

DRITTES REFERAT

Finance and Foreign Policy in the Era
of the German Inflation:
British, French, and German Strategies for Economic
Reconstruction after the First World War*

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To those who lived through it, the German inflation appeared as an unprecedented disruption of normal social and economic life. In fact it figured only as the most extreme example of a transmutation in financial assumptions and practices that occurred throughout the industrialized world.

The First World War brought two types of radical change in the financial sphere for the major combatant powers. It shattered the prewar gold standard and disorganized a network of international financial relationships that had long been taken for granted. And it imposed on taxpayers, bondholders, savers, and consumers within each nation burdens of heretofore unimaginable magnitude in order to pay for the war and to finance reconstruction afterward. These two processes took place simultaneously; their effects are often difficult to distinguish. Though Germany and the Allied powers differed sharply in ideology and national purpose, the soldiers who fought on opposite sides of the barbed wire in the trench-scarred landscape of northeastern France suffered through many common experiences. The financial problems of their respective governments were also in many ways similar. The historian may therefore ask the same questions about winners and losers in the cataclysm. To what extent did policymakers pursue monetary and fiscal objectives based on a misunderstanding of the new environment in which they were obliged to operate? To what extent did they consciously adopt strategies for coping with wartime and postwar burdens that would maximize their countries' respective competitive positions? A comparative examination of British and French strategies for solving reconstruction problems helps illuminate the political context in which the German inflation spiraled out of control.

Great Britain had operated on a gold standard at a constant mint price (the years of the Napoleonic war excepted) since 1717. From the middle of the nineteenth century onward, world currency transactions were centralized in London. In the generation before 1914 particularly, the interna-

* Die Anmerkungen befinden sich am Schluß des vorliegenden Beitrags.

as they exacerbated Britain's relative economic decline, which had proceeded steadily for more than a generation.⁶

British policies on reparations and war debts did not always appear politically clear-sighted, but they evidenced a remarkable consistency over time. A central feature of those policies was to thrust as much of the post-war adjustment burden as possible on the American investor and taxpayer. At the Paris Peace Conference Lloyd George put forward a European recovery scheme that would have funneled American resources to Europe by means of a »guarantee« of German reparation payments to the Allies.⁷ At the World Economic Conference fourteen years later MacDonald and his advisers sought similarly to inveigle the United States into making domestic sacrifices in order to reduce trade barriers and promote European currency stability.⁸ By contrast, the British government came to realize shortly after the peace settlement that there were strict limits to the amount of reparation it could profitably collect from Germany. It was not that Germany could not pay; but effective transfer of German resources would reduce that country's purchasing power. The one area where Britain made substantial trade gains from 1913 to 1924 was in Central and Southeastern Europe. The British share of reparations revenue could not possibly compensate for the economic turmoil and consequent impediments to British trade that the French attempt to compel payment and the German policy of resistance created in Central Europe. Hence Great Britain promoted a reparations settlement that facilitated Germany's return to prosperity, cleared the way for adoption of a stable monetary standard by the major industrial nations, and thereby spurred demand for British goods.⁹

Britain's policy regarding its war debt to America also reflected the dictates of self-interest. British Treasury officials admitted among themselves that — considering economic capacity alone — they could well afford to fund the debt in full.¹⁰ Yet before and even after the 1923 war-debt settlement, the nation's political leaders embraced a variety of schemes aimed at embarrassing the United States into unilateral cancellation. They did this not because of specific anxiety over deterioration of the trade balance with the United States, but because of resentment that commercial supremacy was slipping from them. Lloyd George articulated British feeling in characteristic fashion when defending the dispatch of the Balfour Note in July 1922.

»Why should we be apologetic to the United States? All we could gain by cringing would be perhaps some ten or fifteen millions. It was not worth bartering our self-respect and suing *in forma pauperis*. They had taken advantage of our complications in War to try and capture our International shipping position and were actually trading with South America while using our ships to convey their troops to France. They had done their best to wrest our Naval supremacy from us, and we had made the concession of equality to them in that respect. To-

day they were trying to wrest our financial and commercial supremacy . . . That was a very ignoble attitude . . .«¹¹

Such passion was comprehensible in view of the heavy human and material losses sustained by the British Empire during the war. But the very defensiveness of Lloyd George's diction called attention to the extent to which Britain had become a middle-sized power defending parochial interests, rather than a world power carrying broad responsibilities for international stability.

