

The History of the Twentieth Century

Episode 315

“Lessons Learned IV: The Great Crash”

Transcript

[music: Fanfare]

The year 1919 ushered in a remarkable new era. Allied leaders met in Paris for something akin to a World Parliament to hammer out the terms under which international affairs would now be conducted.

It was the first attempt to replace the ancient maxim of *Vae victis* with something more civilized, more modern, more suited to the twentieth century. And it crashed and burned in just twenty years.

Welcome to *The History of the Twentieth Century*.

[music: Opening Theme]

Episode 315. Lessons Learned, part four: The Great Crash.

H.G. Wells dubbed the Great War *The War That Will End War*, which was the title of a collection of essays published shortly after the war began in 1914. Originally intended as a sort of solemn pledge never to allow the genie of modern ultra-lethal warfare out of the bottle again, the phrase is only used in our time with heavy irony.

Before we delve into the story of the war itself, I want to take this week’s episode to ruminate on the failure of all those idealistic ambitions that emerged after the Great War. Once again, we’ll do this in the form of a listicle, just as we did back in episodes 36, 79, and 174.

The top ten lessons to be learned from the failure of the Paris Peace Conference and the outbreak of a Second World War:

10. Militarism is harder to extinguish than you might think.

When H.G. Wells and the others who wrote about the end of war held out that vision, the argument ran like this: that most of the advanced Western nations had already outgrown

militarist, expansionist tendencies. The war only broke out because of Germany's unwillingness to let go of its atavistic attachment to its autocratic Kaiser and its Prussian military traditions. Once Germany was defeated and militarism discredited, that would be that. War, at least in Europe, would be obsolete.

Germany was defeated, but German militarism proved more resilient than the optimists anticipated. After the German Revolution, the new civilian republican government made a devil's bargain with the German military, under which the military allowed the civilian government to have its way in domestic, civilian affairs, in exchange for which the government would allow the military command free rein over military matters. Hence, Germany had its secret military factories and its secret research and training facilities in other countries, notably the USSR. It had its *Stahlhelm* and *Freikorps* and its flying clubs; paramilitary organizations created to evade the restrictions of the Treaty of Versailles.

Germany never made a serious effort to demilitarize itself. The Allies built terms into the Treaty of Versailles meant to force Germany to demilitarize, including inspections and reparations payments that were partly intended to make German remilitarization impossibly expensive. But the German military found ways around these restrictions. And although this was an open secret, the Allies never found the will or the way to stop them.

9. But militarism was never unique to Germany.

The claim that Germany was the only Western nation not to have shaken off its militarism doesn't stand up to any kind of scrutiny, and Germans were right to take umbrage at suggestions that their nation alone was responsible for the war. Austria-Hungary and Imperial Russia were at least equally culpable, although both those nations disappeared, so perhaps it was a moot point.

It wasn't moot, though, that the Allied nations of Italy and Japan each almost blew up the Paris Peace Conference over territorial claims. The Conference granted Japan's claim to the Shandong Peninsula in China for no better reason than that Japan would have walked out of the Conference if they hadn't. The Conference did stand up to the Italians, but Italian bitterness over that perceived insult helped push that nation down the road to Fascism.

The leaders of the Soviet Union would have said that socialist nations by definition don't start wars. Expect that claim to be disproved in the near future. The United States dabbled in imperialism in the early century, but had lost its appetite for taking new territories by 1939. I haven't gotten into this yet, but the US was already preparing the Philippines for independence, and in population terms the Philippines represented the vast majority of US colonial holdings.

After the war, Britain and France said the right things about peace, but they already had vast colonial empires, arguably vaster than they could handle. From the point of view of Tokyo or

Rome, the British and French were hypocritically denying Italy and Japan colonial holdings even as they struggled to hold onto their own.

The old 19th-century idea of bigger and stronger nations inevitably expanding into empires and swallowing up smaller and weaker nations was becoming discredited after the Great War, but it became discredited among nations disinterested in empires, like the US and the USSR, and among nations that already held as much empire as they could manage, like Britain and France. This left nations like Italy and Japan, and later Germany, feeling left out. And nations that feel they have no stake in the international order will inevitably feel they have no stake in protecting it.

