Foreign Financial Advising, 1898-1929," *Journal Of American History* 74, no. 1 (June 1987): 59.

[9] Ibid: 65.

intervention. The importance of successful foreign policy cannot be understated, as foreign policy might be used to hasten, or inhibit, a peace process. This notion is demonstrated by President Woodrow Wilson, who in the midst of World War I, stated that "a postwar world of open economic access, growing American economic might, and international cooperation led by the United States would ultimately bring prosperity and development, peace and liberal democracy to most people".[10]

Wilson's belief that business, as a form of foreign policy, could affect (positively or negatively) a people's way of life, has foundations as far back as trade itself. In *A Philosophy of Production, A Symposium*, Owen Young, Chairman of the Board at General Electric, and eventual author of the Young Plan, which dealt with post war reparations, shared his views on business theory. Young, speaking of the Elizabethan companies of colonial England, which would eventually vanquish the Spanish Armada, and become, at that time, the world power of the western hemisphere, stated that "Great companies were organized to reach world markets"[11]. As industry grew, and became global in scale, Young compared the inner workings of business as a necessary byproduct of Nature, citing human progress as an "ascending spiral"[12]. This progression of business, defined now as more than *only business*, and indeed that of the basis for human and societal philosophy, was the foundational bedrock on which all else would be constructed. Whether domestic or foreign, large or small, this globalized society of the interwar period, described the American notion of business as being "more than production, more than trade. It is more than transportation and finance. It is more than all of them together. It has made

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[10] Emily S. Rosenberg, *Spreading the American Dream* (New York: Hill and Wang, 1982), 63.

[11] J. George Frederick, ed., *A Philosophy of Production: A Symposium* (New York: The Business Bourse, 1930), 5.

[12] Ibid: 11.

history. It has created law".[13] In short, according to pioneers of the global business model– business created and then regulated the state in which it operated! This notion becomes even clearer when Young described an eminent Jurist's description of the process, pointing out that "long before the state arose from its couch, in the morning twilight of history, trade had already completed a good part of its day's work".[14]

In the understanding of pre-World War I business practices and consumerism, and how it came to affect the foreign policy of the United States up through the 1920's and post-depression era's; this belief of business being the agent of change in all things, which was commonly held among free-marketers of that time, must be understood as the principal component of those foreign relations.

Growing and Slowing With the Times, Post War America

Throughout the beginning of the 20th century and to the end of hostilities of World War I, American commerce experienced amazing growth. This was, in no small part, attributable to the advances in technology, production methods, purchasing power, and the war effort itself. However, by 1920, the United States was experiencing the beginnings of a little advertised depression. Publications with a populist tone, in some ways, attempted to silence the lull, perhaps out of patriotism or some other directive; yet, the numbers cannot be ignored. In *The Purchasing Power of the Consumer, A Statistical Index*, the pulse of the nation's prosperity was tested, in several instances, by the measurement of the Factory Wage Earner's income. At that time, the Factory Wage Earner was considered to be a key indicator of economic performance for two

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[13] J. George Frederick, ed., *A Philosophy of Production: A Symposium* (New York: The Business Bourse, 1930): 11-12.

[14] Ibid: 12.

basic reasons. First, this group comprised 20% - 28% of the national income; farm workers contributed 15% -21%, and all other groups (professional, domestics, etc.), combined to post the remaining 55% - 60% of that total economic image. As such, the Factory Wage Earner was the single largest block of steady earners in the country. Secondly, the availability of statistical data was very well suited for analysis. While the income of some other groups might be aggregated over the course of a year, the consistent and hourly pay out of the factory worker was able to be calculated and analyzed almost immediately. Accordingly, the sizeable and sharp picture offered by this groups served to illustrate well the overall health of the U.S. economy.[15]

Between the years 1920-1922, the Factory Wage Earners displayed a “maximum cyclical decline of monthly earnings between the highest and lowest points” to have shrunk by 37.6%.[16] This fall in wages, was then joined by a nearly 31% drop in employment among that group, with the low point occurring in the summer of 1920, and lasting into January of 1921.[17] However, even in depression, Americans still did, if they were at all able to do so, purchased and enjoyed automobiles. The previously mentioned availability of new and easily accessed credit meant that affordable payment plans could be negotiated, and in fact, they were. In 1923, it was estimated that 75% - 90% of automobile purchases were made on credit. The automobile had become something which was considered essential for everyday living.[18] And yet, eventually the loss in wages and employment did come to bear.

