The Interwar Period

• Origins of WWI
  – Relative Decline of Great Britain
  – Economic challengers (US, Germany, Japan)
  – Military challengers (Germany, Russia, Japan, U.S.)
  – Race for colonies (Africa, Asia)

• World War I and the International Economy
  – U.S. suddenly the world's dominant economic power
  – War and U.S. trade surpluses
  – War and U.S. foreign investment
Post-war Global Economic Problems

• European economic reconstruction
  – all belligerents (except US) devastated by the war

• International monetary instability
  – all nations (except US) off the gold standard
  – beggar-thy-neighbor policies

• War debts and reparations (war damages) problem
  – Allies owe $10 billion to US
  – Germany required to pay $33 billion in damages to victors
Disjointed U.S. Response to Global Economic Problems

• “Stabilizing” U.S. policies
  – Federal Reserve Bank of New York leads efforts at central bank cooperation
  – Federal Reserve, State Department, private banker actions on war debts and reparations (e.g., Dawes Plan)

• “Destabilizing” U.S. policies
  – refusal to join League of Nations
  – refusal to forgive war debts
  – protectionist trade policy (Smoot-Hawley)
Table 1: Pre-War Arms Race

Warship Tonnage, 1880-1910

<table>
<thead>
<tr>
<th>Country</th>
<th>1880</th>
<th>1910</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Britain</td>
<td>650,000</td>
<td>2,174,000</td>
<td>+ 235</td>
</tr>
<tr>
<td>Germany</td>
<td>88,000</td>
<td>964,000</td>
<td>+ 995</td>
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<tr>
<td>Russia</td>
<td>200,000</td>
<td>401,000</td>
<td>+ 100</td>
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<tr>
<td>United States</td>
<td>169,000</td>
<td>824,000</td>
<td>+ 388</td>
</tr>
<tr>
<td>Japan</td>
<td>15,000</td>
<td>271,000</td>
<td>+ 1706</td>
</tr>
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Figure 1: War Debts and Reparations

- **Germany**
  - Private loans (via Dawes Plan “seal of approval”)
  - $33b damages

- **United States**
  - $10b war debts

- **France/Belgium**
  - $10b war debts