8. The world is still grappling with the pace of technological change.

I talked at some length in the run-up to the Great War and during the war about how costly modern weapons had become, and how quickly military technology was changing. In the previous century, a new ship added to a navy might be expected to remain in service as long as 30 to 50 years. Now, in the 1930s, ships just ten or twenty years old are looking like antiques. Tanks are evolving rapidly; so are airplanes.

All this is expensive. It is also destabilizing. In 1939, no one really knew what modern tanks and planes could do. Weapons more fearsome than anything seen before fit in nicely with fascism, an ideology more fearsome than anything seen before, or at least one that claimed to be. Democratic nations, on the other hand, had embraced the principles of the Paris Peace Conference, principles of self-determination of peoples and arbitration of international disputes. New generations of more fearsome weapons did not reinforce those principles; they undermined them.

The British policy of appeasement toward Germany fell into such disrepute that the very word *appeasement* today bears a negative connotation. But no less an authority than Winston Churchill said, after the Second World War, “The word appeasement is not popular, but appeasement has its place in all policy. Make sure you put it in the right place...[A]ppeasement from strength is magnanimous and noble and might be the surest and perhaps the only path to world peace.”

But from whose point of view? Neville Chamberlain thought he was being magnanimous and noble. Adolf Hitler thought he was being weak and cowardly. The difference in their perspectives reflects the ideological difference between them. To Chamberlain, it was about advances in modern diplomacy; to Hitler it was about advances in modern weapons.

The Great War had left a generation questioning the old certainties, and questioning traditional authority figures in government and society, including the Christian churches. Advances in science and learning, like relativity and Freudian psychoanalysis, were also raising new questions about old certainties. One of the outcomes of this was the rise of new art forms that

represented a sharp break with what came before: jazz and twelve-tone music, Bauhaus architecture, art deco, and Dadaism, just to name a few. Some of these were more successful than others, but they all represented artists rejecting the received wisdom of their field, returning to first principles, and creating something entirely new.

This post-war eruption of ideas that contradicted what had previously been thought of as settled truth also produced a backlash from those who refused to accept them. It is not a coincidence that fascism arose at this time, and especially not a coincidence that fascism deplored jazz and Bauhaus and relativity and all the new thinking. There was already a sizeable constituency of people looking for someone to tell them it was okay to reject these new ideas, and fascism fit the bill.

Technological change was affecting the economy, too. Just as it made navies more expensive, so too did it make farming, work traditionally done with hand tools that now required costly machinery to stay competitive. Similarly, advances in electric machinery and mass production made factories more productive, at the cost of making them more expensive. But the farmers and the workers didn't profit from these productivity gains; bankers and stockholders did. It was good for the stock market, but not for ordinary people.

Eventually, it wasn't even good for the stock market. Which brings me to:

7. Economies go forward, not backward.

The dream of the victorious Allies following the Great War was...reestablishing the Belle Époque. Funny thing: it turns out that it's easier to blow up the international order than it is to rebuild it.

First of all, the Belle Époque looks much more attractive through the rearview mirror. It was a pretty good time for a certain segment of people: wealthy and middle-class folks in the Western nations. But these people only represented 5-10% of the world population. Life wasn't so great if you were living in an India wracked with famines or a China plagued by poverty and disease. And don't even get me started on the Congo.

Even in the most advanced Western nations, you were far better off as a journalist in Vienna than as a farmer in Bosnia, or as an aristocrat in England than as a factory worker in Glasgow, or as a college professor in New York than as a laborer in the Chicago stockyards.

There were plenty of people in 1920 who had no interest whatsoever in bringing back the world of 1910, and I haven't even gotten to the new governments of China and Russia, or the new nations of Poland and Czechoslovakia and Estonia, and on and on.

And even those who were determined to bring back the “good” old days, among whom I would count the ruling elites of the Western democracies, had to contend with the wrenching economic changes the war brought. Principal among these was the deep debt all the war’s combatants fell into.

Russia solved this problem by repudiating its foreign debts, not that it would have been able to pay them anyway, after the dual devastation of the Great War and the Civil War. Germany dealt with its war debt through inflation, which is pretty much the same thing as repudiation, only with a fig leaf of respectability.

Even so, the Weimar government struggled to pay Germany’s reparations along with generous social programs to keep the German left happy and secret military programs to keep the German right happy.

