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## **Sectoral conflict and foreign economic policy, 1914–1940** Jeff Frieden

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The period from 1914 to 1940 is one of the most crucial and enigmatic in modern world history, and in the history of modern U.S. foreign policy. World War I catapulted the United States into international economic and political leadership, yet in the aftermath of the war, despite grandiose Wilsonian plans, the United States quickly lapsed into relative disregard for events abroad: it did not join the League of Nations, disavowed responsibility for European reconstruction, would not participate openly in many international economic conferences, and restored high levels of tariff protection for the domestic market. Only in the late 1930s and 1940s, after twenty years of bitter battles over foreign policy, did the United States move to center stage of world politics and economics: it built the United Nations and a string of regional alliances, underwrote the rebuilding of Western Europe, almost single-handedly constructed a global monetary and financial system, and led the world in commercial liberalization.

This article examines the peculiar evolution of U.S. foreign economic policy in the interwar years, and focuses on the role of domestic socioeconomic and political groups in determining foreign policy. The American interwar experience powerfully demonstrates that the country's international position and economic evolution do not sufficiently explain its foreign policy. Indeed, although the contours of the international system and the place of the United States in it changed dramatically during and after World War I, these changes had a very different impact on different sectors of

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American society. World War I dramatically strengthened the overseas economic interests of many major U.S. banks and corporations, who fought hard for more political involvement by the United States in world affairs. Yet domestically oriented economic groups remained extremely powerful within the United States and sought to maintain a relatively isolated America. Through the 1920s and early 1930s, the two broad coalitions battled to dominate foreign economic policy. The result was an uneasy stand-off in which the two camps entrenched themselves in different portions of the state apparatus, so that policy often ran on two tracks and was sometimes internally contradictory. Only the crisis of the 1930s and the eventual destruction of most of America's overseas competitors led to an "internationalist" victory that allowed for the construction of the American-led post-World War II international political economy.

### **The problem**

To virtually all observers then and since, at the end of World War I the United States seemed to dominate the international political economy. It had financed the victorious war effort and provided most of the war materiel that went into it; its industry was by far the world's largest and most productive. Despite its traditional economic insulation, the sheer size of the U.S. economy made the country the world's largest trading power. The center of world finance had shifted from London to New York. The United States clearly had the military, industrial, and financial capacity to impose its will on Europe. Yet after World War I the United States, in the current arcane iconography of the field, did not play the part of international economic hegemon, arbiter, and bankroller of the world economic order. The United States was capable of hegemonic action, and President Woodrow Wilson had hegemonic plans, but they were defeated. The problem was not in Europe, for although the British and French were stronger in 1919 than they would be in 1946, they could hardly have stood in the way of American hegemony. Indeed, European complaints about the United States after World War I were in much the opposite direction: the Europeans bitterly protested America's *refusal* to accept the responsibilities of leadership. The Europeans charged that the United States was stingy with its government finance, hostile in its trade policy, scandalous in its refusal to join the League of Nations, unwilling to get involved in overseeing and smoothing Europe's squabbles. The British and French tried for years to entice and cajole a reluctant America into leadership. America would not be budged, at least until 1940.

The world's most powerful nation pursued a contradictory and shifting set of foreign economic policies. The country both asserted and rejected world leadership, simultaneously initiated and blocked efforts at European stabilization, and began such major cooperative ventures as the League of Nations

and the Dawes Plan only to limit its participation in these American initiatives in ultimately fatal ways. The analytical problem bedevils both economic determinists and political Realists. For those who believe in the primacy of international power politics, it is difficult to explain why a United States able to reconstruct the world political system was unwilling to do so. For those who look at economic affairs first and foremost, America's unchallenged position as the world's leading capital exporter should have accelerated the trend towards trade liberalization and international monetary leadership begun before World War I; instead, the pendulum swung back towards protectionism and little public U.S. government involvement in international monetary issues.

The relevant international relations literature, faced with such analytical anomalies, generally falls back on vague reference to domestic constraints in explaining U.S. foreign economic policy in the interwar period. Charles Kindleberger, whose comparison of the era with the *Pax Britannica* and *Pax Americana* is the foundation stone for most international relations thinking on the interwar years, cites E. H. Carr approvingly, to the effect that "in 1918, world leadership was offered, by almost universal consent, to the United States . . . [and] was declined," and concludes that "the one country capable of leadership [i.e. the United States] was bemused by domestic concerns and stood aside."<sup>1</sup>

Seen from the perspective of American domestic politics, however, the problem is quite reversed. In the context of traditional American apathy or even hostility towards world affairs, the interwar years saw an amazing flurry of global activity by the country's political, economic, and cultural leaders. Against the backdrop of the longstanding indifference of most of the American political system to events abroad, the level of overseas involvement in the 1920s and 1930s appears both startling and unprecedented.<sup>2</sup>

The contradictory role of the United States in the interwar period can be traced to the extremely uneven distribution of international economic interests within American society. America's international economic position did change during and after World War I, yet overseas assets were accumulated by a very concentrated set of economic actors. This left most of the U.S. economy indifferent to foreign economic affairs, while some of the country's leading economic sectors were both deeply involved and deeply concerned with the international economy. American foreign policy was thus torn between insularity and internationalism; the segments of the foreign-policy

1. Charles Kindleberger, *The World in Depression 1929-1939* (Berkeley: University of California Press, 1973), pp. 297-99. The Carr citation is from his *The Twenty Years Crisis, 1919-1930* (London: Macmillan, 1939), p. 234. A popular British satirical history of the 1930s, under the heading "A Bad Thing," summarized the results of the Great War somewhat more succinctly: "America was thus clearly top nation, and History came to a ." Walter Sellar and Robert Yeatman, *1066 And All That* (New York: Dutton, 1931), p. 115.

2. Robert Dallek, *The American Style of Foreign Policy* (New York: Knopf, 1983) is a good survey of traditional American insularity.

bureaucracy that reflected internationally oriented interests tried to use American power to reorganize the world's political economy, while portions of the government tied to domestically oriented sectors insisted on limiting America's international role. The crisis of the 1930s dissolved many of the entrenched interests that had kept policy stalemated and allowed a new group of political leaders to reconstitute a more coherent set of policies.

This article builds on the work of historians investigating the interwar period<sup>3</sup> and on the contributions of other social scientists concerned with the relationship between the international and domestic political economies. The work of Charles Kindleberger and Peter Gourevitch, among many others, has shown the importance of sectoral economic interests in explaining domestic politics and foreign policymaking in advanced industrial societies. Both Gourevitch and Thomas Ferguson have used a sectoral approach to elucidate domestic and international events in the 1930s. The present article is thus an attempt to build on existing sectoral interpretations of modern political economies, and an extension of the approach to problems in international relations.<sup>4</sup>

### The argument summarized

Between 1900 and 1920, the United States went from a position of relative international economic insignificance to one of predominance. A major inter-

3. The historical literature on the period is so enormous that it is feasible only to cite the most recent important additions. Two review essays and a forum are a good start: Kathleen Burk, "Economic Diplomacy Between the Wars," *Historical Journal* 24 (December 1981), pp. 1003–15; Jon Jacobson, "Is There a New International History of the 1920s?" *American Historical Review* 88 (June 1983), pp. 617–45; and Charles Maier, Stephen Schuker, and Charles Kindleberger, "The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe," *American Historical Review* 86 (April 1981). Other important works include Denise Artaud, *La question des dettes interalliées et la reconstruction de l'Europe* (Paris: Champion, 1979); Frank Costigliola, *Awkward Dominion: American Political, Economic, and Cultural Relations with Europe 1919–1933* (Ithaca, N.Y.: Cornell University Press, 1984); Michael J. Hogan, *Informal Entente: The Private Structure of Cooperation in Anglo-American Economic Diplomacy, 1918–1928* (Columbia: University of Missouri Press, 1977); Melvyn Leffler, *The Elusive Quest: America's Pursuit of European Stability and French Security, 1919–1933* (Chapel Hill: University of North Carolina Press, 1979); William McNeil, *American Money and the Weimar Republic* (New York: Columbia University Press, 1986); Stephen Schuker, *The End of French Predominance in Europe* (Chapel Hill: University of North Carolina Press, 1976); and Dan Silverman, *Reconstructing Europe after the Great War* (Cambridge: Harvard University Press, 1982). Many of the leading scholars in the field summarize their views in Gustav Schmidt, ed., *Konstellationen Internationaler Politik 1924–1932* (Bochum, W. Ger.: Studienverlag Dr. N. Brockmeyer, 1983).

4. Charles Kindleberger, "Group Behavior and International Trade," *Journal of Political Economy* 59 (February 1951), pp. 30–46; Peter Gourevitch, "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crisis of 1873–1896," *Journal of Interdisciplinary History* 8 (Autumn 1977), pp. 281–313; Peter Gourevitch, "Breaking with Orthodoxy: the Politics of Economic Policy Responses to the Depression of the 1930s," *International Organization* 38 (Winter 1984), pp. 95–129; Thomas Ferguson, "From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression," *International Organization* 38 (Winter 1984), pp. 41–94.

national borrower and host of foreign direct investment before 1900, by 1920 the United States was the world's leading new lender and foreign direct investor. The development of American overseas investments was in itself unsurprising, and in this the United States simply repeated the experience of other developed countries. Yet the rapidity of the country's shift from a major capital importer and raw-materials exporter to the leading exporter of capital, largely because of the peculiarities of the international economy in the ten years after 1914, was quite extraordinary. Even as a few major American economic actors were catapulted into global economic leadership, most of the economy remained as inward-looking as ever. This division in American economic orientation was at the root of the foreign-policy problems of the 1920s and 1930s.

As American industry and finance matured and the country became richer in capital, many large American corporations and banks looked abroad for markets and investment opportunities. United States overseas investment thus grew gradually from the 1890s until the eve of World War I. As Table 1 indicates, American foreign direct investment was appreciable by 1900; it was concentrated in raw materials extraction and agriculture in the Caribbean basin. By 1912, foreign direct investment was quite substantial and overseas lending had become of some importance; the focus was still the Caribbean area.