II

France, Keynes claimed in retrospect, inadvertently handled postwar finance comparatively well by devaluing the franc by 80 percent between the end of »pegging« in 1919 and final stabilization in 1928. The nation thus reduced the actual weight of its internal debt to an amount on which the French taxpayer could and realistically would pay the interest charges.¹² Inflation in France never degenerated into hyperinflation on the Austrian or German model. Yet it progressed rapidly enough to keep employment high and promote moderate industrial recovery. And in effect it saddled the bond-owning bourgeoisie with most postwar reconstruction costs without causing the social dislocation that ravaged the German middle classes. Government policy, however, did not aim at this result. For years the French government pursued a deflationary monetary policy even as it ran up substantial budget deficits. Until 1926, many authorities — at the Bank of France as well as in parliament — still hoped eventually to restore the prewar par.¹³

How could a government pledged to reduce the money supply by a fixed sum annually continue to spend (under its ordinary, »extraordinary«, and »recoverable« budgets) almost twice what it took in through taxation? The treasury seemed to behave, as one American banker put it in bewilderment, as if »the laws of the dismal science, though well enough in their way, are inapplicable to *la belle France*.«¹⁴ The system worked for a time because French bondholders were, by and large, as ignorant of the principles of modern economics as those in parliament who sanctioned the incompatible monetary and fiscal policies. The treasury covered the budget deficit through the issue of short-term bonds that in most periods paid an interest rate lower than the inflation rate; the public bought and renewed these bonds because it continued to believe that sizable German reparation payments would materialize eventually. Reparations were to serve as a *deus ex machina* that would eliminate the budget deficit, allow retirement of the reconstruction debt, and eventually make possible (despite the export disadvantages) appreciation of the franc.

For France, consequently, almost from the day the war ended, monetary and fiscal policy bore an intimate relation to foreign policy. In the fall of 1918, the Commerce Ministry had proposed to solve the country's most pressing financial difficulties by inducing the United States to extend massive credits (which would later be forgiven) or to »pool« raw materials and other resources.¹⁵ The chimerical nature of these projects became evident during the peace conference. Nevertheless, the first indications that the Finance Ministry planned to call upon the domestic taxpayer for further sacrifice brought a furious public reaction; and it was then that Finance Minister Louis-Lucien Klotz (and subsequently his successors at the *rue de Rivoli*) adopted as a guiding principle the popular slogan, »*Que l'Allemagne paie d'abord.*«¹⁶ To the expectation of a substantial revenue stream from Germany was added the conviction that France should not have to repay its own war debts. As the highest permanent official of the ministry expressed it in 1921, France had already made a contribution to the common cause in blood that outweighed to a »shocking degree« the financial efforts of its allies. It was therefore »impossible to justify any English or American claim against France, which furnished the battlefield and bore all the sacrifices entailed by this circumstance.«¹⁷

The war had indeed devastated ten of the nation's richest departments and left one-third its young men dead or maimed. Hence the French desire to collect as much as possible from others and to pay as little as possible to others is not surprising. Nor did the parliament's preference for improvisation in the face of mounting financial crisis represent a novelty in the national tradition — French resistance to direct taxation has been a matter of historical notoriety since the reign of Philip the Fair. Paradoxically, however, the French people's reluctance to tax themselves resulted in their paying more — in several ways — in the end.

The short-term bonds used to cover the budget deficit figured as a potential time-bomb. Holders would redeem the bonds if rapid depreciation of the franc on the exchanges caused them to fear for their equity. Massive redemptions could double the currency in circulation overnight and plunge France into hyperinflation. To prevent such a catastrophe during a speculative attack against the franc in early 1924, the government solicited the help of American bankers. It fell into dependence on the goodwill of the international financial community. It could then no longer pursue its reparation claim in a way that would undermine confidence in financial markets overseas.

Yet France could not hope to maintain its precarious position as the dominant continental power — a position artificially buttressed for the moment by provisions of the Versailles treaty — unless it could obtain large reparation payments and employ them to make a giant leap forward

industrially. At Versailles, France had recovered the iron ore of Lorraine. It could not, however, develop a modern steel industry without obtaining Ruhr coke cheaply, either on reparations account or at a price low enough so that French metallurgical products could compete with German steel on world markets.¹⁸ Because it failed to preserve its financial independence, France let pass a possible (if problematical) opportunity to consolidate its position in Europe. The 1924 London Conference, heavily influenced by the bankers, put an end to French hopes for substantial reparations. The arrangements made at the conference also ensured Germany's recovery of industrial hegemony, paved the way for Allied withdrawal from the Rhineland, and prefigured military resurgence of the Reich.¹⁹ From a certain point of view Keynes was right: by avoiding deflationary excesses, France distributed war costs without suffering the economic tribulations that England did. Politically, it paid an extremely heavy price.

III

Both Britain and France, as we have seen, sought to maximize national advantage by exporting much of the readjustment and reconstruction burden abroad. One country took a deflationary approach to finance; the other followed a path of substantial but limited inflation. Neither achieved its original objectives. Germany's hyperinflation — whatever its social consequences — proved more successful as a foreign policy tool.

For citizens of the Allied countries who felt deeply about German responsibility for the origins and brutal conduct of the war, it appeared shocking that the Reich should attempt through financial manipulation to evade the obligations placed upon it by the peace treaty. The Allied and Associated powers had given formal expression to this sentiment in their reply to German protests at Versailles. »Somebody«, they observed, »must suffer for the consequences of the war. Is it to be Germany or only the people she has wronged?«²⁰ But those who did not share this moral judgment might well conclude that the unwillingness of German political and business leaders to shoulder a disproportionate share of reconstruction costs differed merely in degree from a similar resolve among their counterparts in London and Paris.

