

# Development of WE in the Interwar Period (1920s)

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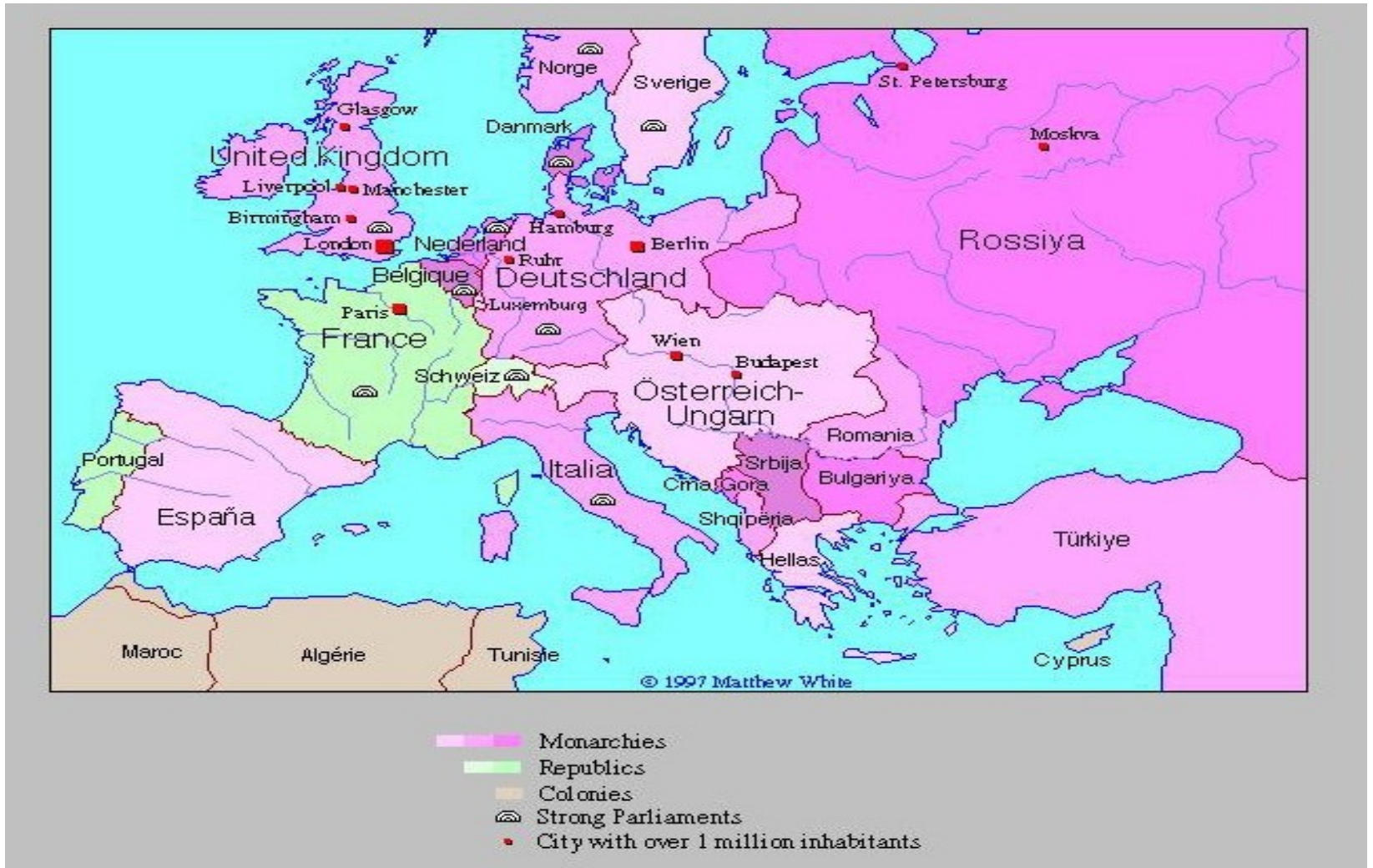
# World War I

1. Situation on the eve of the WWI
2. Von Schlieffen's plan
3. Progress of the war
4. WWI in numbers
5. Military economies

# A1. WWI

- **in 1914 the situation definitely not peaceful**
  - Strasbourg and its surroundings, population 50:50, gained by Germany in 1872
  - boundaries between AU-HUN and IT
  - problems AU-HUN and Serbia ⇒ attempt to take over Bosnia and Herzegovina
  - national movement inside AU-HUN – Czechs, Poles, Slovaks
  - Germany between FR and Russia + GB easy naval isolation ⇒ von Schlieffen's plan

# Europe before WWI



## A2. von Schlieffen's plan

- prepared in 1880 - 1890
- basics: rapid mobilization of FR x Russia slowly but extensively
- ⇒ at first defeat FR (6 weeks) and then Russia b/c not possible to defeat them at the same time
- ⇒ plan = in danger immediate mobilization and pass to FR across BE (assumption that BE allow free transit of DE)
  - Belgium neutrality since 1830

## A3. Progress of the war

- **death of the successor in Sarajevo**
  - b/c Serbia supported by Russia ⇒ DE mobilized
- rapid **attack on neutral BE** but BE fought
- ⇒ **DE problems** - in Russia only few divisions under Hindenburg (he stopped the Russians- Tanenberg) + others to BE
- DE finally broke through Swiss boundaries – **Battle of the Marne** (last barrier in front of Paris ⇒ DE stopped)

