The Hopeful Years (1924–1929)

The formation of new governments in both Great Britain and France opened the door to conciliatory approaches to Germany and the reparations problem. At the same time, a new German government led by Gustav Stresemann (GOOS-tahf SHTRAY-zuh-mahn) (1878–1929) ended the policy of passive resistance and committed Germany to carry out most of the provisions of the Treaty of Versailles while seeking a new settlement of the reparations question. At the same time, the German government stabilized the currency and ended the extreme inflation by issuing a new temporary currency, the Rentenmark, equal to 3 trillion old marks.

In August 1924, an international commission produced a new plan for reparations. Named the Dawes Plan after the American banker who chaired the commission, it reduced reparations and stabilized Germany's payments on the basis of its ability to pay. The Dawes Plan also granted an initial $200 million loan for German recovery, which opened the door to heavy American investments in Europe that helped usher in a new era of European prosperity between 1924 and 1929.

THE SPIRIT OF LOCARNO With prosperity came new efforts at European diplomacy. The foreign ministers of Germany and France, Gustav Stresemann and Aristide Briand (ah-ruh-STEED bree-AHNH) (1862–1932), fostered a spirit of international cooperation by concluding the Treaty of Locarno (loh-KAHR-noh) in 1925. This guaranteed Germany's new western borders with France and Belgium. Although Germany's new eastern borders with Poland were conspicuously absent from the agreement, a clear indication that Germany did not accept those borders as permanent, many viewed the Locarno pact as the beginning of a new era of European peace. On the day after the pact was concluded, the headline in the *New York Times* ran "France and Germany Ban War Forever," and the *London Times* declared, "Peace at Last."[3]

Germany's entry into the League of Nations in March 1926 soon reinforced the new spirit of conciliation engendered at Locarno. Two years later, similar optimistic attitudes prevailed in the Kellogg-Briand pact, drafted by the American secretary of state Frank B. Kellogg and the French foreign minister Aristide Briand. Sixty-three nations eventually agreed to the pact, in which they pledged "to renounce war as an instrument of national policy." Nothing was said, however, about what would be done if anyone violated the treaty.

The spirit of Locarno was based on little real substance. Germany lacked the military power to alter its western borders even if it wanted to. And the issue of disarmament soon proved that even the spirit of Locarno could not induce nations to cut back on their weapons. The League of Nations Covenant had suggested the "reduction of national armaments to the lowest point consistent with national safety." Germany, of course, had been disarmed with the expectation that other states would do likewise. Numerous disarmament conferences, however, failed to achieve anything substantial as states proved unwilling to trust their security to anyone but their own military forces.

The Effects of Inflation. The inflationary pressures that had begun in Germany at the end of World War I intensified during the French occupation of the Ruhr. By the early 1920s, the value of the German mark had fallen precipitously. This photograph shows German children using bundles of worthless money as building blocks. The wads of money were cheaper than toys.

COEXISTENCE WITH SOVIET RUSSIA One other hopeful sign in the years between 1924 and 1929 was the new coexistence of the West with Soviet Russia. By the beginning of 1924, Soviet hopes for Communist revolutions in Western states had largely dissipated. In turn, these states had realized by then that the Bolshevik regime could not be ousted. By 1924, Germany, Britain, France, and Italy, as well as several smaller European countries, had established full diplomatic relations with Soviet Russia. Nevertheless, Western powers remained highly suspicious of Soviet intentions.

The Great Depression

After World War I, most European states hoped to return to the liberal ideal of a market economy based on private enterprise and largely free of state intervention. But the war had vastly strengthened business cartels and labor unions, making some government regulation of these powerful organizations appear necessary. Then, too, the economic integration of Europe before 1914 that had been based on free trade was soon undermined by a wave of protectionism and trade barriers, and reparations and war debts further damaged the postwar international economy. Consequently, the prosperity that did occur between 1924 and 1929 was uncommonly fragile, and the dream of returning to a self-regulating market economy was mere illusion. Then, to dash the dream altogether, along came the Great Depression.

CAUSES Two factors played an important role in bringing on the Great Depression: a downturn in domestic economies and an international financial crisis caused by the collapse of the American stock market in 1929. Already in the mid-1920s, prices for agricultural goods were beginning to decline rapidly due to overproduction of basic commodities, such as wheat. During the war, farmers in Argentina, Australia, Canada, and the United States had expanded food production to meet the demands of the warring European nations. After the war, these farmers did not curtail production, expecting that Europe would not recover from the devastation of its fields and the loss of farmers. By 1927, however, European production returned to prewar levels, causing a sharp decline in commodity prices. Prices fell by 30 percent between 1924 and 1929. Meanwhile, an increase in the use of oil and hydroelectricity led to a slump in the coal industry even before 1929.

Furthermore, much of Europe's prosperity between 1924 and 1929 had been built on American bank loans to Germany. Twenty-three billion new marks had been invested in German municipal bonds and German industries since 1924. Already in 1928 and 1929, American investors had begun to pull money out of Germany in order to invest in the booming New York stock market. The crash of the American stock market in October 1929 led panicky American investors to withdraw even more of their funds from Germany and other European markets. The withdrawal of funds seriously weakened the banks of Germany and other central European states. The Credit-Anstalt, Vienna's most prestigious bank, collapsed on May 31, 1931. By that time, trade was slowing down, industrialists were cutting back production, and unemployment was increasing as the ripple effects of international bank failures had a devastating impact on domestic economies.

UNEMPLOYMENT Economic depression was by no means a new phenomenon in European history. But the depth of the economic downturn after 1929 fully justifies the "Great Depression" label. During 1932, the worst year of the depression, one British worker in four was unemployed, and 6 million Germans—40 percent of the German labor force—were out of work. Between 1929 and 1932, industrial production plummeted almost 50 percent in the United States and nearly as much in Germany. The unemployed and homeless filled the streets of cities throughout the advanced industrial countries (see the box on p. 801).

SOCIAL AND POLITICAL REPERCUSSIONS The economic crisis also had unexpected social repercussions. Women were often able to secure low-paying jobs as servants, housecleaners, or laundresses while many men remained unemployed, either begging on the streets or staying at home to do household tasks. Many unemployed men, resenting this reversal of traditional gender roles, were open to the shrill cries of demagogues with simple solutions to the economic crisis. High unemployment rates among young males often led them to join gangs that gathered in parks or other public places, arousing fear among local residents.

Governments seemed powerless to deal with the crisis. The classical liberal remedy for depression, a deflationary policy of balanced budgets, which involved cutting costs by lowering wages and raising tariffs to exclude other countries' goods from home markets, only served to worsen the economic crisis and create even greater mass discontent. This in turn led to serious political repercussions. Increased government activity in the economy was one reaction, even in countries like the United States that had a strong *laissez-faire* tradition. Another effect was a renewed interest in Marxist doctrines, since Marx had predicted that capitalism would destroy itself through overproduction. Communism took on new popularity, especially among workers and intellectuals. Finally, the Great Depression increased the attractiveness of simplistic dictatorial solutions, especially from a new movement known as **fascism**. Everywhere in Europe, democracy seemed on the defensive in the 1930s.

The Great Depression: Bread Lines in Paris. The Great Depression devastated the European economy and had serious political repercussions. Because of its more balanced economy, France did not feel the effects of the depression as quickly as other European countries. By 1931, however, even France was experiencing lines of unemployed people at free-food centers.