U.S. FINANCIAL AID TO SERBIA DURING WORLD WAR I *

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Abstract

The aim of this paper is to present the financial aid of the United States of America to Serbia during the First World War, realized through war loans that were issued in accordance with the Act of Congress from April 24, 1917, which regulated the issue of war loans to allied countries. Serbia needed these loans in order to provide aid to prisoners of war, interned people, families of the soldiers in the front line, war invalids, and citizens in the occupied territories. The aid provided by France and the United Kingdom was not sufficient to meet all of Serbia’s needs, which is the reason why American war loans did not only represent a very important factor in overcoming the war crisis, but also gave a new impetus to American humanitarian action in Serbia.

Key words: World War I, economic relations, war loans, United States, Serbia

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 Apart from the immense human casualties, the consequences of the storm of war that devastated the world in 1914 was the appearance of a large number of refugees and homeless people, a general collapse of the economy and the destruction of infrastructure. Many countries were subject to immense destruction, and the example of Serbia is the best illustration of the ruthlessness of the Great War towards a small Balkan state, which still had not recuperated from the previous wars. It is estimated that the war damage suffered by Serbia during this conflict was between seven and ten billion golden francs (Radojević & Dimić, 2014, pp. 282-283). The desperate situation that Serbia faced during the Great War was reflected in immense human casualties and the destruction of its economy and infrastructure. Serbia suffered massive losses during wartime operations and the enemy occupation of the country. Economic activity suffered severe blows from the war. The entire agricultural, craft, and industrial production decreased suddenly, primarily due to the shortage of labor force, which caused a decrease in state income, as opposed to the immense war expenditure. The enemy robbed the monetary institutions, confiscated funds in the form of cash, deposits, and pledges, levied various taxes and surcharges in various ways, issued a war loan, and reduced the value of the domestic currency, thus inflicting immense damage on Serbia (Nikolić, 2008, pp. 295-307). Due to the loss of numerous sources of income and profit, Serbia had serious issues in supporting its army, prisoners of war, civil servants, war invalids, and families, both within the country and in exile. The inability to single-handedly alleviate the desperate economic state required sending petitions to allied states for urgent financial and material aid.

The neutrality of the United States of America in the first years of the war was interpreted as a sign of support to one of the warring parties on several occasions, which was partially true since, on the one hand, the Allied procurements in the United States were constantly on the rise, especially when it came to arms, while, on the other hand, the relations with Germany were continually getting worse due to treacherous submarine warfare. Therefore, U.S. interests in the war were inclined toward the Entente Powers. By March 1917, the Allies had spent over $2 billion to purchase armament supplies from the United States, while they spent even larger amounts for consumer goods, primarily food supplies. Total U.S. exports, which had never reached the sum of $2.5 billion a year during peacetime, increased to a staggering $5.5 billion until 1916 (Parks, 1985, p. 579). From
September 1915 to March 1917, which was before the United States entered the war, U.S. bankers gave Allied governments loans worth over $2 billion to finance war procurements (Link, 1954, pp. 278). The United States owed their prosperity to the war, which meant this country was keenly interested in the victory of the Allies while, on the other hand, it was believed that the victory of the Germans would directly jeopardize U.S. interests (Parks, 1985, p. 579).

Since their establishment, the relations between Serbia and the United States of America, a distant power which was neutral at first, were characterized by poor knowledge of one country about the other, a small value of trade exchange, and regular, although purely formal, diplomatic relations. Establishing relations between the two states in 1881/82 was, on the one hand, a necessity of a small, newly independent Balkan state for affirmation in the field of international politics and an end of several centuries of isolation under the Ottoman Empire, and, on the other hand, an aspiration of a large overseas power towards new markets and its desire for economic expansion in the Balkan Peninsula. The result of several years of negotiations between Serbian and American representatives was the signing of a trade agreement and a consular convention in October 1881.¹ These documents were the basis of a successful cooperation between the two countries, which would be crowned by significant American sympathy for the Serbian people during the Great War, great financial and material aid, and the acceptance of the Serbian war objectives.