Domestic sales of new automobiles, which had been steadily increasing throughout the 1910’s, plateaued and then sharply declined around this same period. The accepted reasoning for

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[15] William A. Berridge, Ph. D., Emma A. Winslow, Ph. D., and Richard A. Flinn, *Purchasing Power of the Consumer* (Chicago: A. W. Shaw Company, 1925), 8-9.

[16] Ibid: 9.

[17] Ibid: 50.

[18] Stuart Chase, *Prosperity, Fact or Myth* (New York: Charles Boni Jr., 1929), 72.

this shift in sales was termed *maturation* of the domestic market, and was explained that the initial demand had "been satiated and demand shifted to replacement demand. At the same time, the shift to replacement demand increased the number of used cars on the market and first-time purchasers increasingly turned to less expensive used cars, instead of new cars, for their purchases. Together, these two factors led to a halt in the growth of new car sales in the US after 1922. As a result, exports became an important means for substantially increasing new car sales and, according to Phelps, accounted for the entire growth in US automobile production between 1922 and 1930".[19] Although the latter explanation may hold considerable weight, the fact that Americans were in the midst of a post-war depression cannot be lost in the argument of why and when the export market grew as substantially as it did.

Even with the effects of maturation and depression, the increase of automobiles in America, from 1919 – 1928, was staggering. In 1919, there were 6,771,000 passenger cars in service; and this number rose some 216% by 1928, to 21,630,000 cars on the roadways. Truck sales also climbed during that same period by 290%, increasing from 794,000 units in 1919, to 3,120,000 by 1928.[20]

An Era of Exports

When questioning how and why the United States entered into an extremely profitable and long lasting period of automobile export and overseas manufacturing during the interwar period, it is important to observe not only the domestic economic and political conditions, as has been already partially been examined, but also to observe closely the climate abroad. For the

[19] Carl H. A. Dassbach, "The Social Organization of Production, Competitive Advantage and Foreign Investment: American Automobile Companies in the 1920s and Japanese Automobile Companies in the1980s," *Review of International Political Economy*, Vol. 1, no. 3 (Autumn 1994): 492-493.

[20] Stuart Chase, *Prosperity, Fact or Myth* (New York: Charles Boni Jr., 1929), 73.

purposes of this paper, the relationships developed between the United States auto manufacturers (namely Ford Motor Company), and European markets (namely Germany), will be the focus of the examination and comparison. At this point, in 1922, three questions emerged:

- What were the strategic advantages or disadvantages for United States companies (and by proxy, the United Sates government), to develop and pursue foreign relations in post-war Germany?
- Was there demand for new U.S. automobiles in Germany?
- Was the concept of domestic exports to Germany and/or overseas (satellite) operations in Germany cost effective?

The dire condition of the nations of Europe, both economically and structurally, after the Armistice, cannot be understated. The structural and human losses of the war figured directly into the ability of Germany to resume manufacturing capabilities; this, in tandem with the economic status of the European governments which were involved (that is to say, countries which were indebted for war expenditures), was the deciding factor regarding any domestic or foreign commerce. In order to pay for the war effort, Germany "had financed their war expenditure to a large extent on credit. War bonds had been taken up by the people and in addition foreign loans, mostly from the United States, had also been raised".[21] With the natural inclination of a people entering a war to be one geared towards victory, the "German government had trusted that it could pay for the war by imposing reparations on the vanquished—in the meantime it had resorted to printing money. By the end of the war the German mark had depreciated by about 50 percent since 1914".[22] To further worsen matters, in an effort to stave

[21] Dietmar Rothermund, "War-War-Depression-War: The Fatal Sequence in a Global Perspective," *Diplomatic History* Volume 38, Issue 4 (July 2014): 840.

off inflation, the German government injected money into the economy, and inadvertently, gave rise to the now infamous lesson of the Weimar Republic, whereby hyper-inflation took effect in 1923, with disastrous effects. Accordingly, the German people no longer trusted their own government, which could neither protect the *German mark* from devaluation, nor could it pay reparations to the Allies, which burdened the German economy, and also provided little "opportunity for Germany to earn the money for such payments by means of the export of goods".[23] Accordingly, the German economy, after a *very brief* upturn at the end of the war[24], began sinking into prolonged disability and depression.