- **trench warfare**
- **GB blockade of sea** ⇒ DE without food and raw mat.
- **22. 4. 1915** – DE use of toxic gas (for the first time)
- 1915 IT involved on the side of the Entente (Allied Powers)
- 1917 Lenin sent to **Russia??** ⇒ revolution ⇒ Treaty of Brest-Litovsk and Russia have to pay + loss of territory + get outside of the war
- 1917 - entrance of USA to the war
- **1918 in DE** – no willingness to continue
  - + strikes + military failures + turbulent situation
  - ⇒ abdication of the kaiser + DE conclude peace
- **DE:** 1,6 mil. dead + high financial costs + BUT territory unaffected ⇒ conviction that they was not be defeated- someone sell them ⇒ Jews in government



## A4. WWI in numbers

- 24 states declared war on at least one of the Central Powers
- 50 seconds – maximum period for ordinary fighter to shoot from machine gun
- 31 m – range of German flame-thrower
- 61 m – average daily movement of GB in the Third battle of Ypres (31.7-12.12.1917)
- 125 km – distance from which DE blasted Paris
- 58 000 men - GB lost during the first day of the Battle of the Somme
- 727 km – length of the Western Front in 1914
- 136 Russian divisions fought in the front line in 1916

# A5. Military economies

- ↑ **state interventions** – control of markets
  - but private ownership kept
- **turn away from the gold standard**
- **centrally managed economies** –military production
  - gov. procurements, raw materials, fuels, LF assigned
- strict **control of foreign trade**
- **regulations of wages and prices**
- **rationing** (basic goods)
- financing of the war via **loans or inflation**
- but **differences** among countries

# Post-war situation

1. Consequences
2. Political situation
3. Economic development
  - a. Price level
  - b. Military loans
  - c. International trade

## B1. Consequences of WWI

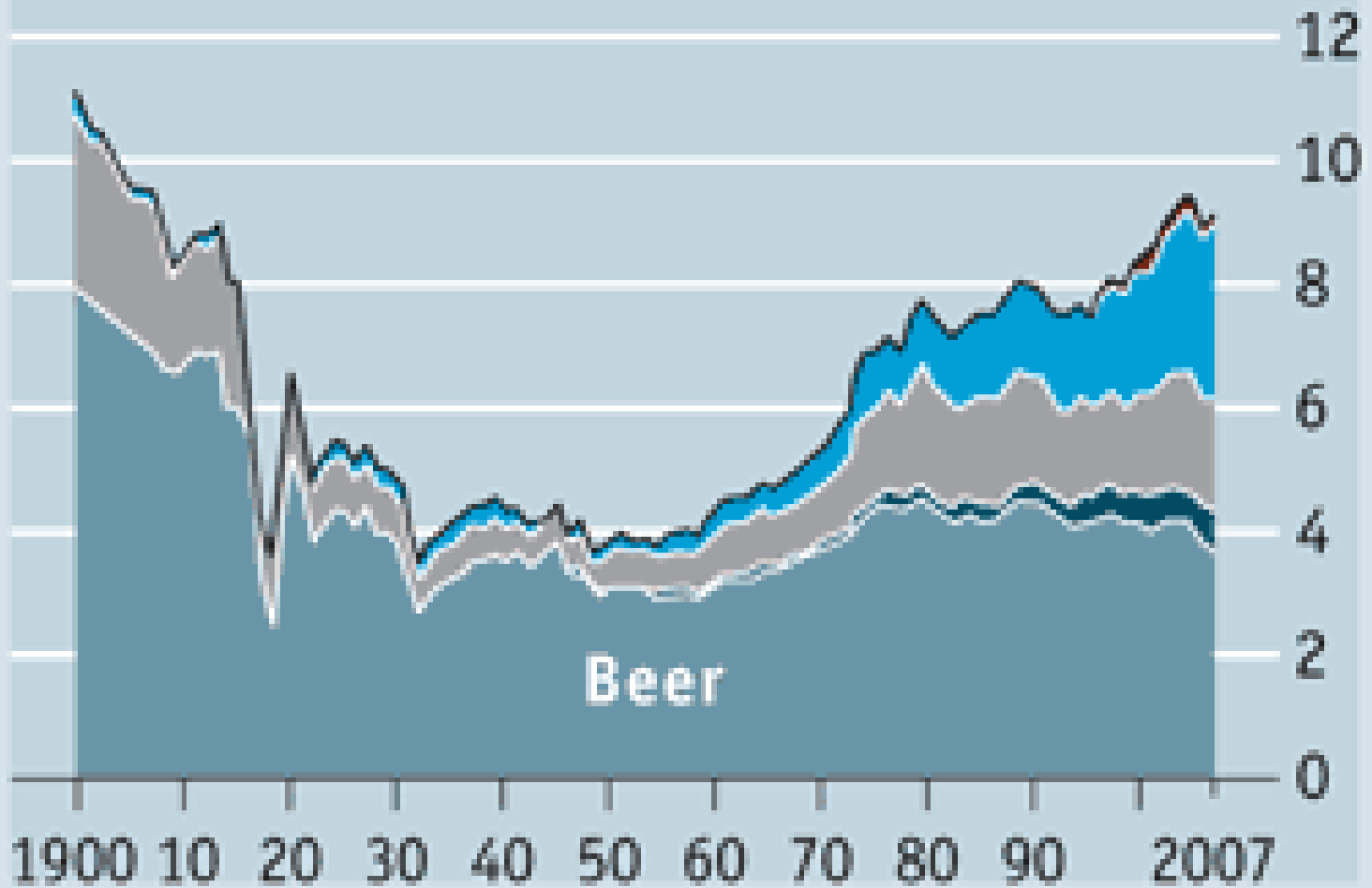
- **the largest war** until that time
- **huge death tolls and costs**
- considerable ↓ **economies and foreign trade**
- **at the first time**
  - non-professionals employed on a mass scale
  - male professions occupied by women (engineers, drivers, ...)
- **problems after the return of war veterans—  
women as cheaper LF**