RELATIONS BETWEEN SERBIA AND THE UNITED STATES OF AMERICA IN THE CONTEXT OF WORLD WAR ONE AND THE AMERICAN FINANCIAL AID TO SERBIA

The beginning of World War I took the American government and public completely by surprise. Little attention had been given to the Sarajevo assassination and the July crisis which ensued. The volume and quality of the news was quite low not only due to the traditional insensitivity of the American public towards events outside the Western Hemisphere, but also due to the situation on the domestic scene, where President Woodrow Wilson’s administration started major reforms during 1913 and 1914. The

¹ Ugovori i konvencije Srbije i stranih država (od proglasa državnog nezavisnosti do 1. januara 1887) [Contracts and Convention between Serbia and Foreign States (from the Proclamation of State Independence to January 1, 1887)], Beograd 1887, 275–290; Zbornik zakona i uredaba u Kraljevstvu Srbiji izdanih od 20. jula 1882. do 19. februara 1883. godine [Collection of Laws and Regulations Issued in the Principality of Serbia from July 20, 1882 to February 19, 1883], vol. 38, Beograd 1883, 107–125. The aforementioned documents were signed by Čedomilj Mijatović, the Serbian Minister of Foreign Affairs, and Eugene Schuyler, the first U.S. Ambassador to the Kingdom of Serbia.
general political situation in the Balkans during the years before the war broke out was unknown to the ruling class of America. During World War One, the information on Serbia reached the United States of America via diplomatic representatives and State Department officials, daily newspapers, magazines, and professional literature. The American public stirred when it heard the news of the great victories of the Serbian Army and an epidemic of infectious diseases, so many Americans started looking favorably upon the brave Serbian people and army. Owing to the activity of Mihajlo Pupin, one of the greatest scientists in the world, the Serbian nation was viewed with great respect among the American elite and the political circles. Apart from organizing the Serbian emigration in America, Pupin wholeheartedly helped the Serbian people by sending financial and material aid (Živoinović, 2010, pp. 55-95). Apart from Professor Pupin, the first honorary Consul in New York, the main agitators for providing aid to Serbia were Jelena Lozanić Frothingham, the daughter of Sima Lozanić, an esteemed professor, and Mabel Grujić, the wife of diplomat Slavko Grujić. They played a huge role in gathering financial aid, medical supplies, food, clothing, and other necessities, and the delivery of the gathered help to Serbia via various humanitarian missions (Ostojić Fejić, 1992, pp. 202-203).

From the very beginning of the war, Serbia sought to familiarize its allies with its war objectives, which the intellectual elite and the government started to prepare in the form of a project that implied the unification of the South Slavs in a single, independent, state led by Serbia. These goals were not supported by the United Kingdom, Russia, and France, which opened the question of forming an even tighter relation with the neutral United States of America, which was home to many Yugoslav immigrants. Apart from the formal neutrality of the overseas power, the Serbian Government faced the problem of not having an official royal mission in America. Aside from promoting its war objectives to the U.S. public and the political circles in this country, the Serbian Government needed financial, material, and military aid, which the British and the French were unable to provide. This was the reason why the issue of opening a Royal Serbian Mission in Washington was raised during the middle of 1916. After William Sharp, the U.S. Ambassador in Paris, gave his approval upon successful negotiations with Milenko Vesnić, an envoy of Nikola Pašić, the Serbian Government founded the Royal Mission in Washington in October 1916 (Ostojić Fejić, 1994, p. 80). Ljubomir Mihailović became the first Serbian Minister Plenipotentiary in the United States of America. Mihailović got the accreditations for the position of the first Envoy Extraordinary and Minister Plenipotentiary on October 16, 1916. He arrived in Washington in the beginning of 1917.
starting his mandate mid-January and presenting his credentials to the U.S. President on January 26, 1917 (Živojinović, 2010, p. 142). The basic tasks that were given to Mihailović before going to Washington were to obtain financial aid from the United States, work on gathering volunteers, present the Serbian war objectives to leading U.S. politicians, as well as popularize the Yugoslav idea and advocate the United States declaration of war on Austria-Hungary and Germany.