The gradual expansion of American overseas investment, especially overseas lending, was given a tremendous shove by World War I. The war forced several belligerent countries to borrow heavily from the United States, and previous borrowers from European capital markets now turned to the United States to satisfy their needs for capital. As Table 1 shows, American holdings of foreign bonds soared from less than 5 percent of total American holdings of non-government bonds in 1912 to nearly 17 percent in 1922. Foreign direct investment also grew rapidly, as European preoccupation with war and reconstruction cleared the way for many American corporations to expand further into the Third World and, after the war ended, in Europe itself. The 1920s saw a continuation of the wartime increase in overseas American lending and investment. American overseas investment in industrial production—especially manufacturing and utilities—and petroleum grew particularly rapidly.

By 1929 American overseas private assets—direct and portfolio investments, along with other assorted long- and short-term assets—were twenty-one billion dollars. Overseas investments in 1929 were equivalent to over one-fifth of the country's gross national product, a level that was reached again only in 1981.<sup>5</sup>

Although America's overseas investments were substantial by the 1920s, they were very unevenly distributed among important sectors of the U.S.

5. For figures on U.S. foreign private assets, see Raymond Goldsmith, *A Study of Savings in the United States*, vol. 1 (Princeton, N.J.: Princeton University Press, 1955), p. 1093.

**TABLE 1. Indicators of the importance of U.S. foreign investment, 1900–1939 (in millions of dollars and percent)**

	1900	1912	1922	1929	1933	1939
1. U.S. foreign direct investment	751	2,476	5,050	7,850	7,000 <sup>e</sup>	6,750
2. Domestic corporate and agricultural wealth <sup>a</sup>	37,275	75,100	131,904	150,326	109,375	119,324
3. Row 1 as a percent of Row 2	2.0%	3.3%	3.8%	5.2%	6.4%	5.7%
4. U.S. foreign bondholdings <sup>b</sup>	159 <sup>d</sup>	623	4,000	7,375	5,048 <sup>f</sup>	2,600 <sup>g</sup>
5. U.S. holdings of non-government bonds <sup>c</sup>	5,151	14,524	23,687	38,099	37,748	32,502
6. 4/5, percent	3.1%	4.3%	16.9%	19.4%	13.4%	8.0%

a. Net reproducible tangible wealth of U.S. corporations and agriculture.

b. Due to the different sources used, figures here conflict with those in Table 4; those of Table 4 are probably more reliable, but to ensure comparability Goldsmith's figures are used throughout the table.

c. Excludes only holdings of securities issued by U.S. federal, state, or local governments.

d. Includes stocks (for 1900 only).

e. Author's estimates.

f. Figures are for 1934, from Foreign Bondholders Protective Council, *Annual Report for 1934* (Washington, D.C.: FBPC, 1935), p. 224. This includes only bonds being serviced; a more reasonable measure would include the market value of bonds in default. If this averaged 30% of par value, figures for 1933–34 would be \$5,954 million and 15.8% for rows 4 and 6, respectively.

g. Figures for 1939 holdings of foreign bonds are from Goldsmith and are probably understated.

*Sources.* Foreign investment: Raymond Goldsmith, *A Study of Saving in the United States*, vol. 1 (Princeton, N.J.: Princeton University Press, 1955), p. 1093.

Domestic data: Raymond Goldsmith, Robert Lipsey, and Morris Mendelson, *Studies in the National Balance Sheet of the United States*, vol. 2 (Princeton, N.J.: Princeton University Press, 1963), pp. 72–83.

economy. Tables 2 and 3 illustrate that, while overseas investment was extremely important for the financial community and some industrial sectors, most other sectors' foreign assets were insignificant. American foreign investments in mining and petroleum were considerable, both absolutely and relative to capital invested in corresponding activities within the United States. Foreign investment was also of great relative importance to corporations in machinery and equipment (especially electrical appliances), motor vehicles, rubber products, and chemicals. Yet these sectors, which accounted for well over half of all overseas investment in manufacturing, represented barely one-fifth of the country's manufacturing plant; far more American industries were quite uninvolved in overseas production!

Although only a few industries had major foreign operations, foreign lending was a favorite activity on Wall Street. As Table 3 shows, between 1919 and 1929 new foreign capital issues in New York averaged over a billion

**TABLE 2.** *Foreign direct investment and book value of fixed capital of selected U.S. industries, 1929 (in millions of dollars and percent)*

Sector	A Foreign direct investment	B Book value of fixed capital	A/B in percent
Mining and petroleum <sup>a,b</sup>	\$2,278	\$12,886	17.7%
Public utilities, transport and communications	1,625	41,728 <sup>c</sup>	3.9%
Manufacturing	1,534	23,672	6.5%
Machinery and equipment	444	1,907	23.3%
Motor vehicles	184	1,232	14.9%
Rubber products	60	434	13.8%
Chemicals	130	1,497	8.7%
Foodstuffs	222	4,001	5.5%
Lumber and products	69	2,001	3.4%
Metals and products	150	4,788	3.1%
Textiles and products	71	2,932	2.4%
Stone, clay and glass products	23	1,451	1.6%
Leather and products	4	269	1.3%
Agriculture <sup>d</sup>	875	51,033	1.5%

a. Figures for total manufacturing do not include petroleum refining, which is included under "Mining and petroleum."

b. Figures for domestic mining and petroleum invested capital are for the book value of capital including land but excluding working capital.

c. Value of plant and equipment.

d. Domestic invested capital is reproducible tangible assets of agricultural sector.

Sources. Foreign direct investment: U.S. Department of Commerce, *American Direct Investments in Foreign Countries* (Washington, D.C.: GPO, 1930), pp. 29–36.

Domestic fixed capital: Daniel Creamer, Sergei Dobrovolsky and Israel Borenstein, *Capital in Manufacturing and Mining* (Princeton, N.J.: Princeton University Press, 1960), pp. 248–51, 317–18; Melville J. Ulmer, *Capital in Transportation, Communications and Public Utilities* (Princeton, N.J.: Princeton University Press, 1960), pp. 235–37; Raymond Goldsmith, Robert Lipsey and Morris Mendelson, *Studies in the National Balance Sheet of the United States* vol. 2 (Princeton, N.J.: Princeton University Press, 1963), pp. 78–79.

dollars a year, over one-sixth of all issues (excluding federal, state, and local securities); in a couple of years the proportion approached one-third. The United States was the world's principal long-term lender, and foreign lending was very important to American finance.

The reasons for the uneven pattern of overseas investment are fairly straightforward. It is not surprising that a capital-starved world would turn for loans to the capital-rich United States, especially to the Northeastern financial powerhouses. Foreign direct investment, on the other hand, responded to more specific incentives. Tariff barriers, which proliferated after World War I, forced former or prospective exporters to locate production facilities in overseas markets; often the advantages of local production were great even in the absence of tariffs. Foreign direct investment was thus largely confined to firms with specific technological, managerial, or market-

**TABLE 3.** *New corporate and foreign capital issues in New York, 1919–1929 (in millions of dollars and percent)*

	A All corporate issues	B Foreign issues	B/A in percent
1919	\$2,742	\$771	28.1%
1920	2,967	603	20.3%
1921	2,391	692	28.9%
1922	2,775	863	31.1%
1923	2,853	498	17.5%
1924	3,831	1,217	31.8%
1925	6,219	1,316	21.2%
1926	8,628	1,288	14.9%
1927	9,936	1,577	15.9%
1928	9,894	1,489	15.0%
1929	11,604	706	6.1%
Total, 1919–1929	63,840	11,020	17.3%
Annual average, 1919–1929	5,804	1,002	17.3%

*Source.* United States Department of Commerce, *Handbook of American Underwriting of Foreign Securities* (Washington, D.C.: GPO, 1930), pp. 32–37.

ing advantages, such as motor vehicles, electric appliances and utilities, and petroleum, as well as in the extraction of resources available more readily abroad. There was little overseas investment by industries producing such relatively standardized goods as steel, clothing, and footwear; they generally had little exporting experience, and few advantages over firms in their lines of business abroad. Thus the major money-center investment and commercial banks were highly international, as were the more technologically advanced manufacturing and extractive industries; traditional labor-intensive industries, which were by far the majority, were little involved in foreign investment.

American industrial export interests were similar to its foreign investments. The major industrial sectors with overseas investments were also the country's leading industrial exporters, as product-cycle theory would predict.<sup>6</sup> Refiners of copper and petroleum, and producers of machinery and equipment, motor vehicles, chemicals, and processed food were all major exporters as well as major foreign investors. The only important exceptions to the general congruence of trade and asset diversification were the steel industry and some agricultural interests, especially in the South. Neither steel producers nor, of course, cotton and tobacco farmers had many overseas investments. To a large extent, then, the trade and foreign investment line-ups were complementary.<sup>7</sup>

6. The classical explanation of the process is Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* 80 (May 1966), pp. 190–207.

7. On agricultural and industrial trade preferences in the 1920s, see Barry Eichengreen, "The

Sectors with major overseas investment interests would be expected to have a different foreign economic and political outlook than sectors with little or no international production or sales. Internationally oriented banks and corporations would be generally favorable to freer trade, the former to allow debtors to earn foreign exchange and the latter both because intra-firm trade was important to them and because they tended to fear retaliation. Internationally oriented sectors could also be expected to support an extension of American diplomatic commitments abroad, both specifically to safeguard their investments and more generally to provide an international environment conducive to foreign economic growth. Those sectors that sold but did not invest abroad would be sympathetic to American attempts to stabilize foreign markets, but might oppose international initiatives that reinforced competing producers overseas. Economic sectors with few foreign assets or sales could be anticipated to support protectionist policies in their industries, because they were not importing from overseas subsidiaries, tended to be less competitive, and had few worries about retaliation. Such sectors would be unsupportive of major American international involvement that might strengthen real or potential competitors of U.S. industry.