## • casualties

- in total = 10 mil. dead + 20 mil. severely wounded (!different estimates)
  - the greatest share Russia - approximately 50% (+ famine and Spanish Influenza)
  - FR = 1,2-1,3 mil. (labour shortage  $\Rightarrow$  import from e.g. Algeria)
  - GB = 700 000 (NO labour shortage b/c colonies)
  - IT = 600 000
  - X GER=1,6 mil.
- casualties = young men with long work perspective

# Pure alcohol consumption per person, litres

Cider    Spirits    Wine    Alcopops



## Hook-ups crowd out hookers

	1911	2007
Typical annual income, \$'000 (2007 prices), for:		
.....		
street prostitutes	25	18
-----		
high end/escorts	430	200
.....		
Street prostitutes as % of shop workers' income	385	144
.....		
% of men who say they have ever paid for sex	69* (1948)	15 (2006)

Sources: "SuperFreakonomics", by Steven  
Levitt & Stephen Dubner, 2009;  
Payscale.com; The Kinsey Institute

\*White only

- **costs**

- direct = military expenditures => 180 - 230 mld \$ (in prices of 1914)
- indirect = property damage = > 150 bil. \$

- **economy**

- rapid ↓ world industrial production
- agricultural production approx. 1/3 below the standard
- EX = 1/2 of the figure from 1913
  - ... elimination of Eur competitors ⇒ ↑ non-Eur production
- ⇒ ∑ Eur economies halted for approx. 8 years
- + almost none help from abroad after the war



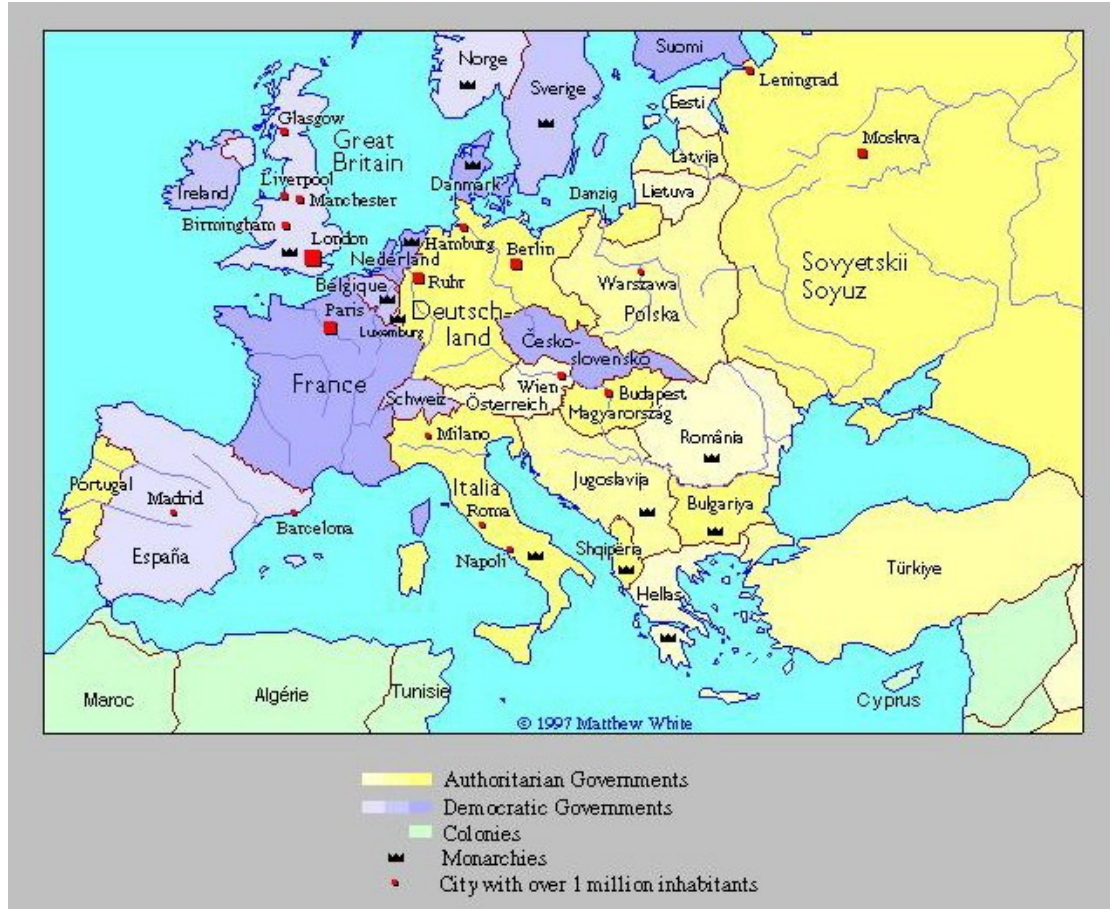
## Growth of industrial production (1913 =100)