At the time, Wilson’s administration had been following the policy of neutrality for more than two years. It encompassed the struggle for free navigation of the ships belonging to neutral countries and the mediation between the warring parties in order to establish a lasting and righteous peace as soon as possible. However, the U.S. public already showed indications of the possibility of entering the war on the side of the Entente, while relations with Germany worsened due to its declaration of unrestricted submarine warfare. The U.S. declaration of war on Germany in April 1917 marked the emergence of new circumstances in the relations between Serbia and the United States, which were favorable for the Serbian Government. Wilson’s speech in Congress, in which he emphasized the primacy of justice over peace, the freedom and rights of small nations, and the democracy and freedom of all men, opened a new chapter of the Great War in which the mighty overseas power played an important role (Link, 1954, p. 282). Even though Mihailović reported that the U.S. declaration of war on Germany did not encompass declaring war on Austria-Hungary and Bulgaria, the Government of Serbia saw this as an opportunity to present its war objectives to the U.S. Administration and simultaneously carry out its goals regarding the gathering of financial aid.

The priority tasks of the U.S. Administration in the war conditions were to cooperate with the governments that were at war with Germany and to grant the widest range of financial loans to these governments. The Act of Congress from April 24, 1917 granted the U.S. Administration $3 billion for providing financial aid for the war efforts of the Allied countries. The same act involved establishing a special committee in the United States that would regulate the procurement of U.S. aid for the Allied governments, which included Serbia.³

Until the United States joined the war, Serbia had received no direct financial aid from this country; however, it indirectly did get a part of U.S. funds through loans from the Allied countries, which in turn got their funding in the form of loans from the United States. Material aid gathered by the American Red Cross and numerous humanitarian organizations and individuals from 1914 to 1917 had a charitable character and was not based on bilateral agreements. The spheres of Mihailović’s actions regarding

financial aid included supporting Serbian war efforts and attempting to spark the interest of the United States for the post-war political and economic development of Serbia. In addition, the Serbian Envoy in Washington noticed that the U.S. Administration primarily provided financial aid for the Allied war efforts, without the desire for a military intervention, which was emphasized in Wilson’s speech. Therefore, he initially sought financial aid for humanitarian and economic goals (Ostojić Fejić, 1994, pp. 91-92).

The first negotiations regarding the financial aid to Serbia between Mihailović, the Serbian Envoy, and William McAdoo, the U.S. Secretary of the Treasury, were conducted only two weeks after the United States declared war on Germany. During the spring of 1917, the Serbian Envoy submitted several memorandums to Robert Lansing, the U.S. Secretary of State, and William Phillips, his assistant. He performed this upon the request of Nikola Pašić, the Serbian Prime Minister, and the goal was to state the reasons for providing financial aid to Serbia. On April 29, 1917, Mihailović submitted a document entitled *Financial, Military and Political Participation of the United States in the Solution of the Serbian Question* to Lansing and referred to the promised assistance for the solution of the Serbian question at a future peace conference based on the principles that the United States set when they decided to join the war. The Serbian Envoy pointed out that the Serbo-Croato-Slovenian group of peoples, which had been largely under the violent rule of Austria-Hungary until then, wanted to be united and to create a state of their own, along with the independent kingdoms of Serbia and Montenegro. He then reminded them of the financial aid promised to the Allies for their war efforts and post-war reconstruction. Additionally, the Serbian Envoy asked for indirect military aid through sending twenty to thirty thousand Serbian volunteers from the United States to the Salonika Front. The largest portion of the memorandum concerned financial aid. Mihailović asked for an urgent loan of $100 million to rebuild the destroyed homes and acquire agricultural equipment and livestock, emphasizing that only the United States could save Serbia. Upon realizing that Wilson’s speech to Congress regarding the declaration of war gave preference to financial aid to the Allies instead of military assistance, Mihailović managed to adapt to these views. According to Mihailović, the aforementioned loan of a $100 million should have been just a portion of the future large loans that the United States would give to Serbia after the end of the war. This was followed by shorter discussions with Secretary of State Lansing and his assistant, Phillips, which offered hope to the

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4 Archive of Serbia (=AS), The Mission of the Kingdom of Serbia in Washington, package 2, conf. No. 1, Mihailović to Lansing, Washington, April 29, 1917. In accordance to Pašić’s instructions, Mihailović changed the content of the memorandum several times.