The economic recovery of Europe, and in particular, Germany, was held by many Allied leaders as being the key to a lasting peace. Germany, had been handed a stunning set of conditions to meet at Versailles. As such, the German people were not only dealt a military defeat, but in many ways, one which had lasting and humiliating effects upon the national German psyche. As is the case at the conclusion of many wars, a strong post war economy is helpful in staving off a threat of renewed aggressions, which many feared would be the aim of any kind of Germany, but more especially, of a Germany in disarray. Such a tone was indicated when Secretary of State Herbert Hoover, in reference to the ailing German economy, commented to Warren G. Harding on January 4, 1922 that if there is to be "chaos here is defeat everywhere".[25] Which chaos looming on the horizon, and fears of another retaliatory and aggressive Germany, which would necessarily threaten the interests of the United States, Charles

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[22] Dietmar Rothermund, "War-War-Depression-War: The Fatal Sequence in a Global Perspective," *Diplomatic History* Volume 38, Issue 4 (July 2014): 840.

[23] Ibid: 840.

[24] Ibid: 849.

[25] Frank Costigliola, "The United States and the Reconstruction of Germany in the 1920s," *The Business History Review*, Vol. 50, no. 4 (Winter 1976), 478.

Hughes stated flatly that the “prosperity of the United States, largely depends upon the economic settlements which may be made in Europe."[26] Indeed, with the strengthening of German markets, and coupled with the stability and perceived peace that such an effort would bring about, the pursuit of worthwhile United States and Germans economic endeavors became the immediate aim of Washington.

Once again, Secretary of State Herbert Hoover took the lead in this, and other important post war matters, and viewed the concept of foreign trade in a very strict manner, which at its base, consisted of a steady volume, saying that “if we are to maintain the total volume of our exports and consequently our buying power for imports”, “it must be by steady pushing of our manufactured goods”.[27] This was championed by Presidents Harding and then Coolidge, not only as a way to increase economic prowess, but then, by proxy, to translate that economic strength into a semblance of national security. As explained by Rosenberg, the policies of the early cooperative state did not reflect one which was and has been commonly held to be isolationist. To the contrary, the interwar business tactics came to be known as “the “diplomacy of the dollar”–diplomacy that encouraged the outflow of private capital”.[28] Rosenberg backed up this notion, ending with the assertion that “economic expansion would, to some extent, replace traditional political and military involvements; economic connections with other states would provide the substance of national security.”[29]

Demand for New Automobiles Out of Thin Air

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[26] Frank Costigliola, “The United States and the Reconstruction of Germany in the 1920s,” *The Business History Review*, Vol. 50, no. 4 (Winter 1976), 478.

[27] Emily S. Rosenberg, *Spreading the American Dream* (New York: Hill and Wang, 1982): 141.

[28] Ibid: 139.

[29] Ibid: 139.

With the most favored nation status working for the potential trade between the United States and Germany,[30] the issue at hand became what goods might be suitable for export from the United States. Although Germany already had a sizeable and well established automobile market, Germany was targeted, quite successfully, for the importation of United States automobiles, and eventually, for the operation of permanent United States manufacturers, doing business within Germany. The “chief source of the American advantage was higher productivity resulting from the 'American System' of production”.[31] The concept of fast paced assembly lines, and accordingly, cheaply made and cheaply priced durable goods were unheard of in Germany. As an example, the Daimler Corporation of Germany, famed for its high quality and also expensive vehicles, bristled at the pace kept in an assemblage plant, governed by the doctrine of “Fordism”[32], and German managers essentially “felt that the system was detrimental to quality”.[33] While the theory of some things are borne out in monologue, the practicality of Fordism, as it then came to be known, was displayed in the bottom line of quality and profitability. In Fords main American plant, in 1914, “productivity at the Ford Motor Company jumped almost 70 per cent per worker-year. As a result, in 1914 Ford required less than 84 worker-hours per vehicle while Franklin (an 'average' American producer) required 918, and

[30] Emily S. Rosenberg, *Spreading the American Dream* (New York: Hill and Wang, 1982): 142 143.