	1913	1919	1920
Fighting European countries	100	63	69
Neutral European countries	100	99	101
The whole Europe, including Russia	100	66	72
Non-European countries	100	114	118
The whole world	100	90	97

# B2. Political situation after the war

- **post-war euphoria** = US president **Wilson** (1918) – **14 points program X to prevent future wars**
  - peaceful solution of conflicts (moral condemnation + economic pressure)
  - fair territorial division
  - The League of Nations
  - right to self-determination
    - ↑ Eur states from 20 ⇨ 27
      - at the expense of Germany, Austria-Hungary, Russia
      - without changes only NL, LU, CH, ES and PT
    - ⇨ ⇨ huge changes of borders (total length of new borders = 19 200 km)

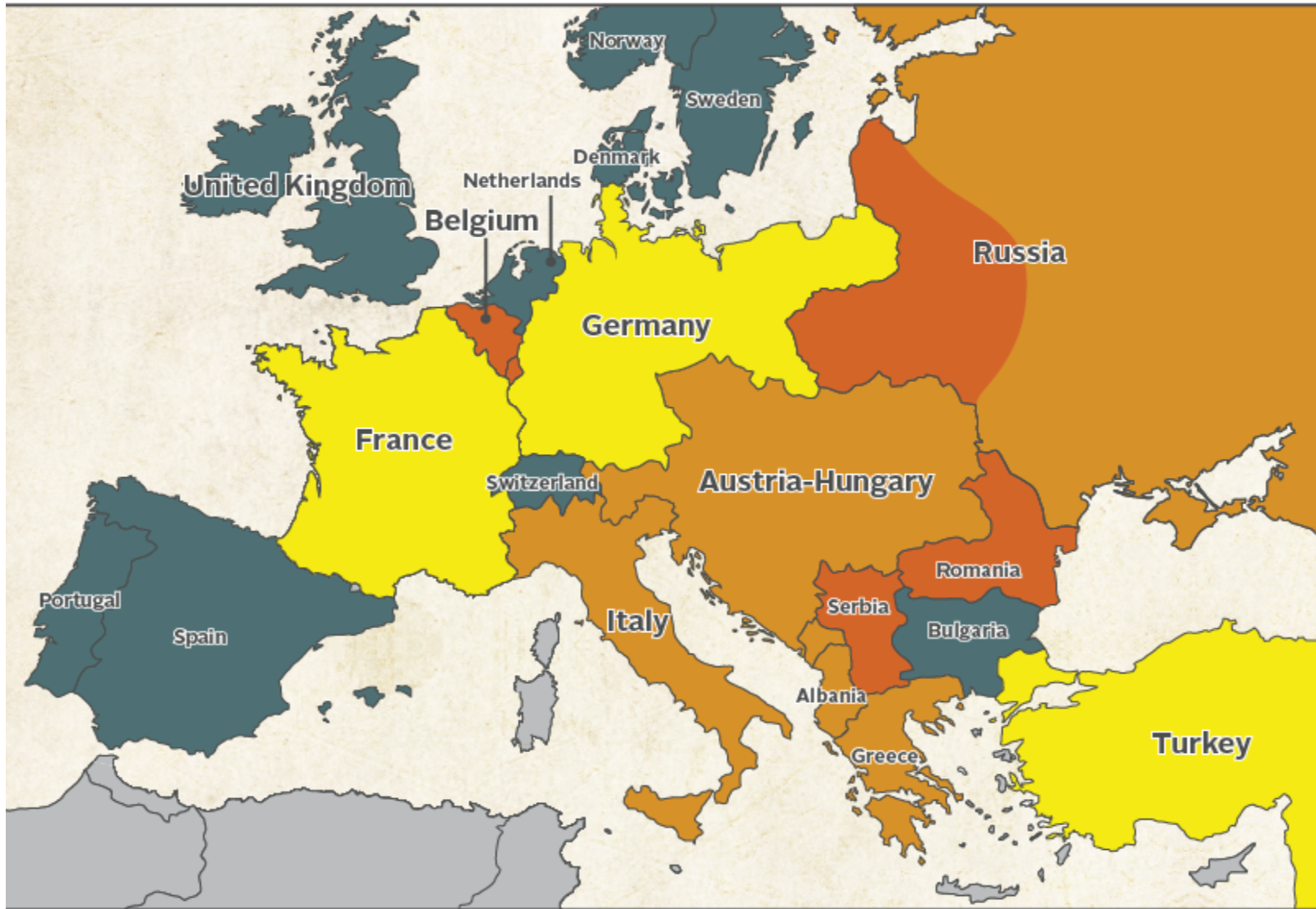
# World after WW1 (1937)



## • **newly created states -> problems**

- politically unstable countries
- ↑ borders ⇒ favourable for ↑ protectionism
- Separation from raw materials and markets
- no administrative apparatus
- no (stable) currency ⇒ inflation
- inconvenient transport network
- no experience with governance
- bad economic situation ⇒ danger of famine ⇒ social pressures
- + NACIONALISM ⇒ impact on trade

# FOOD SHORTAGES IN EUROPE, 1918



Source: *Food Guide for War Service at Home*



# Settlement in Europe

- **goals of powers after WWI:**

- FR – max weakening of DE = to ruin
- GB – maintain the stability = need of relatively powerful DE
- USA - power #1 – creditor of allies -> main interest in the repayment of loans + isolationism

- ⇨⇨ **Paris Peace Conference** ⇨ favourable for FR (mostly affected) ⇨  
peace treaty – **Treaty of Versailles**