Serbian Envoy that the U.S. Government would in some way help Serbia (Ostojić Fejić, 1994, p. 84). Mihailović thought that it would be a major step forward if the United States showed good will by taking part in the post-war reconstruction of Serbia. His letter addressed to the Ministry of Foreign Affairs emphasized that the aforementioned memorandum insisted on the necessity of the United States taking interest in the fate of the Serbian people on an equal level with the fate of the Allied nations, and requested a small loan to Serbia which would help the people, prisoners, and internees in the occupied country, as well as settle other needs that the allies could not meet at the time. By skillfully playing on Wilson’s principles, Mihailović generally stated the reasons why the United States needed to assist Serbia.

After Mihailović sent the amended memorandum on May 8, he had a discussion with the Secretary of the Treasury McAdoo, who pointed out to the Serbian Envoy that the United States was determined to solely provide assistance for the war actions, but that he considered his request legitimate. During the negotiations with McAdoo, Mihailović emphasized that all the Serbian Government procurements funded by the U.S. loan would be substantiated either before an International Commission, which would consist of representatives from Washington, London, and Paris, or directly before the U.S. Government. It was also made clear that the war prisoners and the people of occupied Serbia would be aided solely through an organization established in the United States (Vućetić, 2012, p. 68). Realizing that it would not be easy to secure a larger loan, Mihailović hinted at McAdoo that the sum did not need to be large. The Serbian Envoy in Washington sent a report to the Serbian Government, where he asked them to specify the amount that would be asked of the U.S. Administration for helping Serbian prisoners, internees, and citizens, and he stated his opinion that Serbia would manage to get a certain monthly amount of aid. He also required authorization to negotiate the future loan and asked them to inform Percival Dodge, the U.S. Diplomatic Agent in Corfu, of this matter. The following day, the Serbian Envoy informed his government that the monthly aid received from the United States could be between $1 million and $2 million and that it should be used for the expenses that would specifically influence the war effort.

Pašić’s response contained the authorization for the Serbian Envoy to negotiate the loan. Furthermore, the Serbian Prime Minister ordered

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Mihailović to try to obtain $1 million of monthly aid from the U.S. Government, and he also warned him not to complain about the Allies that were also providing assistance to Serbia. He needed to make clear that England and France were providing the main portion of the aid by supporting the Serbian Army and providing $9 million every month, but that the Serbian Government needed funding for war invalids, soldiers’ families, civil servants’ salaries, prisoners, etc.

Mihailović’s negotiations with the U.S. Secretary of the Treasury finally materialized in the beginning of June 1917, when a principle agreement was reached. The United States of America granted Serbia a loan of $3 million, which the Serbian Government would receive in three equal monthly installments worth $1 million each, beginning with June 15, and Mihailović reported this to the Ministry of Foreign Affairs. Since France and England were already providing the Serbian Army with ammunition, the loan did not need to cover those expenses. The loan also prohibited the funding of aid for the civilian population in occupied Serbia without a prior agreement on the way the funding would be distributed. Since the proposal for the use of the funding from the loan, which was required by the U.S. Administration, was not submitted in a timely manner, the first installment of the loan was paid on August 3. The Serbian Government submitted the required proposal through Envoy Mihailović during June 1917. The U.S. Administration accepted the following manner in which the loan would be used: $1 million would be made available to the Serbian Government through their account in the Ottoman Bank in Paris, and that amount would be used to finance the aid to war invalids, families of soldiers on the front, and poor families, as well as to help internees; the second million would be intended for the Serbian Government’s procurement of telegraphic and railway equipment; $500,000 would be given to the American Red Cross for the procurement of medical supplies, while the remaining $500,000 would also go to the American Red Cross and would be used to aid the Serbian war prisoners in Germany, Austria-Hungary, and Bulgaria (Ostojić Fejić, 1994, p. 93).