At the same time, the Allies, especially France and Britain, struggled to pay their war debts while also restoring the gold standard. That was impossible without a difficult choice. They could go the French method of devaluing their currency, which hit French investors already reeling from the Russian debt repudiation, while also opening the country to rich Americans buying up properties on the Riviera and lighting their cigars with 20-franc notes. *Quelle disgrâce!*

Or they could go the English route of deflation: cutting government spending to the bone and squeezing the wages of people who don’t even have central heating or indoor plumbing.

The United States, with its bulging gold reserves, could have been magnanimous. Instead it turned into Uncle Shylock. Sacrificing the lives and welfare of young Americans for the sake of peace and security in Europe is one thing, but our gold? Never! Even though US leaders never had a good answer for Montagu Norman’s question, “What are you going to do with all that gold, anyway?”

Whether a nation went the French route or the British route, the best way to ease the pain was through increasing exports. The Germans needed to increase exports too, to help with those reparations payments. But one of the sad ironies of this era was that the country that had a leg up on exports was also the country that least needed it: the United States. Mass production made possible by modern technology turned the US into an export tiger at a time when the world economy would have been much better off if America had been importing more.

You can’t have a world in which every country is pushing to increase its exports all at once. Not that they didn’t try. The result was inevitably a collapse in prices, beginning with the prices of agricultural products and raw materials, which disproportionately harmed countries like Canada, Mexico, Brazil, Chile, and Argentina. Price collapses meant deflation, which meant that debtors, both nations and individuals, suddenly found their debts far more difficult to pay.

6. A nation can't be rich if its citizens are poor.

Economic theory of the time held that government budget deficits are always bad, and doubly bad when the economy is struggling. So when the economic squeeze came, conventional economic theory advocated balancing government budgets, mostly by cutting programs to assist the poor, the disabled, the unemployed, veterans, or the elderly.

The problem here is akin to the import/export problem. Nations can't all decide they are going to import less and export more. If they try, what you get is a general contraction in world trade. Similarly, if individuals within a nation all decide to buy fewer goods and services, then fewer goods and services are sold. The sum total of goods and services sold is the gross domestic product, so if everyone stops buying, the GDP shrinks. If government, which is one of the biggest players in the national economy, also decides to cut back its spending, this will only shrink the GDP faster.

An economic slowdown is about more than stock markets and corporate earnings. Economic slowdowns cause real human misery. They cause children to be less healthy, students to receive less of an education, and able-bodied adults to lose years' worth not only of income, but of asset growth, including skills and experience, the most important assets of all.

The argument is always made that any attempt to remedy the economic slowdown will only make matters worse, and that all is required is patience until the slowdown sorts itself out. It usually comes from those who are doing all right in spite of the slowdown, because it's a whole lot easier to counsel patience when it's not your children who are malnourished, not your house that's getting foreclosed on.

The gold standard figures into this too, especially in the English-speaking world. The British government was keen on restoring the exchange rate between pounds and gold at its pre-war value. That decision made cuts in government spending and economic contraction inevitable.

The argument here was that if you allowed your currency to depreciate in value, people wouldn't want it anymore. As if anyone ever doesn't want money. The moral version of this argument was that a pound note was a contract, and if the Bank of England reduced the amount of gold it was willing to offer in exchange for a pound note, that was breach of contract. But somehow, no one ever argues that it's immoral to ask debtors to pay back their debts in currency that was worth more than when they borrowed it. Which tells you something about who is making these moral arguments. As usual, John Maynard Keynes said it best when he said people resort to moral arguments in economic debates when they don't have any rational ones.

In fact, governments should increase spending when the economy is shrinking, and spend less when the economy is growing; in this way, government spending acts as a counterweight, dampening the swings of the business cycle. Unfortunately, this idea is counterintuitive. When the public sees everyone else cutting back, they tend to think government should do the same.

So what you saw in the Thirties was Western democracies tightening up on government spending, which weakened their economies further, while undemocratic nations like Germany and Japan and Russia and Italy responded to the Great Depression by ramping up government spending and participation in the economy, largely by building up their militaries.

Again, John Maynard Keynes saw the problem. There's no point in saying we should do nothing because things will get better in the long run, because in the long run, we'll all be dead.