Two broad blocs on foreign economic policy did indeed emerge after World War I, and their preferences were more or less as might have been predicted. One group of economic interests was "internationalist": it supported American entry into the League of Nations, U.S. financing of European reconstruction, commercial liberalization, and international monetary and financial cooperation. The other cluster of economic interests was the "isolationists": it opposed the League and American financing of Europe, called for renewed trade protection, and was indifferent or hostile to global financial and monetary accords.<sup>8</sup> The two sets of policy preferences were competing rather than complementary, and although there were some actors in a middle ground, the extreme unevenness of American overseas economic expansion meant that preferences tended to harden in their opposition.

The central dilemma of U.S. foreign economic policy for fifteen years after World War I was the great economic strength of two opposing sets of economic and political actors, neither of which was powerful enough to vanquish the other. Among the consequences of interest to the analyst of international relations is that the state *did not* undertake to impose a foreign policy derived from America's international position upon recalcitrant domestic actors; instead, the central state apparatus found itself torn between

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Political Economy of the Smoot-Hawley Tariff," Discussion Paper No. 1244, Harvard Institute for Economic Research, May 1986.

8. Opposition to the League was indeed led by a prominent nationalist Massachusetts senator whose adamant insistence on protecting manufactured goods while allowing the free import of inputs was ably captured by "Mr. Dooley," who noted that "Hinnery Cabin Lodge pleaded f'r freedom f'r th' skins iv cows" in ways that "wud melt th' heart iv th' coldest mannyfacthrer iv button shoes." Cited in John A. Garraty, *Henry Cabot Lodge* (New York: Knopf, 1953), p. 268; the book contains ample, and somewhat weightier, evidence of Lodge's economic nationalism.

conflicting interests. The various economic interests entrenched themselves in the political arena and found allies within the government bureaucracy, so that domestic sociopolitical strife was carried out *within* the state apparatus. The Federal Reserve System and the State Department were dominated by economic internationalists, whether of the Wilsonian or Republican variants; the majority of the Congress, and the powerful Commerce Department, were more closely aligned with the economic nationalists who might support limited measures to encourage American exports but stopped there.

The result was a foreign policy that was eminently contradictory and volatile. The same administration encouraged foreign lending and trade protection against the goods of the borrowers, worked for international monetary cooperation and sought to sabotage it, struggled to reinforce European reconstruction and impeded it at crucial junctures. This was not due to policy stupidity but to the underlying differences in international outlook of powerful domestic socioeconomic groups. The period is thus a useful and illuminating illustration of the interaction of international and domestic sources of foreign policy.

Although it concentrates on the analytical issues of the 1920s and early 1930s, the article shows how after 1933 the world crisis served to thaw some of the policy paralysis that had characterized the postwar Republican administrations. The international and domestic crisis both changed the relative strength of important social actors and allowed policymakers to reformulate their relationship to these social actors.

The remainder of this article analyzes the development of American foreign economic policy from 1914 to 1940 in the light of the preceding considerations. The analysis focuses on the interests and activities of America's international bankers. The nation's international financiers were both the most internationally oriented group of economic actors in the United States at the time (as they are today) and the most powerful and prominent members of the internationalist coalition. Their trajectory demonstrates the general lines of the approach taken here quite well, and also clarifies the role of the differentiated state apparatus in the evolution of U.S. foreign economic policy after World War I. The article does not present a complete account of the period in question—this would require a much more detailed discussion of, among other things, overseas events, America's economic nationalists, and institutional and bureaucratic developments—but it does discuss enough of the era to show how a fuller analysis could be developed.

### **The emergence of American economic internationalism, 1914–1933**

For fifty years before World War I, the American political economy was oriented to the needs of domestic industry. The war accelerated a process

already underway, the expansion of international investments by one segment of the U.S. business community. Along with this economic change came the development of a new set of political interests that challenged the previous pattern of foreign economic policy. In the fifteen years after World War I, the economic internationalists developed great, if quite private, influence over foreign policy, but lost many public political battles. Until the Depression, American foreign economic policy was divided between measures to support "nationalist" industries and most of agriculture and those preferred by "internationalist" banks, industries, and some export agriculture.

From the Civil War until the early 1900s, however, the country's foreign economic policy was clearly designed to serve domestic industry, mostly home production for the home market and some exportation. The strategy adopted had a number of aims and evolved over time, as David Lake has demonstrated.<sup>9</sup> Raw materials available overseas needed to be developed and imported. Industrial goods, especially the products of basic industry, needed to find overseas markets. American tariffs on raw materials might come down, but the American market was essentially closed to industrial goods.

In this picture, America's embryonic international bankers played a subsidiary but important role. They financed overseas raw materials developments and facilitated the transport and sale of raw materials to American industry. They lent dollars to overseas consumers of America's basic industrial products—railways, railroad and subway cars, mining equipment, ships. And, of course, they financed much of the domestic expansion and merger activity of the industrial combines.

World War I was a turning-point in the evolution of American international economic interests. During the war and the period immediately following it, New York became the world's center for long-term lending. American financial supremacy drew America's internationally oriented business people and politicians into world leadership during the war and in the postwar reconstruction of Europe, a role that was to be severely hampered by the strength of economic nationalists within the United States.

The outbreak of hostilities caused financial chaos on European money markets. Panic was only narrowly averted in New York, but by early 1915 the New York market had been stabilized and was the only fully functioning major capital market in the world. Originally the Wilson administration had indicated that it considered the extension of all but short-term loans to the warring powers by American financiers "inconsistent with the true spirit of neutrality." But as the fighting continued, the belligerents began to place major orders in the United States to supply their industries and compensate

9. David Lake, "The State and American Trade Strategy in the Pre-Hegemonic Era," in this volume.

for their lagging agricultures. American munitions exports went from \$40 million in 1914 to nearly \$1.3 billion in 1916; all merchandise exports increased from \$2.4 billion in 1914 to \$5.5 billion in 1916, from about 6 to about 12 percent of gross national product. Because imports remained near prewar levels, between 1914 and 1917 the United States averaged an astounding annual trade surplus of \$2.5 billion, more than five times the immediate prewar average.<sup>10</sup>

The Allies, who accounted for most of this export expansion (the Central Powers were effectively blockaded), financed some of their American purchases by selling back to United States investors about \$2 billion in American securities between the beginning of the war and U.S. entry. This was insufficient, of course, and soon the Wilson administration reversed its earlier financial neutrality. In October 1915, J. P. Morgan and Co. underwrote a \$500 million loan to the English and French governments. Because of the opposition of neutralists and anti-Russian, German-American, and Irish-American forces, Morgan was only able to secure the full amount with some difficulty.<sup>11</sup>

Despite widespread hostility to their efforts, the New York bankers continued to finance the Allies. In addition, their longstanding ties with the big industrial combines placed the bankers well to arrange for Allied purchases and shipping. Thus Morgan acted during the war as the purchasing agent in the United States for the British and French, and in the three-year period up to June 1917, these purchases amounted to over one-quarter of all American exports.<sup>12</sup>

The Allies' financial requirements increased as the war dragged on, as did American sympathy for the Allied cause. Morgan led a series of syndicates in a further \$250 million loan to England in August 1916, another of \$300 million in October 1916, a \$250 million issue in January 1917; France floated a \$100 million bond in March 1917. All told, between January 1915 and 5 April 1917, the Allies borrowed about \$2.6 billion: Great Britain and

10. George Edwards, *The Evolution of Finance Capitalism* (London: Longmans, 1938), pp. 204–5, and U.S. Department of Commerce, *Historical Statistics of the United States* (Washington: GPO, 1960), pp. 139, 537. The definitive work on the period is Kathleen Burk, *Britain, America and the Sinews of War, 1914–1918* (Boston: Allen & Unwin, 1985). See also David Kennedy, *Over Here: The First World War and American Society* (New York: Oxford University Press, 1980); John T. Madden, Marcus Nadler, and Harry C. Sauvain, *America's Experience as a Creditor Nation* (New York: Prentice-Hall, 1937), pp. 44–46; Alexander Dana Noyes, *The War Period of American Finance* (New York: Putnam, 1926), pp. 113–18; William J. Schultz and M. R. Caine, *Financial Development of the United States* (New York: Prentice-Hall, 1937), 503–4.

11. Harold Nicolson, *Dwight Morrow* (New York: Macmillan, 1935), pp. 171–75.

12. Cleona Lewis, *America's Stake in International Investments* (Washington, D.C.: Brookings Institution, 1938), p. 352. See, for a discussion of the experience, Roberta A. Dayer, "Strange Bedfellows: J. P. Morgan and Co., Whitehall, and the Wilson Administration During World War I," *Business History* 18 (July 1976), pp. 127–51.

France \$2.11 billion, Canada and Australia \$405 million, Russia and Italy \$75 million.<sup>13</sup>

Upon American entry into the war, private lending to the belligerents essentially ceased. Instead, between May 1917 and April 1919, the U.S. government issued four "Liberty Loans" and one postwar "Victory Loan," and used the proceeds to lend the Allies \$9.6 billion.<sup>14</sup> American banks also took the opportunity to establish or drastically expand their branches in France to service the hordes of arriving American troops.<sup>15</sup>

Private lending resumed almost as soon as wartime conditions ended, as Table 3 indicates. Especially after the 1924 Dawes Plan, which symbolized for many the economic stabilization of Europe, lending boomed. As can be seen in Table 4, in the early 1920s American lending also shifted away from the wartime allies and towards "non-traditional borrowers": Germany, Canada, Italy, smaller Western European countries, the more commercially important countries of South America, and the Dutch East Indies. United States banks also expanded their branch network overseas from 26 in 1914 to 154 in 1926. As we have mentioned, direct investment abroad by American corporations also rose very rapidly, from \$2.7 billion in 1914 to \$7.9 billion in 1929.