The acquired loan was essentially the same as the loans of other Allied states. The interest started running on June 15, 1917 and it was 3.5% per annum. It was supposed to be paid twice every year until the principal was paid off. A million dollars, the first portion of the loan, was transferred to the Serbian Government on August 3, the next $500,000 was paid on September 11, while the final portion was delivered to the account of the

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Serbian Government on October 25, 1917. Mihailović sent a report to Pašić, which stated that the loan had to be paid off at the exchange rate of 5.18 dinars per dollar and that the U.S. Government demanded the printing of bonds in order to expedite the payment of the debt (Ostojić Fejić, 1994, pp. 93).

The first detailed report of the Serbian Government on the manner the U.S. loan was used was received by the State Department at the end of March 1918. It showed how the $2 million directly available to the Serbian Government was spent, since the $1 million sent to the American Red Cross did not need to be included in the report. The Serbian Government used the first loan to help internees and prisoners of war, to aid the Serbian workers that were left with no funding, to assist the war invalids, their families, and the poor families of conscripted soldiers, as well as to procure blankets for the prisoners in Bulgaria (Ostojić Fejić, 1994, pp. 95-96).

The second loan of $3 million was granted to Serbia on December 21, 1917 and its conditions were the same as those of the previous loan. Once again, the Serbian Government had direct access to $2 million, while $1 million was transferred to the American Red Cross in order to help the Serbs in occupied areas. The year 1918 witnessed the continuation of the actions from the previous year through the efforts to acquire another $3 million loan; however, certain problems emerged with the legal authorization of the Serbian Envoy to conclude long-term loans with the United States. The problem ensued when the U.S. Administration issued a warning to the Serbian Government that there was no legal basis that allowed its Envoy in the United States of America to enter into long-term loans, as was the U.S. loan to Serbia. According to the law of 1915, the envoy was only allowed to sign short-term obligations, since the National Assembly of Serbia was not constituted due to the war (Ostojić Fejić, 1994, p. 70). This jeopardized U.S. financial aid, so Envoy Mihailović had to inform the Serbian Government about this. The Draft Law on Emergency Loans was submitted to the National Assembly for approval, which solved this misunderstanding. The last two war loans, each worth $3 million, were obtained on May 14 and July 29, 1918 and had the same purpose as the previous ones. This ended a set of U.S. loans to Serbia issued under the Act of Congress of April 24, 1917, which regulated the

11 AY, The Archive of the Ministry of Finance (=70), f. 239, ref. no. 433, undated document entitled Stanje u kome su izloženi krediti utvrđeni u korist srpske vlade, kao i u kome su cilju utvrđeni i novac koji je izdat po tim kreditima [The State of the Loans Procured by the Serbian Government, the Goal of Their Procurement and the Funds Issued from These Loans]. This report covers the period from July 2, 1917 to August 2, 1919.

12 AY, 70 – 239 – 433

13 AY, 70 – 239 – 433
financial aid to the Allied states, since the conclusion of the armistice meant a shift to other credit terms. This means that the total war loans issued to Serbia by the United States amounted to $12 million (Ostojić Fejić, 1994, p. 97).

U.S. financial aid to Serbia was continued after the armistice was concluded, and it was performed through loans that were regulated by the Supreme Council of Supply and Relief, which was founded in late 1918, and the American Relief Administration, which was formed in early 1919 and headed by Herbert Hoover. In December 1918, Hoover issued a warning that Serbia, i.e. the Kingdom of Serbs, Croats and Slovenes needed over thirty tons of food per month until the following harvest. Accordingly, he proposed approving the request of the Serbian Government for a new loan of $15 million, which would be transferred to the Grain Corporation through the Serbian Envoy in Washington. He then recommended additional four monthly loans of $5 million, so the total amount allocated for aiding Serbia was $35 million. President Wilson approved Hoover’s proposals, emphasizing that the funds from this loan can be used only for supplies (Vučetić, 2012, p. 71; Ostojić Fejić, 1994, p. 99). After the end of the war, there were attempts to acquire favorable U.S. loans in order to buy railway material and the remaining war supplies that the United States Liquidation Commission in France had put up for sale. However, the Serbian Government failed to take advantage of this favorable offer, so all of the material that was worth $1 billion was sold to France, Belgium, and Italy (Ilić, 1921, p. 59).