5. People who are hungry and out of a job are the stuff of which dictatorships are made.

These are not my words; they come from US President Franklin Roosevelt. But he's absolutely right.

People who are suffering under economic hardship are only going to listen to you counsel patience for so long, before they begin following someone who counsels a more radical approach.

It's a widely held misconception that hyperinflation is what created the conditions for a Nazi government to take over in Germany. This is absolutely not true. The hyperinflation was tamed, and by a democratic government at that. It was the Great Depression, and the response to it, an austerity program imposed by a centrist government, that turned Germans away from the old political parties.

Keynes said that "in the long run, we're all dead." He might just as well have said that "in the long run, a lot of us will become Nazis." When people are suffering, especially in a society in which they can clearly see that many other people are doing just fine, that is when they are susceptible to a campaign of scapegoating; when they will listen to politicians who tell them their problems are being caused by someone else, deliberately. Because it's kind of true, depending on who you mean by "someone else." But it's not the economists and politicians advocating austerity against whom the fascists aim their demagoguery; it's innocent people of minority ethnic groups.

It is one of the great tragedies of history that the Great Depression led to a Nazi government in Germany and in Japan, something like a military dictatorship.

It didn't have to be that way.

And the tragedy is not just that they became dictatorships. It's easier for dictators to fly in the face of public opinion and conventional thinking, because they can't be voted out of office. The major nondemocratic powers increased their government spending, because no one can tell a dictator to be patient and just wait. This led to their economies appearing healthier and more

vigorous, at least from the outside, which is how you got the phenomenon of citizens of Western democracies admiring the apparently more vigorous fascist or communist states.

But even worse, these new nondemocratic states, along with the old ones, like Russia and Italy, that were already nondemocratic states, were able to build up their militaries at a time when the governments of democratic powers, especially Britain, struggled to keep up, constrained as they were by strict budget requirements in the name of austerity. This only added to the perception that fascism and/or communism could out-compete liberal democracy.

The downside of dictatorship is that a lot of the government spending in these countries was irrational. Their leaders were far more interested in building war machines and monuments than in building an advanced, sustainable civilian economy. John Maynard Keynes once said, in his puckish way, that it would be sound policy during a depression for a government to pay a team of workers to dig holes, and then a second team to fill them back in again. His point was that even if government spending is unproductive, it still gives the benefit of putting people to work and money into circulation, which will promote economic growth.

You could make a case that spending money to build tanks and planes is no worse than paying workers to dig holes, and possibly better, because it might stimulate some technological innovation. But the specific problem with dictators using this economic strategy is that once they have their shiny new tanks and planes, they are strongly tempted to try them out, and once again, no one can tell a dictator to be patient and just wait.

It was this unfortunate chain of events that led to the Second World War.

The United States was the nation that hit upon the best solution, at least by 1933: the government paid workers to build roads and bridges and dams and schools, projects that laid the foundation for future economic growth. So not only did the US economy get the short-term boost of a surge in employment and spending, but it got the long-term boost of these infrastructure enhancements that contributed to US economic growth for decades afterward. Americans are still enjoying some of the benefits of the New Deal in our time.

You want to talk about the judgment of history? This is a much prouder legacy than that of the leader who left the countryside across Europe littered with wrecked panzers.

[music: Vivaldi, Concerto in G, "Summer"]

4. Imperialism is not dead, but it's not at all well.

By 1939, most people not named Churchill would have guessed that self-rule for India was right around the corner. The British Empire was visibly beginning to crumble. This was not because of any problem unique to Britain.

The world of 1901, the world in which most of the land surface of the globe was controlled by a handful of imperial powers, was fading away. In 1901, most people would have guessed that the world of the future would consist of a diminishing number of empires, each controlling more and more territory.

Thirty-eight years later, virtually no one would have made that same prediction. The trend line is now clearly sloping in a different direction. What made the change? The Great War, for starters. When the great empires of 1901 went to war against each other, it was not the clash of titans most would have expected. Instead, the wars triggered revolution and collapse in four empires: Russia, Turkey, Austria, and Germany. When the dust settled, the land area once controlled by those four powers now was home to a much larger number of states which were not multiethnic empires, but ethnic states that were typically much more homogeneous.