The rapid overseas expansion of United States businesses after 1914 led to the maturation of an outward-looking, internationalist perspective, especially on the part of the international bankers. The leaders of American finance took a new, broader view of the world in which they had invested and decided that, as Woodrow Wilson said in 1916, "We have got to finance the world in some important degree, and those who finance the world must understand it and rule it with their spirits and with their minds."<sup>16</sup>

Apart from the general expansion of their lending, the bankers' customers had changed. No longer were the loans going to specific raw-materials projects or railroad development. The new debtors of the 1920s were more advanced nations; many of them, like Germany, were major competitors of U.S. industry. Concern about American tariffs on manufactured goods was thus logical. The debtors were also usually governments, and the close ties the bankers were building with, for example, Central and Eastern European

13. Lewis, *America's Stake*, p. 355; Nicolson, *Dwight Morrow*, pp. 177–82; Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, Mass.: Harvard University Press, 1970), pp. 205–14. For a thoughtful survey of the political effects, see John Milton Cooper, Jr., "The Command of Gold Reversed: American Loans to Britain, 1915–1917," *Pacific Historical Review* 45 (May 1976), pp. 209–30.

14. This is Lewis's figure; *America's Stake*, p. 362. Others give different amounts. See, for example, Noyes, *The War Period*, pp. 162–93; Schultz and Caine, *Financial Development*, pp. 525, 533–42; Hiram Motherwell, *The Imperial Dollar* (New York: Brentano's, 1929), p. 85.

15. Charles Kindleberger, "Origins of United States Direct Investment in France," *Business History Review* 48 (Autumn 1974), p. 390.

16. Scott Nearing and Joseph Freeman, *Dollar Diplomacy* (New York: Huebsch, 1925), p. 273.

**TABLE 4. American portfolio of foreign securities, 1914–1935 (in millions of dollars; excludes inter-government war debts)**

	1914	1919	1924	1929	1935
<i>Europe</i>	196	1,491	1,946	3,473	2,586
Austria	1	0	27	72	57
Belgium	0	12	181	214	152
Czechoslovakia	—	0	32	32	30
Denmark	0	15	89	165	135
Finland	—	0	29	63	32
France	10	343	449	343	158
Germany	23	2	132	1,019	829
Great Britain	122	891	414	287	42
Hungary	—	0	9	63	57
Italy	0	38	41	365	271
Netherlands	0	0	99	62	132
Norway	3	5	97	185	151
Poland	0	0	30	132	97
Russia	29	127	104	104	104
Sweden	5	20	66	196	213
Switzerland	0	35	116	49	0
Yugoslavia	0	0	18	50	47
Other Europe <sup>a</sup>	3	3	13	72	79
<i>Canada</i>	179	729	1,551	2,003	1,965
<i>South America</i>	43	113	464	1,294	1,241
Argentina	26	58	188	370	344
Bolivia	8	10	38	62	59
Brazil	6	41	146	325	320
Chile	1	1	53	238	237
Colombia	0	1	15	167	146
Peru	2	0	9	77	74
Uruguay	0	2	15	45	51
Venezuela	0	0	0	10	10
<i>Caribbean Region</i>	310	305	390	430	434
Cuba	35	33	76	95	115
Dominican Republic	5	6	15	19	16
Haiti	0	0	17	15	10
Mexico	266	265	270	266	261
Central America	4	2	12	35	32
<i>Asia</i>	217	227	519	926	772
Australia	0	1	24	241	253
China	7	20	23	23	21
Dutch East Indies	0	0	150	175	25
Japan	184	166	234	387	384
Philippines	26	40	88	100	89
<i>Other and international</i>	0	0	0	18	29
<i>Total</i>	945	2,862	4,870	8,144	7,026

Source. Adapted from Cleona Lewis, *America's Stake in International Investments* (Washington, D.C.: Brookings Institution, 1938), pp. 654–55.

a. In descending order of financial importance in 1929: Greece, Bulgaria, Rumania, Luxemburg, Ireland, Estonia, Danzig, and Lithuania.

regimes made them especially interested in European economic reconstruction and political harmony. The major international bankers, then, wanted a more internationalist foreign policy for the United States, lower tariffs, and American aid for a European settlement.

The financiers acted on their beliefs, and the postwar period saw the construction of formal and informal institutions and networks that have ever since been at the center of the American foreign policy establishment. The Council on Foreign Relations was formed right after the war: John W. Davis, Morgan's chief counsel and later a Democratic candidate for president, was the council's first president; Alexander Hemphill, chairman of the Guaranty Trust Co., headed the council's finance committee. Thomas W. Lamont of J. P. Morgan and Co. played an active role in the council and brought the founding editor of the council's journal, *Foreign Affairs*, to the job (he was editor of Lamont's *New York Evening Post*). Otto Kahn and Paul Warburg of the investment bank Kuhn, Loeb were founding directors, as was Paul Cravath, the firm's lawyer. Norman H. Davis, another founding director, was a Wall Street banker who served as assistant secretary of the treasury and undersecretary of state under Wilson; he worked closely with Lamont and financier Bernard Baruch in defining the postwar economic settlement in Europe.<sup>17</sup>

The council was the most important such organization, but the internationalist segment of the American business community, headed by the international bankers, also worked with other similar groups. The Foreign Policy Association, the Carnegie Endowment for International Peace (founded 1908), the League of Nations Association, and many others brought scholars, bankers, journalists, politicians, and government officials together in the pursuit of internationalism. In addition to consultation, coordination, and research, the internationalist network aimed to convince average Americans, in the words of the chairman of the Foreign Policy Association, "that their stake in the restoration of normal economic conditions in Europe is in reality as direct and vital as that of the international banker."<sup>18</sup>

More direct was the initiation during World War I of a system of close cooperation between foreign policymakers, especially those concerned with foreign economic policy, and America's international bankers. It was common for important figures in American international financial circles to serve on policy advisory bodies and sometimes to rotate through positions in

17. Lawrence H. Shoup and William Minter, *Imperial Brain Trust: The Council on Foreign Relations and United States Foreign Policy* (New York: Monthly Review, 1977), pp. 11–28.

18. Cited in Frank Costigliola, "United States–European Relations and the Effort to Shape American Public Opinion, 1921–1933," in Schmidt, ed., *Konstellationen Internationaler Politik*, p. 43. See also Costigliola, *Awkward Dominion*, pp. 56–75 and 140–66, and Robert A. Divine, *Second Chance: The Triumph of Internationalism in America During World War II* (New York: Atheneum, 1972), pp. 6–23.

government, usually at the State Department and the Federal Reserve Bank of New York. Indeed, during and after the war, the State Department and the Federal Reserve Bank of New York established durable working relations with the New York bankers. On every significant foreign policy initiative of the 1920s—from the Versailles Treaty itself, to war debts and reparations, to the tariff issue, to the Dawes and Young Plans, to the boom in foreign borrowing and the establishment of the Bank for International Settlements—the international bankers worked together with the like-minded internationalists of the State Department and the Federal Reserve Bank of New York in the evolution of policy.

The financial and other internationalists faced the opposition of extremely powerful forces of economic nationalism in the United States. Senior Morgan partner Thomas Lamont decried “the failure of the American people to understand that the United States of America held a new position in the world,” and later reflected on the unfortunate fact that “America entered upon the new decade of the 1920s in full panoply of wealth and power, but possessing little ambition to realize her vast potentialities for strengthening the world in stability and peace.”<sup>19</sup>

The stumblingblock was the existence of a considerable anti-internationalist political bloc with support from business people who had little interest in foreign affairs, worried about foreign competition, and opposed the export of American capital. The Commerce Department of Herbert Hoover, the prime mover of U.S. economic policy in the 1920s, was closely linked and deeply committed to American domestic industry. In foreign economic affairs, its principal concern was thus to promote industrial exports and primary imports, not overseas lending and manufacturing investment. America’s domestic industrialists could, like Hoover, agree on some things with the bankers. They all favored expanding American exports, and some kinds of imports. Yet there was little sympathy in domestically oriented industry for freer trade insofar as it meant manufactured imports. Domestic industrialists were also unhappy with American bank loans to foreign competitors, and some of them were wary of capital exports in general. As Hoover put it, “a billion dollars spent upon American railways will give more employment to our people, more advance to our industry, more assistance to our farmers, than twice that sum expended outside the frontiers of the United States.”<sup>20</sup>

The United States faced a bewildering array of foreign policy problems in the 1920s, and in virtually every case the tension between internationalists and nationalists defined the discussion and outcome. There is no need to

19. Thomas W. Lamont, *Across World Frontiers* (New York: Harcourt, Brace, 1951), pp. 215, 217–18.

20. Jacob Viner, “Political Aspects of International Finance,” *Journal of Business of the University of Chicago* 1 (April 1928), p. 146.

describe these debates at length, for there is an ample literature on them.<sup>21</sup> Three broad problems—European reconstruction, trade policy and capital exports—were of special importance, and later I shall summarize the major issues involved in these debates and note the common pattern. In virtually every case, internationalist financiers and their allies in the State Department and the Federal Reserve faced the opposition of nationalist forces in Congress and other segments of the executive. The internationalists were almost always defeated, forced to compromise, or forced to adopt some form of semi-official arrangement that kept the process out of the public eye.

### *European reconstruction and war debts*

The general desire of the United States international bankers was for the rapid reconstruction of Europe. Private funds might be used for this purpose but the financial shakiness of the potential borrowers (especially in Central Europe) made U.S. government involvement preferable. Inasmuch as the debts owed the U.S. government by the Allies were an obstacle to European reconstruction, especially since they encouraged the French to demand larger reparations payments from the Germans, the American financiers favored partial or total cancellation of official war debts.<sup>22</sup> All of this required American leadership: the United States government should help the Europeans back onto the gold standard, arrange for a government-backed bankers' consortium to restore Europe's shattered currencies, regularize and encourage American private capital exports to Europe, force the Europeans to negotiate a reduction of Germany's reparations burden in return for war debts leniency, and combat economic nationalism on the Continent.

