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**War Debts: Letter from Secretary of State Stimson
to Congressman James W. Collier (16.12.1931)**

Brief

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Regest:

In diesem instruktiven Brief beschreibt der US-amerikanische Außenminister Henry L. Stimson James W. Collier das Zustandekommen und die Umstände des am 20. Juni 1931 veründeten Hoover-Moratoriums, das sowohl die Interalliierten Schulden als auch die Reparationszahlungen zunächst für ein Jahr aussetzte. Collier war Vorsitzender des "Ways and Means Committee", das im Repräsentantenhaus für alle Gesetzentwürfe im Bereich der Steuerpolitik zuständig war, d. h. alle mit dieser Thematik zusammenhängenden Gesetzesentwürfe mussten dieses Gremium durchlaufen. Zugleich war Collier ein Südstaaten-Demokrat, was üblicherweise mit Vorbehalten sowohl gegen den Goldstandard, das Federal Reserve System, als auch die Wall Street und Banken im Allgemeinen einherging. In dem Text wird deutlich, wie umstritten das Hoover-Moratorium und die Aussetzung des Schuldendienstes für die alliierten Kriegsschulden innerhalb der Vereinigten Staaten war. Stimson versuchte auf wenig subtile Weise, entsprechende Bedenken zu zerstreuen, damit Hoover die Hürde des Kongresses nehmen konnte.

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War Debts: Letter from Secretary of State Stimson to Congressman James W. Collier

December 16, 1931

Honorable James W. Collier

Chairman of the Ways and Means Committee,

House of Representatives.

My dear Mr. Chairman:

You have invited me to appear before your Committee in relation to your consideration of the Joint Resolution to authorize the postponement of the amounts payable to the United States from Foreign Governments during the fiscal year 1931–1932.¹ For the purpose of crystallizing my account of a series of complex events and conditions, I have prepared this letter. It gives as concisely as possible the history of the transaction so far as I am acquainted with it.

The immediate purpose of President Hoover's proposition for a debt suspension of one year was to relieve the financial panic which was in progress in Germany. This panic threatened to spread to the business centers of Europe and this country and bring about a financial crisis of worldwide dimensions. To convey the situation, I

1 Gemeint ist das Hoover-Moratorium, dem zu diesem Zeitpunkt bereits eine große Anzahl von Ländern, die als Kreditnehmer der Vereinigten Staaten bzw. als Kreditgeber und -nehmer innerhalb Europas auftraten, zugestimmt hatten. Heyde, *Ende der Reparationen*, 188–227.

must preface my statement with a brief analysis of the circumstances in Germany which[2] made such a crisis possible.

Germany's Relation to World Finance and Economy

During the five years prior to the economic depression in 1929, Germany had been making a remarkable recovery following the ravages of the Great War, and the financial cataclysm, which, overtaking her in 1923, led to the collapse and disappearance of the old mark currency. The Dawes Plan, which went into effect in 1924, had helped her to reform her finances, to stabilize her currency, and to emerge from this collapse. Her people were intelligent and hard-working, and were motivated by an intense desire to regain the industrial prosperity which had been lost. With the aid of these factors she succeeded during the five years beginning in 1924 and closing with 1928 in rebuilding her industries and reviving her foreign trade. Her national production increased forty per cent and her exports nearly doubled.

This rehabilitation of Germany had in the absence of resources of her own, been based in large part on borrowed money. The strain of the war, the destruction of value during the post-war period of inflation, and the penalties visited upon her in consequence of the war, had all united to leave her without sufficient capital of her own. So she had borrowed money in large[3]volume and from many sources all over the world. As her credit was necessarily untried, she had secured much of this capital only in the form of short term loans and therefore under terms which made it easily subject to withdrawal. Thus when the great economic depression of 1929 began, it found Germany in a vulnerable condition.

In the first place her prosperity was still precarious and was peculiarly dependent upon the stability of her credit. In the second place, inasmuch as her industries were capitalized upon money which came from all over the world, her condition was linked in a very serious degree to the financial markets of many other countries. Foreigners, including many Americans in many parts of the United States, held a great many bonds issued by German industries and public authorities. Foreign banks had made large advances to German accounts. High interest rates had attracted into Germany liquid deposits from all over the world.

Germany's condition was also sensitive because she was to peculiar degree dependent upon foreign trade. She was under an obligation to pay yearly sums approximating four hundred millions of dollars in reparations to the various Allied Governments of Europe; and the only means by which she could make these payments was to sell goods, render services abroad, or borrow further[4] loans. Furthermore, for the service of the great debt to private creditors which she had incurred abroad, as above mentioned, she was dependent upon acquiring foreign funds in the same way to pay her interest.