And be sure to note that while Turkey had partition of its Arab lands forced upon it, the other three—Russia, Austria, Germany—lost territories inhabited by ethnic minorities through internal revolution. It was a triumph of the principle of self-determination. The Paris Peace Conference did little more here than ratify what was already in place.

Back when we discussed the Paris Peace Conference and the changes it made, I had a lot to say about how that principle of self-determination was only applied to European ethnic groups. Later we saw the League of Nations fail to take meaningful action against aggressions committed against China and Ethiopia, which only underscores the hypocrisy.

But hey, I said it before and I'll say it again. Hypocrisy is the tribute vice pays to virtue. Once the principle of self-determination was out there, the hypocrisy became impossible to ignore. Impossible to ignore not least because there were millions of people in Africa and Asia calling attention to it.

So the old empires of Britain and France still existed in 1939, but their days were clearly numbered. Many people in the West understood that, although they probably would not have predicted that they'd disappear so soon.

The striking thing about the three nations who are about to start the Second World War—Germany, Italy, and Japan—is how out of step they were with evolving attitudes toward colonialism. This is likely because these three countries became Great Powers too late to assemble the kinds of colonial empires the British and French had put together. They also saw the hypocrisy in how the principle of self-determination was applied, but to many on the political right in these three countries, the hypocrisy was not in how Asians and Africans were treated, but in how they were, that is Germany, Italy and Japan. “You guys thought colonialism was great when you were doing it, but now that we want to do it, it’s suddenly unjust and antiquated.”

Delayed colonial ambitions were the cause of the Second World War. The Germans wanted an Eastern empire, the Italians a Mediterranean one, the Japanese an East Asian one.

Remember all the way back to episode 1, when I talked about the Age of Empires? The coming war is in a sense the death throes of that worldview.

3. The League of Nations isn't working.

No duh. The principle of the League was simple and elegant. It was a mutual defense alliance made up of most of the world. Actually, that's kind of an oversimplification. The League was intended to provide a mechanism to arbitrate international disputes without recourse to violence. Failing that, it would exert diplomatic and economic pressure, including trade embargoes, to deter international aggression, or, as a last resort, League members would go to war collectively against the aggressor.

It sounds really good on paper, but it didn't work in practice. Why not?

First of all, the League Council, which was the League's executive committee, required a unanimous vote. At first, it was a nine-member body, later a 15-member body, so getting to unanimity was tricky.

Second, major powers like Britain or France were leery of using the League's powers to sanction their own allies or prospective allies, as we saw in the case of Italy. If the price of preserving Ethiopia's independence was an Italian alliance with Germany, well, to the British and French, that was a price too steep to pay.

The story behind the League's failure to rein in Japan is a bit different. Japan was a regional power sufficiently strong and sufficiently distant from other major powers that the cost of deterring Japanese aggression in China was simply greater than Britain or the US were willing to pay.

It had been a deliberate Japanese strategy to develop Japan's military to the point where it could face the militaries of other major powers on an equal footing. And hey, mission accomplished. But the Great Depression also played an important role here. The same economic downturn that made some right-wing Japanese military officers see the seizure of Manchuria as necessary, made the prospect of military intervention prohibitively costly in Western nations.

I guess you could put that down as another argument for why allowing depressions to drag on until they resolve themselves is a really bad idea. I know the free-market acolytes hate the idea of government intervention in the economy, but you know, war is also a kind of government intervention in the economy, one that demands huge government expenditures of the kind they hate, so maybe a little money spent today to get the economy moving again is a smart investment, when measured against the alternative of a world war.

2. Mass media are revolutionizing modern society.

What do we mean by “mass media?” You could say that the first mass medium was printing, which made possible the production of books and magazines and newspapers for wide distribution. This technology was an accepted fact of life by the beginning of the twentieth century. The new medium of phonograph records was just coming into its own, and behind that, motion pictures.

A mass medium is one in which a relatively small number of producers utilize a mode of communication to deliver news, information, and entertainment to a large number of consumers. A key metric to consider is the ratio of producers to consumers. We don't usually think of printing as a mass medium, because it is widely available. Even in the early twentieth century, any community of any size in the Western world had a newspaper, and often competing ones. Add in magazine and book publishers, and that makes a lot of different products competing for the readers' attention.