This leadership was not forthcoming. Talk of war debt cancellation was quashed by economic nationalists in the Cabinet and in Congress, for whom war-debt forgiveness represented a levy on American taxpayers who would be called upon to make up the Treasury's loss, in favor of the country's European competitors. Although some refunding and reduction did occur, the bankers were forced to retreat. Government-backed loans to the Europeans were also vetoed, as was any official American involvement in the

21. See, in addition to works cited above, Paul P. Abrahams, *The Foreign Expansion of American Finance and its Relationship to the Foreign Economic Policies of the United States, 1907–1921* (New York: Arno, 1976); Herbert Feis, *The Diplomacy of the Dollar: First Era 1919–1932* (Baltimore: Johns Hopkins University Press, 1950); Joan Hoff Wilson, *American Business and Foreign Policy, 1920–1933* (Lexington: University Press of Kentucky, 1971); Frank Costigliola, "The United States and the Reconstruction of Germany in the 1920s," *Business History Review* 50 (Winter 1976), pp. 477–502; and Frank Costigliola, "Anglo-American Financial Rivalry in the 1920s," *Journal of Economic History* 38 (December 1977), pp. 911–34. Because the issues are so widely treated, citations will only be given where necessary to confirm a specific fact, controversial interpretation, or direct quotation.

22. On these issues, see the articles by Thomas Lamont, James Sheldon, and Arthur J. Rosenthal in *Annals of the American Academy of Political and Social Science* 88 (March 1920), pp. 114–38.

reparations tangle. Only in monetary matters, where the bankers' house organ, the Federal Reserve Bank of New York, was given fairly free rein, was limited progress made.<sup>23</sup>

Opposition to the bankers' plans solidified under President Warren Harding in the early 1920s. Congress and much of the executive branch were intransigent on the war debts and reparations issues. Herbert Hoover's Commerce Department was not generally favorable to financial schemes that might strengthen overseas competitors of American industry or that might allow foreign raw materials producers to raise prices to American manufacturers.<sup>24</sup> Morgan partner Thomas Lamont bitterly blasted "ill-advised steps for the collection of that debt, every penny, principal and interest," while Lamont's *New York Evening Post* editorialized: "We cannot emphasize too often the mischief for the European situation to-day wrought by Herbert Hoover's assertion that 95 percent of America's claims on the continent are good."<sup>25</sup>

It was not for lack of trying that the bankers were unable to secure government involvement. Benjamin Strong at the Federal Reserve Bank of New York played a major role in European reconstruction planning and implementation. As he said when proposing central-bank cooperation for exchange stabilization to an October 1921 meeting of the Board of Governors of the Federal Reserve System, "whether we want to or not we are going to take some part in this situation abroad. We probably won't do it politically, but we have to do it financially and economically." The governors, far more sympathetic to the desperate straits of European finances than the administration, were strongly in favor, as Governor Norris of Philadelphia indicated:

I think the three great opportunities that we have had to accomplish the stabilization of foreign exchange were, first, to go into the League of Nations; second, to make a readjustment of our tariff . . . and the third was to empower the Secretary of the Treasury to deal in an intelligent way with the refunding of foreign obligations. . . . But because we have lost those three it does not follow, of course, that we ought to throw aside and discard all others . . . [and] it seems to me that the proposition you have suggested is one that undoubtedly has merit and may reasonably be expected to accomplish some results.<sup>26</sup>

23. See especially Abrahams, *Foreign Expansion of American Finance*; and Costigliola, "Anglo-American Financial Rivalry," pp. 914–20. For an interesting view of one aspect of the war debts tangle, see Roberta A. Dayer, "The British War Debts to the United States and the Anglo-Japanese Alliance, 1920–1923," *Pacific Historical Review* 45 (November 1976), pp. 569–95.

24. Joseph Brandes, *Herbert Hoover and Economic Diplomacy* (Pittsburgh: University of Pittsburgh Press, 1962), pp. 170–96; and Melvyn Leffler, "The Origins of Republican War Debt Policy, 1921–1923," *Journal of American History* 59 (December 1972), pp. 585–601.

25. Cited in Silverman, *Reconstructing Europe*, pp. 157 and 189.

26. Cited in U.S. Congress, House of Representatives, Committee on Banking and Currency, Subcommittee on Domestic Finance, *Federal Reserve Structure and the Development of*

Yet a month later, the executive branch refused to allow a central bank conference that Strong and Montagu Norman of the Bank of England had proposed. Strong wrote to Norman at the time, "between the lines I read that there would in fact be no objection if the matter were undertaken privately and without government support or responsibility." Thus when the League of Nations' Financial Committee was supervising an Austrian stabilization program in 1922–23, the New York bankers were regularly consulted to ensure that the program would meet with the approval of U.S. financial markets—which it did when the U.S. portion of the stabilization loan was floated in June 1923.<sup>27</sup>

Nevertheless, for all intents and purposes the bankers' plans for an American-supervised economic settlement in Europe were foiled. As the Central European economies collapsed in 1923 and 1924, the administration attempted to balance the financiers' insistence on American involvement against equally insistent nationalist demands that the United States stay out of Europe. The State Department, anxious to use American influence and finance to stabilize Europe, began the process that would lead to the Dawes Plan in April 1924. The arrangement worked out was ingenious: negotiations were entrusted to an unofficial delegation of American business people, headed by internationally minded Chicago banker Charles G. Dawes and Owen D. Young, chairman of the board of General Electric. The prominent internationalist bankers and business people at the center of the negotiations consulted closely, if surreptitiously, with the State Department and the Federal Reserve Bank of New York.<sup>28</sup>

The Dawes Plan called for foreign supervision of German public finances, with reparations payments overseen by an American with discreet ties to Morgan's. The German currency was stabilized and investor confidence in Germany restored with a \$200 million bond flotation, of which J. P. Morgan and Co. managed \$110 million in New York.<sup>29</sup> All things considered, the plan was a reasonable compromise: it used American financial supremacy to settle (at least temporarily) a major European wrangle without committing the U.S. government directly. The only open government involvement was an encouragement to American investors to subscribe to the Dawes loan, and indeed Morgan received over a billion dollars in applications, ten times

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*Monetary Policy, 1915–1935: Staff Report* (Washington, D.C.: GPO, 1971), p. 62. I am grateful to Jane D'Arista for bringing these and other documents to my attention.

27. Hogan, *Informal Entente*, pp. 62–66.

28. See, for example, Stephen V. O. Clarke, *Central Bank Cooperation 1924–1931* (New York: Federal Reserve Bank of New York, 1967), pp. 46–57, and Charles G. Dawes, *A Journal of Reparations* (London: Macmillan, 1939), pp. 262–64, for evidence of just how central the bankers were.

29. The agent-general, S. Parker Gilbert, was a close associate of Morgan partner Russell Leffingwell. Costigliola, "The United States and the Reconstruction of Germany," pp. 485–94; Feis, *Diplomacy of the Dollar*, pp. 40–43; Leffler, *Elusive Quest*, pp. 90–112; Nearing and Freeman, *Dollar Diplomacy*, pp. 221–32; Nicolson, *Dwight Morrow*, pp. 272–78; Schuker, *French Predominance in Europe*, pp. 284–89.

the amount of the loan. The settlement satisfied most internationalists and most nationalists in the United States temporarily, and even this was quite a feat.<sup>30</sup>

*Free trade and the tariff*

Fundamental domestic differences over U.S. trade policy were harder to paper over. Indeed, the future of America's traditional protectionism was perhaps the most contentious issue in American politics in the 1920s. During World War I, the administration had apparently committed itself to low and flexible tariffs, in line with the bankers' preferences. When the United States became a major lender, foreign borrowers had to be permitted freer access to the U.S. market or loans could not be serviced. Tariff barriers, argued the bankers, were a cause of useless trade rivalries and war. As Morgan partner Dwight Morrow put it, "leadership in world trade is not a thing to be sought by any nation to the exclusion of all others."<sup>31</sup>

But in Congress, those American economic actors who demanded protection from foreign imports had the upper hand. In 1921, Congress passed a restrictive Emergency Tariff Act that was followed in 1922 by the Fordney–McCumber tariff.<sup>32</sup> This act had provisions that attempted to satisfy both protectionist industrialists and farmers and, less successfully, internationalist bankers, investors, and traders. The compromise was generally unsatisfactory to both factions, and controversy on the tariff raged throughout the 1920s. Few doubted that traditional American protectionism had returned, and the French Finance Ministry called Fordney–McCumber "the first heavy blow directed against any hope of effectively restoring a world trading system."<sup>33</sup>

Such financiers as Otto Kahn looked with dismay on the continued strength of protectionist sentiment:

Having become a creditor nation, we have got now to fit ourselves into the role of a creditor nation. We shall have to make up our minds to be more hospitable to imports. We shall have to outgrow gradually certain inherited and no longer applicable views and preconceptions and adapt our economic policies to the changed positions which have resulted from the late war.<sup>34</sup>

30. For Lamont's optimism, see *Proceedings of the Academy of Political Science* 11 (January 1925), pp. 325–32.

31. Nicolson, *Dwight Morrow*, pp. 191–92.

32. Wilson, *American Business*, pp. 70–75.

33. Cited in Silverman, *Reconstructing Europe*, p. 239.

34. Mary Jane Maltz, *The Many Lives of Otto Kahn* (New York: Macmillan, 1963), pp. 204–5. For the similar views of Norman H. Davis, see *Proceedings of the Academy of Political Science* 12 (January 1928), pp. 867–74. See also Wilson, *American Business*, pp. 65–100.