For all these reasons the situation in Germany was sensitive and vulnerable. She was also in a financial sense a central spot of liability to a large part of the world. Financial disaster to her might spread to and drag down many other countries. On the other hand, her history had shown that if she could be steadied through this pending crisis, the character of her population, their technical skill, and their industry, promised a healthy and successful future. Passing circumstances were creating a critical condition, but Germany herself was a good risk.

In her position in the center of Europe, Germany in good health would be a bulwark of strength against instability and communism, while if she were allowed to fail the disaster would not be confined to her, but would certainly involve other nations and would greatly affect the financial systems of all of the principal nations of the world, including our own.

Effect of the Economic Depression on Germany

The effect of the two years of economic depression prior to June last had been particularly hard on Germany.[5] The fall of commodity prices had dealt a blow to her industry, unemployment among her laboring classes had grown to excess one-fourth of their total numbers; and the increasing burden of taxation which her government was placing upon her population had reached the self-defeating point where additional taxes could produce little additional yield. Furthermore, she had reached a point where it was difficult to cut down her expenses any further without creating dangerous social discontent. The foregoing, in a few words, represented the general situation of Germany at the time when information reached this administration showing that her financial condition was becoming extremely critical and that a bank panic on an international scale was actually under way.

Events of the Immediate Crisis

In May 1931 the Department of State received, through its diplomatic channels and also through the Federal Reserve System of this country, news of a critical financial crisis which was taking place in Austria and this threatened not only the solvency of the principal banks of that country but of the Government itself.² This situation became so serious in Austria that on May 30 the representatives of the Imperial Central banks of the various European countries felt compelled to enter[6] into an agreement to place at the disposal of the Austrian National Bank a revolving credit of one hundred million Austrian shillings (about \$14,000,000) to endeavor to check the runs which were being made upon her financial institutions. This trouble in Austria seriously alarmed foreign creditors all over the world. They were already nervous after the long shrinkage of values resulting from the economic depression and they now saw themselves threatened with additional losses in a country which was in the same neighborhood as Germany.

By June 1st the State Department learned that foreign balances in Germany were undergoing heavy withdrawals. On June 5th, in an attempt to meet this situation, the German Government issued a drastic emergency decree cutting down Government expenditures, including salaries of Government employees, allowances to war veterans, social welfare measures and contributions to labor insurance and making a very stringent reduction of other Government expenses. On the other hand, it imposed new and heavy taxes. With this decree the German Government issued a manifesto which was intended to brace the German people for this new effort at retrenchment and in this appeal they alluded to the critical effect upon Germany of her economic crisis, the efforts which previously[7] had been made to reduce expenditures and the imperious necessity of drafting the last forces in reserve from all sections of the German population to endeavor to meet the emergency.

While this manifesto was successful in its purpose of supporting the Government in imposing these new and drastic revenue proposals it had the effect of further alarming the foreign creditors of Germany. Withdrawals of German gold from the Reichsbank increased rapidly in volume.

By June 13th the Federal Reserve officers reported to me that the financial and monetary positions of Austria, Hungary and Germany had become very much worse during the past two weeks and especially during the past two days; that foreign withdrawals from these countries, particularly Germany, had produced with increased momentum and that Germany appeared to be approaching a financial crisis in addition to her social and political difficulties. These sources reported that during those past two weeks, the German Reichsbank had lost at least \$107,000,000 of its gold, most of which had been paid out in the last three or four days, and that these computations did not include losses of foreign exchange holdings which had been very considerable. It reported orders for further gold which would increase this volume[8] of withdrawals during the coming week and that the situation in Austria and Hungary had also developed so critically that the central banks of those countries were required to find immediately new large credits in order to meet their obligations.

During the following week the volume of German withdrawals steadily increased. On June 16, Federal Reserve Authorities reported that the withdrawals of gold from the Reichsbank amounted to \$130,000,000, and that in addition to this, the bank had lost \$100,000,000 in foreign exchange. This drain was so extensive that in not more than two weeks the gold and other reserves of the Reichsbank had been brought down practically the legal minimum, after which no choice would remain except to forbid all further financing to German banks and industries. The Reichsbank is the great central bank of Germany somewhat similar in function to our Federal Reserve System.³ Its condition threatened German industry with paralysis. Its difficulties were the difficulties not only of Germany but of the whole financial world.