[31] Carl H. A. Dassbach, “The Social Organization of Production, Competitive Advantage and Foreign Investment: American Automobile Companies in the 1920s and Japanese Automobile Companies in the1980s,” *Review of International Political Economy*, Vol. 1, no. 3 (Autumn 1994): 495.

[32] Carl H. A. Dassbach, “The Social Organization of Production, Competitive Advantage and Foreign Investment: American Automobile Companies in the 1920s and Japanese Automobile Companies in the1980s,” *Review of International Political Economy*, Vol. 1, no. 3 (Autumn 1994): 510, *and* “The key innovation of Fordism was not the use of specialized tools, conveyor belts, or the assembly line but the social organization of production at the Highland Park factory and its constant refinement” and was the fore-runner of *lean production methods.*

[33] Ibid: 497.

British producers required 2,800 to 1,600 worker-hours per vehicle".[34] The production times coincided directly with labor costs, which Ford insisted must remain competitive, in order to retain the best workers. Although the cost effectiveness of Henry Ford's system was there, Ford would simultaneously argue that without quality, the profitability cannot continue, and hence; production would ultimately cease to exist. This notion of production/ wages, and pricing of goods went to the heart of Ford's business model of sustainability.[35]

All of the above weighed into the gamble which Ford and some others took by not only exporting their product to Germany, but then by following it up by setting up American styled factories within Germany, and Europe at large. Although there were certain players at work behind the scenes assisting such efforts, ultimately it was the businessmen who put up capital as investment. One such quasi-governmental effort consisted of Charles Dawes and Owen Young, who in 1923 attended a conference aimed at convincing the French to assist the Allies in reparations adjustments and industry and monetary development (most specifically to aid in the reconstruction of Germany); President Coolidge simply advised the pair, when at the bargaining table "remember you are Americans."[36]

In the end, with or without government backing, Ford had little trepidation when finding and entering new markets. Indeed, according to the auto magnate himself– he entered markets– *even if no apparent demand existed!* Ford's success lay not only in his production methods, but

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[34] Carl H. A. Dassbach, "The Social Organization of Production, Competitive Advantage and Foreign Investment: American Automobile Companies in the 1920s and Japanese Automobile Companies in the1980s," *Review of International Political Economy,* Vol. 1, no. 3 (Autumn 1994): 496.

[35] J. George Frederick, ed., *A Philosophy of Production: A Symposium* (New York: The Business Bourse, 1930), 42-43.

[36] Frank Costigliola, "The United States and the Reconstruction of Germany in the 1920s," *The Business History Review*, Vol. 50, no. 4 (Winter 1976), 486.

in his credo for business, in general. Concerning demand: "If we wait upon demand, we shall wait forever. Demand does not create, it is created." By making goods plentiful and reasonably priced, high demand is created, thus creating jobs, thus creating an industry which will "produce goods that serve people".[37] Likewise, the want of physical and tangible goods held no semblance of excess or gluttonous behavior at Ford. The reason for goods was that "goods are made to be used. There can be no other reason for their existence. Use is the power that keeps the wheels of life moving."[38] As spoken of by Owen Young, and now echoed by Henry Ford, the very foundations of a society in order rested upon worthwhile industry. Accordingly, there was demand for affordable and dependable automobiles in Germany, and these could be produced and sold at prices which proved to be cost effective for producer and consumer.