- high reparations for DE + other weakening
- DE recognized as the only guilty party
- ⇨⇨ humiliation + conviction of not to be defeated

# B3. Post-war economic development

- **post-war economic boom**

- expectation of recession
  - return of war veterans
  - end of military orders, ...
  - BUT only moderate recession
- on the contrary – spring 1919 rapid growth ⇒ peak in 1920
  - GB, USA, JP

- the end of 1920 - slowdown  $\Rightarrow$  **1921 crisis**
  - reasons
    - reaction on the previous boom (production met the demand)
    - restrictions ( $\downarrow$ G +  $\uparrow$ T + simultaneous monetary restrictions)
    - political instability – strikes and political pressures
- BUT  $\downarrow$  only short-term period  $\Rightarrow$  **1922 again  $\uparrow$**
- $\Rightarrow$  **Eur pre-war level in 1925**
  - but considerable differences among countries
    - NL, NO, CSR and CH - rapid  $\uparrow$
    - X AU, PL – almost stagnation
- **1925 – 1929 – successful period**
  - worldwide  $\uparrow$  production of raw materials and food by 11% +  $\uparrow$  manufactures by 26%



## a. Price level

- **during the war  $\uparrow$  price level**
  - take away from the gold standard
  - enormous military expenditures
  - $\Rightarrow$  the simplest way = to print money
    - = different form of taxation
    - to make possible by long-term stable price level (100 years)  $\Rightarrow$  no experience with inflation  $\Rightarrow$  without immediate claims for indexation

- in the post-war period – **in most cases dealing with inflation**
  - Serious problems only in newly created states of CEE (PL and HU – in CSR no) + exceptions (AT and DE)
- **BUT also in developed countries certain ↑ prices** (mainly shortly after the end of the war)
  - saturation of the limited military demand
  - disintegration of international trade
  - release of military regulations
  - expansive fiscal and monetary policy

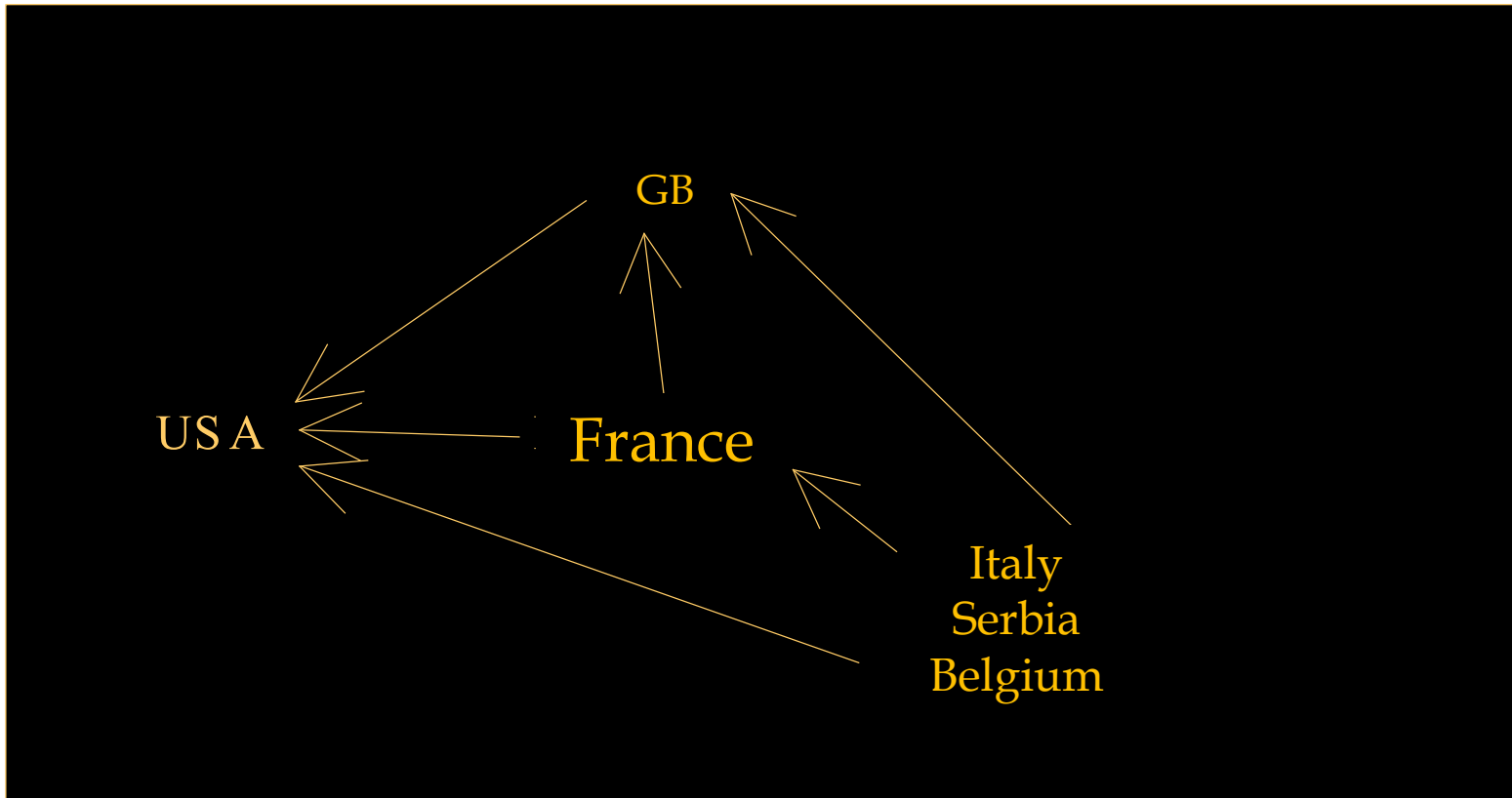
# Inflation after WWI, measured by the CPI (1914=100)