Phonograph records were a new technology with a high entry cost, so there were far fewer phonograph companies. Motion pictures were an even more popular technology with even higher entry costs, so there were only a few motion picture studios serving markets that numbered in the tens of millions, or even hundreds of millions.

When radio came in, it was also an expensive technology, in terms of the cost of setting up a radio broadcasting station, but soon the creation of radio programming became even more centralized in the hands of a few networks, each providing programs for a chain of individual stations.

My point is, when you have only a small number of producers creating news and information and entertainment for tens of millions of people, those producers have a great deal of power to influence public opinion. They can call attention to some issues, while ignoring or dismissing others.

The rise of phonographs, film, and radio, all within a few decades meant that the 1930s was an era of highly centralized control over media. Centralized control inherently favors centralized ideologies, like fascism or Soviet-style communism, over decentralized ideologies like liberal democracy.

In the Soviet Union, radio was controlled by the government and used only to broadcast the state's ideology. The same thing happened in Germany after the Nazis took power.

Old media are the domain of old, conventional governments and ideologies. New media are first embraced by upstarts: new and revolutionary ideologies that mean to displace the conventional. The Soviet Communists and the Nazis were both quick to exploit the opportunities, not only in taking power, but in wielding it and expanding it. In 1930, for example, the Soviet Union created

a Romanian-language radio station specifically to broadcast anti-Romanian programming to Bessarabia, the formerly Russian territory now controlled by the Romanians.

The middle decades of the twentieth century represent the high point of centralized control over mass media, and, not coincidentally, they also represent the peak for highly centralized governments and totalitarian ideologies.

When you consider that the 1930s was the era of, first, a postwar shattering of faith in traditional authority, second, an economic collapse, and third, a time when tightly controlled mass media existed, it becomes easy to understand why the period was such fertile ground for fascism.

Which brings me to:

1. Fascism is bad.

Yes, I know, you already knew that. I spent three episodes dwelling on the point, so maybe I'm wasting your time repeating it now. I'll just add here that fascism is also inherently a reactionary ideology; it's for people who don't like the direction in which their world is headed.

Now, a lot of people didn't like the direction the world was headed in the Thirties; this was not limited to fascists. But fascism's solution involves erasing recent history and turning the clock back to a time when things were better. At least, in the fascist's mind.

For instance, a lot of people thought the Great War was a tragedy; not only the fascists. But everyone else thought the answer was not to fight any more Great Wars. Only the fascists thought the solution was to fight the Great War over again and strive for a different outcome.

And right there is the most glaring problem with fascism. Its endpoint is inevitably war. An ideology that blames all of society's problems on enemies domestic and foreign will seek to solve those problems by applying oppression at home and war abroad, as we are about to find out.

We'll have to stop there for today. I thank you for listening, and I'd especially like to thank Morgan and Allan for their kind donations, and thank you to David for becoming a patron of the podcast. Donors and patrons like Morgan and Allan and David help cover the costs of making this show, which in turn keeps the podcast available free for everyone, so my thanks to them and to all of you who have pitched in and helped out. If you'd like to become a patron or make a donation, just visit the website, historyofthetwentiethcentury.com and click on the PayPal or Patreon buttons.

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about it, including the composer, the performers, and a link to where you can download it, that would be the place to go. While you're there, you can leave a comment and let me know what you thought about today's show.

Next week is a bye week for the podcast, so take a deep breath and join me in two weeks' time, here on *The History of the Twentieth Century*, as we consider what happens when Nazism is off the leash. That's in two weeks' time, here, on *The History of the Twentieth Century*.

Oh, and one more thing. There are those who try to interpret the history of this period by labeling everything from 1914 to 1945 the Second Thirty Years War. It's tempting to analyze the Second World War as merely a continuation of the First, albeit with two of the Allies, Italy and Japan, switching sides.

There may be some merit in this approach, but there are also problems, the biggest of which is that it makes the rise of Nazism in Germany into a sideshow; notable perhaps but not the driving force behind the conflict. And that's a serious error. You might argue that the Great Depression was an inevitable consequence of the First World War, but even granting that, it was not inevitable that the Depression would lead to a Nazi government in Germany. If there were no Nazi government in Germany, there would be no Second World War. So let's not let them off the hook so easily.

[music: Closing Theme]