German Manufacturer's Progress Throughout the 1920's

As the decade passed, the American presence, and dependence (economically and politically), upon the resurgence and health of the German economy only increased. However, by the late 1920's the same components of industry which had helped Fordism to flourish in Germany were being perfected by the German's themselves. When Ford and some others had constructed and settled manufacturing in Germany, the import/export savings and advantages of the American economies of scale which had been so beneficial to Ford in the beginning ceased to exist, and soon gave way to the superiority of the method itself. As this occurred, the German "companies found themselves operating under the same structure of costs as their European competitors. They paid the same prices for labor and raw materials and sales were about the

[37] J. George Frederick, ed., *A Philosophy of Production: A Symposium* (New York: The Business Bourse, 1930), 42.
[38] Ibid: 42.

same".[39] In short, the teacher became the student, and was quickly equalized. Even still, Ford continued operations in Germany. Even if Ford was no longer the number one producer, there was still an emergent market, due in no small part to the original investment by America in the German economy, and as such, profits were still realizable. As long as this was the case, Ford would continue operations.

Germany, Automobiles, Politics, and the End of the 1920's

At this point, it is important to look back, and observe some of the mechanisms which were apparent in bring Germany to what most would consider a profitable state. Indeed, if German automobile manufacturers were outperforming the American "Fordism", then surely the reconstruction of Germany must have been successful. But, the observer must ask, at what cost– monetarily and strategically, did this present itself to America. As mentioned prior, in 1923, Charles Dawes and Owen Young had visited Paris, in league with the United States government, to attempt to solidify the basis upon which a reconstructed Germany might rest. This effort ultimately came to be known as the Dawes Plan consisted of major U.S. economic players, including the banking giant J.P. Morgan. The plan effectively called for substantial, if not massive loans, to be made to Germany by public and private American lenders. The aim was to bolster the German mark, and in so doing, help to facilitate the reconstruction of Germany, along with the influx of industry and Henry Ford, which ultimately occurred. Of course, of great concern to Morgan and the others was the risk of default, and this prompted Morgan to demand that some sort of security be provided by the United States government, should default become a reality. This was not forthcoming of the government and instead Morgan was told that "failure to

[39] Carl H. A. Dassbach, "The Social Organization of Production, Competitive Advantage and Foreign Investment: American Automobile Companies in the 1920s and Japanese Automobile Companies in the1980s," *Review of International Political Economy*, Vol. 1, no. 3 (Autumn 1994): 507.

set up the Plan would encourage "chaotic conditions abroad." "Those who have substantial interests in this country," Secretary of State John Hughes added that a moral guarantee would be “as good as we can expect”,[40] and Morgan gave final approval for the loan on September 22, 1924. With this, there was trepidation as to what might occur as such huge sums of money were dispersed between private lenders and nation states.[41]

October, 1929

At the end of the 1920’s, “Germany's economic health and that of much of Europe depended on a steady flow of American capital”.[42] In the aftermath of the American stock market crash in 1929, the Dawes plan, which had promised eventually self-sufficiency of the German economy, was no longer workable. With credit from American nearly non-existent after 1929, it became more difficult “for Germany to pay reparations and another American plan was required. Owen Young was sent to Germany who had already participated in the drafting of the Dawes Plan”.[43] Through 1929 and on into 1931, the Young plan sought to scale back reparations even further than were presently required. Additionally, President Hoover, sensing the potential for economic collapse of the German and other European markets, enacted a yearlong moratorium on war debt. “However, neither measure produced the desired effects, nor the structure of capital began to erode. This was especially visible in the fact that the Federal government could not save the private banks, many of whom were deeply invested in now bankrupt European countries and

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[40] Frank Costigliola, “The United States and the Reconstruction of Germany in the 1920s,” *The Business History Review*, Vol. 50, no. 4 (Winter 1976), 493-494.

[41] Emily S. Rosenberg, *Spreading the American Dream* (New York: Hill and Wang, 1982), 63.

[42] Frank Costigliola, “The United States and the Reconstruction of Germany in the 1920s,” *The Business History Review*, Vol. 50, no. 4 (Winter 1976), 501.