Country	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923
France	100	120	135	163	213	268	371	333	315	344
Austria	100	158	337	672	1163	2 492	5 115	9 981	263 938	76
The Netherlands	100	115	128	136	162	176	194	169	149	144
Italy	100	109	155	224	289	331	467	467	467	467
GB	100	124	143	176	200	219	248	224	181	176
The USA	100	102	115	138	169	193	194	169	165	168

## b. Military loans

- **the biggest problem** of the post-war Europe
  - During the WWI – weapons, food, ...
- **$\Sigma$  loans of the Entente** at the end of the war = 20 bill. \$
  - 1/2 USA
  - 7,5 bill. GB
  - 2,5 bill FR
- **USA's debtors**
  - GB 5 bill. \$ + FR 4 bill. \$ + IT 2 bill. \$ (CSR 200 mil. \$)

# Directions of international debts after WWI



- **the biggest creditor USA**

- Eur – expectation of write-off the loans X USA only ↓ r + extension of period of repayment
- BUT Eur insolvency + need of purchases
- ⇒ USA stopped the loans until EUR start to repay
- ⇒ **in 1920s** via bilateral negotiations ⇒ ↓ **loans to 12 bill. \$** ⇒ estimates of really repaid loans Σ 2,6 bill. \$

## c. International trade

- **disruption of links** during the war
  - before the war - GB, DE, FR a USA large shares
    - the most reliable partners
  - GB immediately after the outbreak of WWI blockade against DE
  - enormous trade
- **protectionism**
  - quantitative restrictions (in the course of WWI) ⇒ duties
  - in total the protection not too high (x 1930s)
- **problem with binding to gold** (parity)
- **pre-war volume of trade** reached in 1924
- 1925 - 1929 – **release of protectionism** ⇒ ↑ trade by 19%

# Protectionism

- **relations** among countries **not too friendly**
- **newly created states** in the Eastern Europe
- **USA Fordney-McCumber Tariff (1922)**
  - during the war no problems with demand  $\Rightarrow$  purchase of technologies by agriculturals (e.g. tractors and combines)  $\Rightarrow$  after the war return of Eur competitors  $\Rightarrow$  overproduction of agric. production  $\Rightarrow$   $\downarrow$  prices
- **non-Eur countries** – cut off from suppliers  $\Rightarrow$  development of own industries  $\Rightarrow$  return of competitors ...
- **problems with BofP**
  - Eur = IM of raw materials and goods + loans (need of BofP surplus for payments ) X main trading partner USA  $\uparrow$  protection



## Average tariffs collected (in %)

Country	1913	1925	difference	Country	1913	1925	difference
Spain	33	44	11	Sweden	16	13	-3
USA	33	29	-4	Austria	18	12	-6
Argentina	26	26	0	France	18	12	-6
Australia	17	25	8	Germany	12	12	0
Hungary	18	23	5	Switzerland	7	11	4
Czechoslovakia	18	19	1	Belgium	6	8	2
Italy	17	17	0	Denmark	9	6	-3
Canada	18	16	-2	The Netherlands	3	4	1
India	4	14	10	VB	0	4	4

# Development of Powers

1. Great Britain
2. France

3. Germany
4. USA

## C1. Situation in GB

- **loss of leading position**
- the war financed via sale of assets +  $\uparrow$  T
- $\Rightarrow$   $\downarrow$  C +  $\uparrow$  indebtedness +  $\downarrow$  navy (DE submarines) + loss of insurance (USA and CH) + loss of center of capital market + printing money  $\Rightarrow$   $\uparrow$  prices by 2x
- after WWI  $\uparrow$  BUT then long period of **stagnation**
  - high and permanent U

# Industrial production (1913=100), Real GDP (mil £ in 1938 prices) and U in UK

Year	Industrial production	GDP	Unemployment	Unemployment (according to Rostow)
1913	100	4 121		
1918	50	4 763	0.8	
1919	55.1	4 308	3.4	
1920	61.2	3 860	2	
1921	48.9	3 409	11.3	17
1922	56.5	3 542	9.8	14.3
1923	59.9	3 657	8.1	11.7
1924	66.5	3 765	7.2	10.3
1925			7.9	11.3