*Supervision of foreign loans*

In the early 1920s, opposition to the export of American capital mounted. Domestic industrial interests were concerned that the loans were strengthening foreign competitors, especially in Germany, and reducing the capital available to domestic producers. They were also concerned that loans to raw-materials producers might be used to organize producers' cartels that would raise prices charged to U.S. industry. Hoover and Treasury Secretary Andrew Mellon thus wanted to make new loans contingent on the use of at least part of them for the purchase of American goods, or to a commitment by the borrowers to allow American suppliers to bid on ensuing contracts; they also opposed lending to nations disinclined to service their war debts to the U.S. government and lending that might reinforce the position of suppliers to or competitors with American industry. The bankers, of course, along with Benjamin Strong of the Federal Reserve Bank of New York, opposed any government controls; Secretary of State Charles E. Hughes leaned towards their position.

In 1921, President Harding, Hoover, Hughes, and Mellon met with the leading New York bankers and reached an agreement that the banks would notify the Department of State of all foreign loans and give the department the opportunity to object. Formalized in 1922, the policy was applied as sparingly as possible by a State Department that supported the bankers. Even so, in a number of instances Hoover was able to override the bankers; two prominent successes were blocked loans to a French–German potash cartel and to Brazilian coffee-growers. The commerce secretary warned “the American banking community” that “the commissions which might be collected on floating such loans would be no compensation” for the “justifiable criticism . . . from the American potash and coffee consumers when [they] become aware that American capital was being placed at the disposal of these agencies through which prices were being held against our own people.” Hoover also threatened to form a pool to break a British rubber cartel, complained about American lending to the German steel trust, and he and Mellon succeeded in stopping several loans for reasons related to war debts or other foreign policy objectives.<sup>35</sup>

Here, again, the conflict between the international interests of financiers and the national concerns of many American business people and politicians clashed. Once more, the outcome was indecisive; the State Department

35. Hoover is cited in Joseph Brandes, “Product Diplomacy: Herbert Hoover’s Anti-Monopoly Campaign at Home and Abroad,” in Ellis Hawley, ed., *Herbert Hoover as Secretary of Commerce* (Iowa City: University of Iowa Press, 1981), p. 193. See also H. B. Elliston, “State Department Supervision of Foreign Loans,” in Charles P. Howland, ed., *Survey of American Foreign Relations 1928* (New Haven, Conn.: Yale University Press for the Council on Foreign Relations, 1928) pp. 183–201; John Foster Dulles, “Our Foreign Loan Policy,” *Foreign Affairs* 5 (October 1926), pp. 33–48; Brandes, *Herbert Hoover*, pp. 151–96; Feis, *Diplomacy of the Dollar*, pp. 7–17; Leffler, *Elusive Quest*, pp. 58–64.

succeeded in blunting most of Hoover's attacks on foreign lending he regarded as excessive, yet pressure never let up.

The deadlock between internationalism and nationalism that formed in the early 1920s remained in place throughout the Coolidge and Hoover administrations. Foreign economic policy retained much of its ambiguity, with government departments and the international bankers cooperating and colliding, depending on the issue and the department involved. Internationalist bankers and business people complained bitterly of the Commerce Department's attempts to restrict their activities and to penalize their overseas clients. As Owen Young wrote to Hoover in 1926, "I am sincerely troubled by our national program, which is demanding amounts from our debtors up to the breaking point, and at the same time excluding their goods from our American markets, except for those few raw materials which we must have."<sup>36</sup>

Although a wide range of issues in American foreign economic policy remained unsolved, the financiers fought continually to implement some form of European economic reconstruction. After the Dawes Plan gave Germany, and by implication other Central European borrowers, the stamp of approval of international finance, loans to Europe exploded. Between 1925 and 1930, Americans lent a total of \$5.3 billion to foreigners; \$1.3 billion went to Canada, \$1.6 billion to Latin America, and \$305 million to Japan. Virtually all of the rest—\$2.6 billion—went to Europe, as follows: Germany \$1.2 billion (47 percent of the European total), Italy \$345 million (13 percent), Eastern and Southeastern Europe \$386 million (15 percent), and Scandinavia \$385 million (15 percent); the remainder was scattered across a number of lesser borrowers.<sup>37</sup>

The United States had become the world's leading capital exporter, its bankers often acting as leaders in international financial consortia. By far the most important borrower was Germany; by 1929, American portfolio investment there had gone from nearly nothing to over a billion dollars (see Table 4). Germany and Central European prosperity, deemed essential to the political and economic stabilization of Europe, depended largely on injections of United States capital. Between 1925 and 1928, foreigners provided 39 percent of all long-term borrowing by the German public sector, and 70 percent of all long-term private borrowing; half of the foreign lending was from America.<sup>38</sup>

Yet it was clear to the financiers that European economic expansion was precarious, and the fundamental division of American foreign economic policy made it more so. The bankers and their allies in the State Department

36. David Burner, *Herbert Hoover: A Public Life* (New York: Alfred A. Knopf, 1979), p. 186.

37. These are recalculated from Lewis, *America's Stake*, pp. 619–29; her aggregate figures are inexplicably inconsistent.

38. McNeil, *American Money*, p. 282.

and the Federal Reserve System did what they could to solidify their tenuous attempts at international economic leadership. The curious and often awkward *modus vivendi* that evolved was illustrated by the financial stabilization programs arranged in a series of European nations between late 1926 and late 1928. In Belgium, Poland, Italy, and Rumania, cooperative central-bank credits—generally put together by the Bank of England and the Federal Reserve Bank of New York—were extended in conjunction with longer-term private loans, of which American banks typically provided at least half. The private bankers were closely involved in the negotiations leading up to the stabilization agreements.<sup>39</sup>

In early 1929, the international bankers who had put together the Dawes Plan—including many who had participated in the financial stabilization programs of the late 1920s—came together again to attempt a further regularization of international financial matters. The United States was represented (unofficially, of course, as at the Dawes Conference) by Owen Young and J. P. Morgan; Thomas Lamont was Morgan's alternate. After dealing with German issues, the conference established the Bank for International Settlements (BIS) to accept continuing German reparations (renamed "annuities") payments and, more broadly, to manage the international financial system. The BIS, which was the product of the American financiers, was to promote financial stability and take finance out of the hands of unreliable politicians. Indeed, it was founded in such a way as to make congressional approval unnecessary and congressional oversight impossible.<sup>40</sup>

The BIS, however, was powerless to counter the effects of the Great Depression. In May 1931, the Kreditanstalt failure triggered panic throughout Central Europe. President Hoover recognized the inevitable and, in late June 1931, declared a moratorium on the payment of war debts in an attempt to stave off, in Treasury Undersecretary Ogden Mills's words, "a major catastrophe of incalculable consequences to the credit structure of the world and to the economic future of all nations."<sup>41</sup> Nevertheless, in 1932, defaults began in Hungary, Greece, Bulgaria, Austria, Yugoslavia, Sweden, and

39. See Richard H. Meyer, *Banker's Diplomacy* (New York: Columbia University Press, 1970).

40. Frank Costigliola, "The Other Side of Isolationism: The Establishment of the First World Bank, 1929–1930," *Journal of American History* 59 (December 1972), and Harold James, *The Reichsbank and Public Finance in Germany 1924–1933* (Frankfurt: Knapp, 1985), pp. 57–94. On BIS attempts at international financial cooperation from 1930 to 1931, see William A. Brown, Jr., *The International Gold Standard Reinterpreted, 1914–1934*, vol. 2 (New York: National Bureau of Economic Research, 1940), pp. 1035–47. For the views of New York bankers see the articles by Shepard Morgan of Chase and Jackson Reynolds of the First National Bank of New York in *Proceedings of the Academy of Political Science* 14 (January 1931), pp. 215–34, and Shepard Morgan, "Constructive Functions of the International Bank," *Foreign Affairs* 9 (July 1931), pp. 580–91. For an excellent overview of this period, see Clarke, *Central Bank Cooperation*.

41. Cited in Leffler, *Elusive Quest*, p. 238. On German–American financial relations after 1930, see Harold James, *The German Slump: Politics and Economics 1924–1936* (Oxford: Clarendon Press, 1986), pp. 398–413.

Denmark; in 1933, Germany and Rumania joined the list. By the end of 1934, over 40 percent of American loans to Europe were in default.<sup>42</sup> In the interim, of course, the United States substantially raised tariffs, even though, as Morgan's Thomas Lamont recalled, "I almost went down on my knees to beg Herbert Hoover to veto the asinine Hawley-Smoot Tariff."<sup>43</sup>

The contradictory nature of American foreign economic policy in the 1920s was much noted by financiers and scholars at the time. On the one hand, there was a massive outflow of private capital to Europe while, on the other, European exports to the United States, necessary to debt service, were severely restricted. To top it off, the Harding-Coolidge-Hoover administrations insisted on considering the Allies' war debts to the U.S. government as binding commercial obligations, which further restricted Europe's capacity to service American commercial debts.<sup>44</sup> The reason for this vacillation was that two powerful sets of interests, economic nationalists and economic internationalists, were fighting for power within the United States, and the battle raged through the 1920s and into the 1930s.

The degree to which the contradictions of U.S. foreign economic policy were recognized by the general public is indicated in Franklin Delano Roosevelt's August 1932 campaign-speech explanation of American foreign lending in *Alice in Wonderland* style:

A puzzled, somewhat skeptical Alice asked the Republican leadership some simple questions:

"Will not the printing and selling of more stocks and bonds, the building of new plants and the increase of efficiency produce more goods than we can buy?"

"No," shouted Humpty Dumpty. "The more we produce the more we can buy."

"What if we produce a surplus?"

"Oh, we can sell it to foreign consumers."

"How can the foreigners pay for it?"

"Why, we will lend them money."

"I see," said little Alice, "they will buy our surplus with our money. Of course these foreigners will pay us back by selling us their goods?"

"Oh, not at all," said Humpty Dumpty. "We set up a high wall called the tariff."