If German trade failed, further drops in the world prices of raw materials and foodstuffs – such as cotton, copper, wheat, and oil – were almost certain to occur. If German industry and the German public authorities[9] became unable to meet their bond interest, all holders of their securities would suffer. If disorder followed in Germany, a general default on all her obligations might be the consequence. All of this in turn would lessen the capacity of our debtors to pay their debts and impair our foreign trade in all its branches. With this comprehensive view of the situation before our Government, it was a time for immediate action.

2 Gemeint ist die Bekanntmachung der Creditanstalt am 8. Mai 1931, einen Verlust von 140 Millionen Schilling im abgelaufenen Geschäftsjahr gemacht zu haben. Am 11. Mai 1931 erklärte die Bank ihre Zahlungsunfähigkeit. *Marcus, Austrian Reconstruction*, 298–334.

3 Es ist auffällig, dass Stimson einem hochrangigen Kongressmitglied eine solch basale Information gab. Offensichtlich schätzte er die Kenntnis der europäischen Verhältnisse im Kongress als sehr gering ein.

I may add that the information on Germany's condition which I have summarized above as coming through the Federal Reserve sources, was corroborated by information which I received through diplomatic channels from our representatives in Austria, Germany, Great Britain, France, and Italy. Furthermore, during the two weeks preceding June 20, the President, the Under Secretary of the Treasury and I, received the benefit of consultation and advice from men in this country most competent to advise[sic!] the German situation. These included not only Parker S. Gilbert, the former Agent General of Reparations, who for over five years had lived in Germany and had been thoroughly familiar with her industrial and financial situation, but Owen D. Young, the Chairman of the Board of Experts which had investigated the German financial condition in 1929. The opinion of all of these men and the information[10] derived from all of these sources coincided in their view of the emergency of the situation. The condition of Germany was comprehensively summarized in a letter of the President of that country, Marshall Von Hindenburg, a copy of which I submit with the statement.

The President's Proposal

This was the situation to which President Hoover's proposal for a general suspension of intergovernmental debts was addressed. His primary purpose was to stop a financial collapse in Germany, accompanied by a panic which was spreading to other countries and threaten to become worldwide. The essence of his suggestion was to do what a wise creditor normally does under such a situation and to provide for the giving of time for recuperation to the debtors. While the amounts involved in the suspension of intergovernmental debt payments for one year were small in comparison with the immense burden of debts, private and public, under which the world was staggering, yet the relief given by the President's proposal would very materially relieve the pressure at one of the world's weakest spots, and psychologically such action would have an enormous effect. The mere putting of hope and courage into a population of sixty million people, located in the heart of Europe, would[11] of itself be a great and immediate contribution to the restoration of confidence.

The diagnosis of the President proved to be correct. The announcement of his proposal was made on Saturday June 20. The withdrawal of gold from the Reichsbank, which had been going on uninterruptedly until Saturday afternoon, was checked and substantially stopped on Monday morning. The matured view of all of the best advisers we could reach during the preceding week indicated that unless the panic and the withdrawals were stopped the financial structure of Germany would collapse within a matter of a few days. The result of the proposal, together with the stabilization of Germany's private short term credits which followed the Seven Powers Conference at London in July, has been sufficient to hold the situation substantially intact until today.

The response of popular and official approval accorded to the President's proposal has been most impressive. The project required sacrifices from not only our own people but also on the part of many other nations. In spite of the complicated adjustments required in the national budgets of numerous countries and the consequent burdens, the proposal was generally treated as an example of sound and constructive economic leadership. The President's announcement already before[12] the Committee lists the names of a large number of Senators, Congressmen, and other American leaders who expressed their approval readily within the limited time afforded for consultation.

The following nations which are debtors of the United States have accepted the moratorium proposal:

Austria, Belgium, Czechoslovakia, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Italy, Latvia, Lithuania, Poland and Rumania.

The following countries, which had no governmental debt relations with the United States, have also accepted the proposal:

Australia, Bulgaria, Canada, India, Japan, New Zealand, Portugal and South Africa.

The following countries which are the holders of governmental indebtedness arising from relief measures after the War also accorded their approval.

Denmark, The Netherlands, Norway, Sweden and Switzerland.

Yugoslavia is the only one of the Governments indebted directly to the United States which has not expressed its acceptance of the proposal although it is understood that it is in fact receiving no payments from its debtors.

The President's proposal was expressly made subject to the confirmation of Congress and your appropriate[13] action is necessary to authorize the agreements putting it into force.

Sincerely yours,
Henry L. Stimson