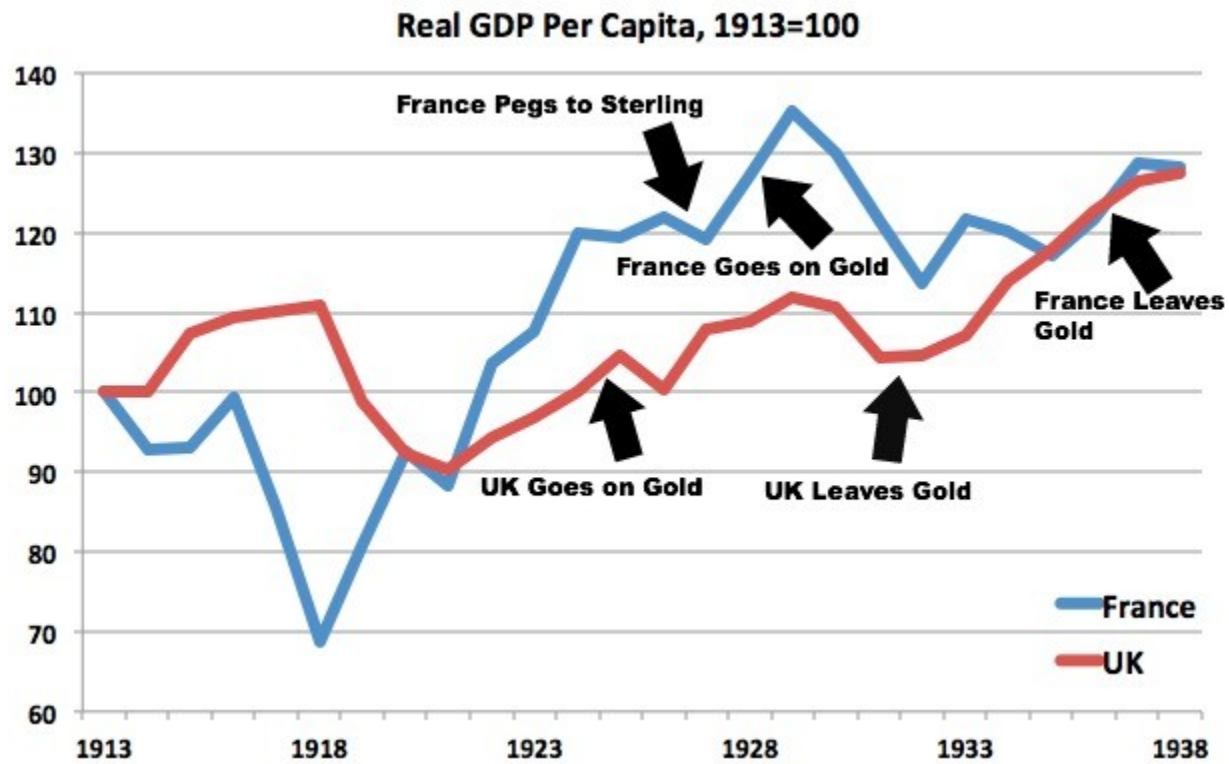
## C2.Situation in France

- 10% of the **territory devastated**
- industrial and agricultural **production** = 60% of pre-war level + EX only a portion
- ↑ **price level** (2,5 x higher than before WWI)
- sale of foreign assets + Bolsheviks
- **problems with BofP** (before WWI inflow of profits from INV)
- the biggest problems – **loans from USA**
  - ⇨ gain reparations from DE ⇨ FR refused to pay until DE pay the reparations

# GB and FR in 1920s

- **FR** – depreciation of EX rate X before WWI + franc undervalued
  - Rapid econ. ↑ - at the end of 1920s konec 20s substantially positive econ. results- ↑ industrial capacity
- **GB** – gold standard at the pre-war rate (prestige, tradition, ...) = pound overvalued by approx. 10%
  - constantly worsen economic results - U
    - economic policy – restrictive monetary policy ⇒ deflation
- ⇒ Fr a **GB opposite measures** ⇒ different economic results
  - adequate EX rate very important

# Real GDP p.c. in GB and FR



# C3. Situation in Germany

- still very **powerful**
- **consequences of the Treaty of Versailles**
  - territory
    - return of Alsace-Lorraine to FR
    - most of eastern Prussia and a part of Upper Silesia (raw materials) annexed by Poland
    - loss of colonies
    - + occupation of Saarland for 15 years by FR15 (coal)
    - + time unlimited demilitarized zone of 50 km along the right side of the Rhine
    - ⇒ 13% of territory lost ⇒ 10% of pop. + 75% of ore deposits, 25% of coal deposits and 15% of fertile land



- **army**

- interdiction of military air force
- confiscation of navy
- confiscation of weapons and munition
- + long-term limitation of armed forces

- **confiscation**

- majority of trading fleet
- 5 000 locomotives + 150 000 railway trucks + 5 000 lorries + ...

- loss of the majority of **foreign investments**

- + recognized as aggressor ⇒ to pay **reparations**
  - amount of reparations defined later

# Political development

- after WW1 – **Weimar Republic**
  - unstable governments
  - attempts at putsch
  - ↑ communist and nationalist tendencies
- **international isolation**
  - Treaty of Rapallo (1922)

# Reparations

- **Reparations Commission**  $\Rightarrow$  1921 results – DE immense r. =  $\Sigma$  132 bill. Gold marks (33 bill. \$)
  - mainly FR – loans from USA + to ruin DE + 1871 + DE gain reparations from Russia
- **quarterly fixed payment** (at the beginning of 1922) BUT no money and no possibility to make it
  - foreign INV confiscated
  - EX blocked
  - + lack of raw materials (also for EX)
  - $\Rightarrow$  need of loans BUT either USA did not loan to DE
    - attack on neutral BE considered amoral in USA
  - $\Rightarrow$  plea for new negotiations  $\Rightarrow$  rejected by FR  $\Rightarrow$  printing money
  - + radikalizace společnosti

- **7/ 1922 DE ask for a moratorium**

- GB possible X FR NO

- **at the end of 1922 – DE proclamation of total depletion of sources**

- ⇒ end of payments ⇒ FR and BE in problems – inability to pay loans ⇒ occupation of Ruhr area X DE without army ⇒ passive resistance BUT need of financing = printing money
  - favourable for CSR b/c EX of steel, coal and iron to the Ruhr area