The total war and post-war debt of Serbia, i.e. The Kingdom of Serbs, Croats and Slovenes, to the United States of America reached $62.85 million (3.55 billion dinars). Its repayment was regulated by a contract signed in Washington on May 3, 1926, with an interest of 5% and an amortization term of 62 years, which meant that this debt needed to be repaid in unequal installments (ranging from $200,000 in the beginning, to $2.4 million during the last year of repayment) until 1987 (Gnjatović, 1991, pp. 116-117).

**CONCLUSION**

U.S. war loans to Serbia had a large political and financial significance, since they presented a hint of the future participation of the United States of America in the economic recovery of a united Yugoslavian state. Despite the fact that the U.S. Administration saw the issue of approving loans as closely connected to their war objectives, the Serbian Government, which financed its war supplies through English and French loans, saw the U.S. loans as very significant funds for aiding the prisoners of war, internees, families of conscripted soldiers and the soldiers that were killed in the war, as well as the general population in the occupied areas. The fact that the Serbian Government transferred $1 million of
every loan to the American Red Cross greatly emphasized the humanitarian character of this loan and served as an incentive to the U.S. humanitarian activity in Serbia, which had been ongoing since the time of the Balkan Wars. Ljubomir Mihailović, the first Serbian Envoy to Washington, was excellent at winning over the U.S. Administration in order to acquire this aid. U.S. financial aid to Serbia during the Great War was a basis for the post-war development of mutual economic and financial relations between Serbia, i.e. the Kingdom of Serbs, Croats and Slovenes, and the United States of America.

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АМЕРИЧКА ФИНАНСИЈСКА ПOMOЋ СРБИЈИ ЗA ВРЕМЕ ПRВOG СВЕТСKОГ РАТА

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Резиме

Изузетно тежак положај Србије за време Првог светског рата наметао је потребу за финансијском помоћи споља, то јест од стране савезничких држава Француске и Велике Британије. Како је време одмицало, а ратне прилике се погоршале, ова савезничка помоћ постала је недовољна, због чега се српска влада окренула Сједињеним Америчким Државама, са којима је успоставила дипломатске односе још 1881/1882. године. Крајем 1916. дошло је до отварања српског краљевског посланишта у Вашингтону, а задаци првог српског посланика Љубомира Михаиловића били су обезбеђивање финансијске помоћи, рад на организовању добровољца и придобијање америчких вођећих кругова за српске ратне циљеве.

Улазак САД у рат на страни Антанте и Конгресни акт којим је за кредите савезничким државама за потребе наоружања стављено на располагање три милијарде долара априла 1917. године, представљали су значајан тренутак у междусавезничким и српско – америчким односима. Захваљујући залагању посланика Михаиловића, српска влада је од САД убрзо након тога добила први ратни зајам у износу од три милиона долара. Добијени кредит био је намењен помоћи ратним заробљеницима, интернираним лицима, породицама страдалих војника и становништву у окупираним подручјима. Милион долара од тог зајма директно је прослеђен Америчком Црвеном крсту ради набавке санитетског материјала за помоћ српском народу. До краја рата, Србија је од америчке владе добила још три кредита, чиме је укупан износ америчке финансијске помоћи у складу са Конгресним актом од 24. априла 1917. године достигао 12 милиона долара. Амерички кредити играли су важну улогу и после потписивања примирја новембра 1918. године, али су тада примењивани под другачијим условима. Српска влада је преко Врховног савета за снабдевање и помоћ и Америчке администрације за помоћ наставила да закључује кредите који су у послератним приликама служили за набавку хране и других потрошница. Укупан ратни и послератни дуг Краљевине Србије, односно Краљевине СХС Сједињеним Америчким Државама достигао је 62,85 милиона долара и његова отплата регулисана је уговором у Вашингтону 3. маја 1926. године.