"And," said Alice at last, "how will the foreigners pay off these loans?"

42. Lewis, *America's Stake*, pp. 400-1; Foreign Bondholders Protective Council, *Annual Report for 1934* (New York: FBPC, 1934), pp. 218-24.

43. Burner, *Herbert Hoover*, p. 298.

44. M. E. Falkus, "United States Economic Policy and the 'Dollar Gap' in the 1920s," *Economic History Review* 24 (November 1972), pp. 599-623, argues that America's enormous balance of trade surplus in the 1920s was due more to the structure and composition of U.S. industry and trade than to trade barriers. Whether this is true or not, the fact remains, as Falkus recognizes, that contemporaries on both sides of the tariff wall *perceived* U.S. tariffs to be of major significance in limiting European exports.

“That is easy,” said Humpty Dumpty, “did you ever hear of a moratorium?”

And so, at last, my friends, we have reached the heart of the magic formula of 1928.<sup>45</sup>

From 1914 on, major overseas investors, led by the international banks, rapidly extended their influence abroad and at home. Yet the battle for control of the state was undecided; instead of a unitary foreign policymaking apparatus with a coherent strategy, the United States had a foreign economic policy in the 1920s and early 1930s that was dualistic and irrational, in the sense that its various parts were in direct conflict with one another.<sup>46</sup> The political ambiguity of American foreign policy left American financial and other internationalists alone with their grandiose plans in a devastated world, determined that they would not again be defeated by forces that did not share their world vision.

### **The rise of American economic internationalism, 1933–1940**

Just as the shock of World War I dramatically accelerated the extension of American international economic interests, the shock of the 1930s accelerated the demise of America’s economic nationalists. During the first two Roosevelt administrations, economic internationalism gradually and haltingly came to dominate U.S. foreign policy, even as policymaking became ever more protected from the economic nationalists who continued to dominate the legislature. Faced with international and domestic economic crises of unprecedented depth and scope, the Roosevelt administration, after a brief attempt to rebuild international economic cooperation, retreated into domestic New Deal reforms, then slowly reemerged in the mid and late 1930s with a series of international economic initiatives that foreshadowed the postwar Bretton Woods system.

The Depression, indeed, had a devastating impact on the traditional economic and political base of the economic nationalists. Industrial production did not regain its 1929 peak until World War II, and in the interim few regarded industry as the dynamo it had been. Agriculture was even more

45. Feis, *Diplomacy of the Dollar*, p. 14.

46. These conclusions about American foreign policy in the 1920s differ a bit from those of some of the historians upon whose work my analysis is based. Leffler and Costigliola, especially, stress what they see as the unity of American policy, although both emphasize the importance of domestic constraints on this policy. In my view both scholars, despite their innovations, are too wedded to a modified Open-Door interpretation that overstates the unity and purposiveness of U.S. economic interests, and this methodological overlay colors their conclusions. I believe that the evidence, even as presented by them, warrants my analytical conclusions.

devastated. The banking system, of course, was also hard-hit, but most of the failures were of smaller banks. The big internationally oriented banks remained active both at home and abroad, although their economic and political influence was reduced both by the Depression itself and by Depression-era banking reforms. Table 1 demonstrates the continuing importance of international economic interests. Foreign direct investment, as a percentage of total corporate and agricultural invested capital, climbed through the 1930s, largely due to domestic deflation. Foreign bondholdings, of course, dropped because of defaults; this certainly harmed the bondholders but had little effect on the big investment and commercial banks themselves. In any case, holdings of foreign bonds remained substantial, and international bankers continued to hope that pre-1930 levels of lending could be restored.

When Roosevelt took office in March 1933, he hoped to reconcile two major goals: to stabilize international economic relations, and to resolve the country's pressing domestic economic problems. Britain had gone off the gold standard in 1931 to devalue the pound and improve Britain's trade position; it had also moved towards trade protection within the empire. By 1933 international monetary, financial, and trade relations were in shambles. At the same time, the United States was in the midst of a serious banking crisis, and the agricultural depression that had begun in the late 1920s was deepening. Roosevelt made no secret of the fact that his first priority was domestic, not international, stability.

The administration went into the international economic conference, which began in London in June 1933, willing to discuss some form of monetary cooperation with the British and French, but determined that these discussions should not interfere with domestic economic measures. As it turned out, the participants in the London conference were unable to reconcile national economic priorities with internationalism. Early in July, Roosevelt effectively wrecked the conference and any hopes for international currency stabilization, saying that "what is to be the value of the dollar in terms of foreign currencies is and cannot be our immediate concern."<sup>47</sup>

With the collapse of international cooperative efforts, Roosevelt turned his attention to the domestic economy. In October, U.S. began devaluing the dollar's gold value from \$20.67 to \$35 an ounce. Although the devaluation was not quite the success its proponents had expected, it did mark the administration's disenchantment with internationally negotiated attempts at stabilization.<sup>48</sup>

47. Stephen V. O. Clarke, *The Reconstruction of the International Monetary System: The Attempts of 1922 and 1933*, Princeton Studies in International Finance No. 33 (Princeton, N.J.: International Finance Section, Department of Economics, 1973), pp. 19–39; James R. Moore, "Sources of New Deal Economic Policy: The International Dimension," *Journal of American History* 61 (December 1974), pp. 728–44.

48. See especially John Morton Blum, *Roosevelt and Morgenthau* (Boston: Houghton Mifflin, 1970), pp. 45–53, and Ferguson, "Normalcy to New Deal," pp. 82–85. For a sympa-

Many international bankers approved of Roosevelt's domestic banking decisions and of the dollar devaluation. Yet as 1933 wore on, they were alarmed by his more unorthodox positions. Hostility between the administration and the financiers continued despite the attempts of Roosevelt and some of the bankers to call a truce, and in late 1933 and 1934, a number of financiers and policymakers close to the financial community left the administration or denounced it.<sup>49</sup>

The first two years of the Roosevelt administration were, in fact, characterized by divisions within the administration and the banking community, as well as a great deal of policy experimentation. Within the administration, a running battle was waged between Wilsonian Democrat Cordell Hull as secretary of state, Assistant Secretary Francis Sayre (an international lawyer and Wilson's son-in-law) and other free-trade internationalists on the one hand, and such economic nationalists as Presidential Foreign Trade Advisor and first President of the Export-Import Bank George Peek on the other.<sup>50</sup> To add to the confusion, Treasury Secretary Henry Morgenthau, Roosevelt's closest adviser on economic affairs, was both fascinated by and ignorant of international financial matters.

The nearly desperate economic crisis made the early Roosevelt administration willing to consider politically and ideologically unorthodox policies.<sup>51</sup> Indeed, much of the bankers' distrust of FDR in 1933–34 stemmed from the belief that he was embracing the notion of national self-sufficiency—economic nationalism with feeling—that was becoming so popular at the time and was often laced with semi-fascist ideology. For his part, Roosevelt was seriously concerned with the Depression's effect on the nation's social fabric, and was convinced that the British and French were insurmountable obstacles to a stabilization agreement that would allow for American economic recovery. Alarmed by the domestic political situation and thoroughly disenchanted with the British and French, Roosevelt enacted emergency measures to stabilize the system. Some financiers approved; most did not.

After the first frenzied phase of crisis management, however, the administration did indeed begin to move in a cautiously internationalist direction. In June 1934, Congress passed Hull's Reciprocal Trade Agreements Act, which

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thetic European view of Roosevelt's policy, see Paul Einzig, *Bankers, Statesmen and Economists* (London: Macmillan, 1935), pp. 121–57.

49. See Blum, *Roosevelt and Morgenthau*, pp. 40–42, and, for an interesting example, Irving S. Mitchelman, "A Banker in the New Deal: James P. Warburg," *International Review of the History of Banking* 8 (1974), pp. 35–59. For an excellent survey of the period, see Albert Romasco, *The Politics of Recovery: Roosevelt's New Deal* (New York: Oxford University Press, 1983).

50. For details of the Hull–Peek controversy, see Frederick C. Adams, *Economic Diplomacy: The Export-Import Bank and American Foreign Policy 1934–1939* (Columbia: University of Missouri Press, 1976), pp. 81–93 and Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy 1932–1945* (New York: Oxford University Press, 1979), pp. 84–85, 91–93.

51. For a discussion of the impact of crisis on ideologies and institutions, see Judith Goldstein, "Ideas, Institutions and American Trade Policy," this volume.

was broadly understood as a move towards freer trade. By 1934, too, the value of the dollar had been essentially fixed at \$35 an ounce, indicating a renewed commitment to currency stability. In spring 1935, Roosevelt began cooperating with the French (over British objections) to stabilize the franc and pushed for English, American, and French collaboration for exchange-rate stability.<sup>52</sup> In late 1935, George Peek resigned in disgust over Roosevelt's drift to internationalism.

The financiers responded optimistically, if cautiously, to the administration's international initiatives. Early in 1936, Leon Fraser of the First National Bank of New York expressed his general approval of administration policy and his wish that this policy might become wholehearted:

. . . [A]fter a period of painful trial and harmful error, the authorities have seemingly reached three conclusions, each vital to monetary stabilization at home and abroad. First, they have in fact, but in silence, rejected the proposed elastic dollar and have relinked the dollar to gold instead of to some commodity index. Second, they have been, and are, practising the gold standard internationally, subject to certain qualifications deemed to be necessary because of the present chaos. Third, as the logical next step, they stand ready to participate with other countries in the restoration of foreign exchange stabilization . . . Excellent—but a more affirmative stand will become necessary, a more explicit recognition of the responsibility which the advocacy of stabilization implies, and some assurances of a readiness to discharge these responsibilities in order to maintain the reestablished order.<sup>53</sup>

The commitment Fraser sought was indeed forthcoming. Through the summer of 1936 the Administration, the British, and the French moved slowly towards a "gentlemen's agreement" to restore their currencies' convertibility to gold and commit themselves to mutual consultations and intervention to avoid exchange-rate fluctuations. On 25 September 1936, the three governments agreed on a scheme embodying these commitments, with a dollar effectively linked to gold. The Tripartite Agreement—soon joined by Belgium, Switzerland, and the Netherlands—was a step towards rebuilding international economic cooperation. As one scholar has noted, "the Tripartite system may be seen as the beginning of an historical evolution that would issue after World War II in a global dollar standard."<sup>54</sup> For

52. Blum, *Roosevelt and Morgenthau*, pp. 64–67; Stephen V. O. Clarke, *Exchange-Rate Stabilization in the Mid-1930s: Negotiating the Tripartite Agreement*, Princeton Studies in International Finance No. 41 (Princeton, N.J.: International Finance Section, Department of Economics, 1977), pp. 8–21.