[43] Dietmar Rothermund, “War-War-Depression-War: The Fatal Sequence in a Global Perspective,” *Diplomatic History* Volume 38, Issue 4 (July 2014): 850.

corporations. In this way, because the banks provided the majority of the capital which supported the markets, both domestic and foreign markets began to default and collapse."[44]

With the German economy in near collapse, what many had feared as a possible outcome was inching toward fruition. The German people, and in particular, those who had been closely associated with and affected by military defeat, and the sanctions imposed by the Treaty of Versailles, had long planned for the re-awakening of Germany as a dominant power on the European continent. In 1933, with economic conditions worsening and without adequate aide forthcoming from the West, Adolph Hitler was appointed as Chancellor of Germany by President Paul von Hindenburg, and within a short period of time, it became evident that key interests held by the United States and her investors would be forfeited, and/or defaulted upon.[45] In 1934, the loans originally brought forth by J.P. Morgan and company were in default, and the American investors turned in vain to Secretary of State Hull, seeking relief.[46]

The 1920's, Expansionist, Ambitious, & Tumultuous– The Aftermath

Throughout the interwar period, the rise of American consumerism and the export of American values and valuables, to a hungry world market, set up a bubble of prosperity which, upon bursting in 1929, sent shockwaves throughout a world still very much in disrepair from World War I. While it is not wholly accurate to say that American investment in 1920's Germany assisted the eventual collapse of the United States stock market, and then– the rise of Adolph Hitler; a Second World War; and untold atrocities and human carnage; it can be said that actions have consequences, albeit unintended ones. Although they were not entirely successful,

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[44] Emily S. Rosenberg, *Spreading the American Dream* (New York: Hill and Wang, 1982), 162.

[45] Frank Costigliola, "The United States and the Reconstruction of Germany in the 1920s," *The Business History Review*, Vol. 50, no. 4 (Winter 1976), 500.

[46] Ibid: 494.

“expansionist policies in the 1920s affected foreign policy, as they were intended by government to do. This was evidenced by the American investors utilizing markets to expand and enforce “their concepts of the rule of law abroad”. However, even though private investment did not ultimately replace the politics of power, the practice increased the stakes. This caused some unintended consequences, in the realm of political and military spectrums, which were ultimately incompatible with an ever-expanding American private trade abroad”.[47] In time, some American companies resumed operations in Europe after World War II, while others returned to domestic production. In any case, the automobile industry in Germany never went away, it only changed hands a time or so. And so, a return to some sense of normalcy eventually found its way into the economies which had previously been in turmoil. Furthermore, with this knowledge in hand, the historian is always tempted to ask the question of how could this set of circumstances been averted. The answer, according to that time period is that most likely, even with hindsight as a guide, that the policies in place severely limited the type of rescue efforts available to governments operating in that time.

Simply put, Americans did not wish for their government to become involved with international lending and what might be termed today as foreign aid/support. Instead, the task of international lending was entirely within the realm of “"private" contractual obligation (an arrangement that contemporaries termed "loan control"), rather than a public, treaty obligation, did not involve messy congressional processes and thus did not easily become the subject of public scrutiny and debate”.[48] Also, the notion of international law, pertaining to money matters,

[47] Emily S. Rosenberg, *Spreading the American Dream* (New York: Hill and Wang, 1982), 158.

[48] Emily S. Rosenberg, and Norman L. Rosenberg, “From Colonialism to Professionalism: The Public-Private Dynamic in United States Foreign Financial Advising, 1898-1929,” *Journal Of American History* 74, no. 1 (June 1987): 65.

was limited in large part to private bankers being “ultimately bound by their own standards of liquidity and their stockholders’ expectations, not by government’s prescriptions for international interest”.[49] During the era that defined interwar Europe, stability and keeping the peace were the objectives which the United States placed great value upon, and they were accomplished within the accepted parameters of governmental/societal procedure(s) of the 1920’s and 1930’s. Thus, in closing, perhaps the best answer is to suggest that “on the question of loans to Germany after 1924, there were no easy choices and, significantly, American policy vacillated, was ineffective, and, in the end, disastrous”.[50]

[49] Emily S. Rosenberg, *Spreading the American Dream* (New York: Hill and Wang, 1982), 158.
[50] Frank Costigliola, “The United States and the Reconstruction of Germany in the 1920s,” *The Business History Review*, Vol. 50, no. 4 (Winter 1976), 501, accessed November 15, 2014, http://www.jstor.org/stable/3113137

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