# Inflation

- **↑ inflation already during the war**
  - b/c military expenditures financed due to political reasons not by **↑ T** BUT only by bonds
- huge **gov. deficit** in 1919-1923 taxes below 3% of expenditures ⇒ the difference financed through printing money
- **reparations + passive resistance** ⇒ printing money
- + pressures of pop to indexate wages + outflow of C to abroad + **↓** tax revenues ⇒ printing money ⇒ **↑ hyperinflation**
- + similar situation for the **exchange rate**
  - 1914 \$/DM 1:4,2 ⇒ the end of the war 1:14 ⇒ 7/1922 1:493 ⇒ 1/1923 = 1:17 792 ⇒ free fall 15. 11. 1923 1 : 4,2 trillion (4 200 000 000 000)

# German government income and expenditures, 1919 - 1923

Year	Income (billion gold marks)	Expenditures (billion gold marks)	Deficit (billion gold marks)	Deficit financing (%)
1919	2,559	8,560	5,999	70,08
1920	3,178	9,329	6,054	64,89
1921	2,927	6,651	3,676	55,27
1922	1,488	3,951	2,442	61,81
1923*	519	5,278	4,690	88,86

# Inflation in Germany after WWI (CPI 1913=100)

Country	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923
Germany	100	125	165	246	304	403	990	1 301	14 602	15 437 000 mil

- **hyperinflation 1923** = profit for someones BUT in total ↓ activities ⇒ at the end of the year = 1/2 1913 + ↑↑ U
- ⇒ demission and **new government (Stresemann)**
  - acceptance of the reality
  - end of passive resistance
  - possibilities to get over the crisis ⇒ new currency - Rentenmark = only fixed amount = stability
  - fiscal rstrictions (↓ G+ ↑ T)
- changing attitude of USA ⇒ help ⇒ establishment of the commission ⇒ end of 1923 – **Dawes Plan**
  - the plan accepted in DE BUT internal resistance ⇒ nationalism



- **economic consequences** of the Dawes Plan
- USA loans BUT no ↓ reparations – only change of repayments – **renewal of payments**
  - return to the gold standard in 1924 - Reichsmark
  - possibility to borrow from USA - ↑ capital inflow
    - Several times higher than the reparations ⇒ also ordinary expenditures
    - 1924/1928 huge amount of (governmental and private) loans
    - ⇒ = postponing problems
- 1926 - 29 – **conjuncture** in DE and world+ ↑ loans + DE pay the old ones
- 1929 end of new loans + requirements to repay the old ones ⇒ problems ⇒ **Young Plan**
  - ↓ reparations + extension of due time (1988) + ↓ annual repayments
  - the plan signed 20.1.1930 X opposition in DE
    - Accepted in referendum BUT ↑ nationalism

- Outbreak of economic crisis before the implementation ⇒ DE's **inability to meet its obligations**
  - ⇒ Hoover's moratorium (6/1931)
  - ⇒ the reparations remitted at the end of 1932 in Lausanne
  - + shift in worldwide public opinion
- **DE repaid only a part of the reparations**
  - estimates outside of DE = max 1/4
  - BUT impact of reparation on inflation in 1923
  - + later political consequence ⇒ since 1924 support of extremist parties ⇒ Hitler

	The Reparation Commission	DE Government
11.11.1918 - 31.8.1921	9,7	42,1
under Dawes Plan	7,6	8
pod Young Plan	2,8	3,1
other	0,8	14,6
<b>Total</b>	<b>20,9</b>	<b>67,8</b>

# C4. Situation in USA

- **superpower - Pax Americana**

- BUT isolationism (outside of The League of Nations)

- **crises after WWI + high U**

- BUT generally successful decade
- 1925/6 moderate recession
- $\uparrow$  productivity + low prices  $\Rightarrow$   $\uparrow$  real wages  $\Rightarrow$  boom of C  $\Rightarrow$  no revolutionary movement in USA
- end of the old economic principles?  $\Rightarrow$  continuous growth?

- **BUT problems in agriculture**

- 1920s  $\downarrow$  price  $\Rightarrow$  attempt to  $\downarrow$  costs  $\Rightarrow$   $\uparrow$  mechanization  $\Leftarrow$  loans from banks

- + **pop. indebted**  $\Rightarrow \Rightarrow$  banks in bad situation

- + **banking system** disintegrated (x monopolies)

# Reasons

- ↑ **specialization**
- ↑ implementation of **assembly lines** (Model T) - mass production – standardization and labour division
- reorganization of the production = new managerial methods – **taylorism** = separation of production from direction
- boom in **automobilism** (+ construction and electrification)
  - movement of pop. to suburban areas ⇒ boom in construction, migration, ...
  - ↑ whole industry b/c car components, roads, petrol stations
- **new sales methods** ⇒ e.g. for the first time loans offered by producers (not by banks)

# Stock exchange

- since 1925 **strong increase**
- **speculative growth**
  - shares not held as property BUT for speculations
  - ↑ difference between price of shares and dividends
  - system of purchasing shares – **via bank loans** (guaranteed by shares )
- **collapse – Black Friday 24. 10. 1929**
  - not the cause of the Great Depression !!!
  - + only 3% of households with INV in shares X 1987 and today

**Thanks for attention**