53. *Proceedings of the Academy of Political Science* 17 (May 1936), p. 107.

54. Harold van B. Cleveland, "The International Monetary System in the Inter-War Period," in Benjamin Rowland, ed., *Balance of Power or Hegemony: The Interwar Monetary System* (New York: NYU Press, 1976), p. 51. For a lengthier explanation of the ways in which the Tripartite Agreement marked the turning point in the evolution of U.S. economic internationalism, see Charles Kindleberger, *The World in Depression 1929–1939* (Berkeley: University of California Press, 1973), pp. 257–61. See also Blum, *Roosevelt and Morgenthau*, pp. 76–88; and Clarke, *Exchange-Rate Stabilization*, pp. 25–58.

the first time, the United States participated openly and prominently in leading the way towards international monetary cooperation, and the symbolic importance was more significant than any real accomplishments of the agreement.

By 1937, one prominent banker was able to name three developments that had given hope to those whose greatest fear was economic nationalism:

First, the tripartite monetary agreement of last September was a challenge to the application of economic nationalism in monetary affairs. Second, our bilateral trade negotiations are a challenge to economic nationalism in trade affairs. . . . Third, some progress is being made in the direction of the re-creation of a normal international capital market in the Western hemisphere by the recent and current negotiations with South America.<sup>55</sup>

Yet the developing internationalism was hardly the same as the bankers' gold-standard liberal orthodoxy. The new system compromised more with domestic countercyclical demand management and with the imperatives of the embryonic "welfare state."<sup>56</sup> Many of the financiers indeed realized that a return to the classical gold standard was unthinkable and, with Leon Fraser in 1936, looked forward merely to "a union of what was best in the old gold standard, corrected on the basis of experience to date, and of what seems practicable in some of the doctrines of 'managed currencies'."<sup>57</sup> Yet during the late New Deal, the foreign exchange cooperation of the Trilateral Agreement, the tentative attempts at trade liberalization (by 1939 the reciprocal trade agreements covered 30 percent of American exports and 60 percent of imports<sup>58</sup>) and newfound moderation towards errant debtors all indicated a less ambiguous internationalist course than at any time since Wilson.

### The episode considered

Economic nationalism reigned supreme in the U.S. political economy from 1860 until World War I, while since World War II, economic internationalism has dominated; the period considered here marks the transition from a

55. Robert B. Warren, "The International Movement of Capital," *Proceedings of the Academy of Political Science* 17 (May 1937), p. 71.

56. John G. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36 (Spring 1982), pp. 379–415, discusses the order that emerged.

57. *Proceedings of the Academy of Political Science* 17 (May 1936), p. 113.

58. Herbert Feis, *The Changing Pattern of International Economic Affairs* (New York: Harper, 1940), p. 95. Stephen Schuker has, in personal communication, insisted that it was not until 1942 or 1943 that Roosevelt moved away from extreme economic nationalism. He marshals important evidence and convincing arguments to this effect, but the account presented here reflects current scholarly consensus. If, as he has done in the past, Schuker can disprove the conventional wisdom, this analysis of U.S. foreign economic policy in the late 1930s would, of course, need to be revised in the light of new data.

protected home market to full participation in and leadership of world investment and trade. As such, it is of great interest to those who would draw more general conclusions about the origins of state policy in the international arena. The era involved open conflict over the levers of foreign economic policy. In the midst of this conflict, the state was unable to derive and implement a unitary foreign economic policy; faced with a fundamentally divided set of domestic economic interests in foreign economic policy, the state and its policies were also divided. Each grouping of economic interests concentrated its forces where it was strongest: economic internationalists built ties with the State Department and the Federal Reserve System, while economic nationalists concentrated their efforts on Congress and a congenial Commerce Department. As socioeconomic interests were split, so too were policymakers and foreign economic policy itself.

The Depression and eventually World War II weakened the economic nationalists and allowed the state to reshape both policies and policy networks. By the late 1930s, economic nationalists were isolated or ignored, and most relevant decisions were placed within the purview of relatively internationalist bureaucracies. As economic internationalism was consolidated, the foreign-policy bureaucracy came to reflect this tendency—even as, in pre-World War I days, the apparatus had been unshakably nationalist in economic affairs.

The evidence examined here provides little support for theories that regard nation-states as rational, unitary actors in the international system. The most serious challenge of the interwar period is to “statist” assertions that foreign policymakers represent a national interest that they are able to define and defend.<sup>59</sup> By extension, interwar American foreign policymaking calls into question systemic-level approaches that attempt to derive national foreign policies solely from the position of the nation-state in the international structure.<sup>60</sup>

The national interest is not a blank slate upon which the international system writes at will; it is internally determined by the socioeconomic evolution of the nation in question. Some nations aim primarily to expand their primary exports, others to restrict manufactured imports, still others to protect their overseas investments. These goals are set by the constraints and opportunities that various domestic economic interests face in the world arena, and by the underlying strength of the various socioeconomic groups. The ability to pursue these “national interests” successfully, and the best strategy to do so, may similarly be determined by international conditions, but the interests themselves are domestically derived and expressed within the domestic political economy. A nation dominated by agro-exporters may

59. See, for example, Stephen D. Krasner, *Defending the National Interest* (Princeton, N.J.: Princeton University Press, 1978).

60. As, for example, David A. Lake, “International Economic Structures and American Foreign Policy, 1887–1934,” *World Politics* 35 (July 1983), pp. 517–43.

respond to a world depression with redoubled efforts to expand exports, while a nation dominated by domestically oriented industry may respond to the same events with a spurt of industrial protectionism.

Nonetheless, underlying socioeconomic interests are mediated through a set of political institutions that can alter their relative influence. Although the relative importance of American overseas investment to the U.S. economy was roughly equal in the 1920s and 1970s, the institutional setting in the first period was far less suited to the concerns of overseas investors than it was in the second period. By the same token, policymakers can, at times, take the initiative in reformulating the institutional setting and the policies it has produced, as the Roosevelt administration did in the 1930s.

Indeed, one of the questions this survey of interwar American policy raises is the role of major crises in precipitating changes in political institutions, and in policymakers' room to maneuver. The Depression and World War II removed many of the institutional, coalitional, and ideological ties that had bound policymakers in the 1920s. In the United States, the result was the defeat of economic nationalism, but of course the crisis had very different effects elsewhere. It would be comforting to regard the victory of economic internationalism in the United States in the 1930s and 1940s as predetermined by the country's previous evolution and experiences, but this is far too facile a solution to a complex problem. A fuller explanation of the forces underlying American foreign policymaking in the 1930s and 1940s is clearly needed, and indeed it is the logical next step for the historians who have added so much to our understanding of the 1919–33 period, or for their followers.

More generally, the interwar period in American foreign economic policy is a fascinating and extreme case of a broader problem, the conflict between domestic and international interests in modern political economies. Virtually all nations have some economic actors for whom the international economy represents primarily opportunities, and others for whom it is mostly threats. This tension is especially evident in major capital exporters, since the needs of holders of overseas assets may well conflict with the desires of domestic groups. The twentieth century is full of examples in which the international–domestic divide has been central to political developments in advanced industrial societies: Britain and Germany in the interwar years are perhaps the best-known examples.<sup>61</sup> The American interwar experience is thus an important example of conflict between internationally oriented and domestically based interests. The conditions under which such interaction leads to major sociopolitical clashes or is overcome, and under which the foreign-

61. For a survey of each, see Frank Longstreth, "The City, Industry and the State," in Colin Crouch, ed., *State and Economy in Contemporary Capitalism* (London: Croom Helm, 1979), and David Abraham, *The Collapse of the Weimar Republic* (Princeton, N.J.: Princeton University Press, 1981). On a related issue, see Paul Kennedy, "Strategy versus Finance, in Twentieth-Century Britain," in his *Strategy and Diplomacy 1870–1945* (London: Allen & Unwin, 1983).

policy outcome is aggressively nationalistic or internationally cooperative, or some mix of the two, are obviously of great interest to analysts of international politics.

## **Conclusion**

This essay has used the evolution of U.S. foreign economic policy from 1914 to 1940 as a benchmark against which to examine the role of international and domestic determinants in the making of foreign economic policy. We have argued that the foreign economic policy of the United States in the interwar period was the result of domestic political struggle between domestic economic actors with conflicting interests in the international economy, and thus different foreign economic policy preferences. After World War I, many U.S. banks and corporations saw great opportunities for overseas expansion, and fought for U.S. foreign economic policy to be assertively "internationalist." Other U.S. corporations saw the world economy primarily as a competitive threat and fought for protection and "isolationism." The evolution of the international political and economic environment, the reaction of domestic actors to this evolution, and the unfolding of domestic political struggle combined to determine U.S. foreign economic policy. This essay's effort to specify the interplay of international and domestic forces in the making of foreign policy, raises real questions about approaches that ignore domestic determinants of foreign policy. Between 1914 and 1940 at least, the foreign economic policy of the United States simply cannot be understood without a careful analysis of conflict among the disparate socio-economic and political forces at work inside the United States itself. Such domestic forces deserve careful, rigorous, and systematic study.