The disorganization of German public finance from 1919 to 1923 worked to obscure from contemporaries the many ways in which domestic inflation served to minimize the Reich's foreign obligations. Yet it is scarcely possible to defend any longer the view that the inflation constituted an economic disaster. Frank D. Graham and Costantino Bresciani-Turroni analyzed the most obvious benefits that accrued to the German

economy, above all the virtual extinction of the national and corporate debt, and the export advantage conferred on the Reich because the external value of the mark dropped faster than its internal value.²¹ These benefits were apparent at the time, particularly to businessmen who made the most of opportunity. Karsten Laursen and Jørgen Pedersen demonstrated how the inflation maximized national income by keeping the population fully employed and channeling resources into investment; they also emphasized that the inflation bequeathed a modern industrial plant as its legacy.²² These benefits were also understood by many contemporaries (indeed all too well by the fearful French).

Carl-L. Holtfrerich now furnishes striking proof that foreign-owned bank notes and bank balances devalued through inflation provided Germany with the equivalent of a capital import approaching 15 milliard gold marks — a sum six times the size of Germany's cash reparation payments under the London Schedule of Payments and as large in relation to the German economy as the capital inflow received under the Marshall Plan after World War II.²³ There is little contemporary evidence to suggest that German politicians or economists fully comprehended the magnitude of the capital transfer thus effected. Nevertheless, this speculative windfall goes far to explain how the nation could maintain imports and domestic consumption at a relatively high level while exporters left their foreign earnings abroad. Finally, it is now obvious that the inflation paid a significant political dividend. It played an instrumental role in inducing the Allies to abandon their claims for reparations large enough to compensate for the devastation wrought by German armies during the war.

The evidence, then, appears incontrovertible. The German economy benefited from inflation in numerous ways. Can one argue in consequence that the inflation constituted a rational political strategy, at least until July or August 1922? And, if so, did the government of the Reich promote inflation as a deliberate policy? To these two fundamental questions must be added a third. The direct benefits to the German economy decreased markedly after inflation evolved into hyperinflation during the summer of 1922. The export advantage began to narrow because domestic prices adapted with a shorter lag to fluctuations in the exchange rate. And speculative purchases of marks by foreigners (as Holtfrerich has shown through an analysis of forward exchange rates) also quickly terminated.²⁴ Under these circumstances, why did the German government still make no move to stem the inflation?

These are complex questions. The archival sources bearing upon them are vast. Definitive answers cannot be provided within the compass of this discussion. The problem is particularly complicated because it was not necessary for the government (or the Reichsbank) to make a policy decision at

some precise moment to promote inflation as the preferred means of coping with Germany's foreign and domestic difficulties. The nation's basic requirements for foodstuffs and raw materials rendered some depreciation of the mark unavoidable under the emergency conditions prevailing in 1919. Thereafter the authorities had merely to take the path of least resistance in meeting the expenses of government for the inflation to accelerate.

The general consensus held that heroic action to stabilize the currency was premature. This outcome was overdetermined. The immediate consequences of ending the upward movement of prices gave pause to those who prized political stability. Stabilization required a sharp increase in taxes and an end to government subsidies that benefited powerful interest groups. It meant a period of economic dislocation involving many business failures, rising unemployment, and probable social unrest. The political balance was so precarious that government leaders did not dare to take the risks inherent in decisive action. Yet however important these domestic considerations, foreign policy appears to have provided the controlling motive for Germany's failure to stabilize at certain crucial points. Diligent scrutiny of Reich Chancellery files suggests that both the Wirth and Cuno governments consciously and knowingly postponed the tax and budget reform that alone could provide the basis for monetary stabilization because they sought first to obtain a reduction of the reparations bill. And they did not because Allied exactions exceeded German »capacity to pay,« but rather because they considered reparations morally unjust.

By the end of 1920, German leaders clearly understood that the Allies had abandoned hope of obtaining reparations on the enormous scale suggested by the press and some French and British experts during the Paris Peace Conference. Indeed, in December 1920, the French government intimated its willingness to postpone a permanent settlement and to accept interim payments not exceeding 3 milliard gold marks a year. This sum amounted to roughly seven percent of Germany's current national income but far less of its projected income after recovery. It required substantial sacrifice, but did not represent an intolerable burden for a nation resolved to limit domestic consumption in order to pay. The »Seydoux Plan« proposed a workable mechanism for effecting transfer smoothly in goods and services. By minimizing cash payments it sought to afford Germany a breathing space for balancing its budget, stabilizing its currency, and restoring its economy on sound lines. Moreover, throughout 1920 the French made repeated overtures to Germany looking toward the conclusion of mutually advantageous arrangements linking the steel, coal, potash, chemical, and other key industries of the two countries.²⁵ It is unnecessary to rehearse the wearisome negotiations that followed over the next two years in order to prove that reparations did not in practice constitute an unli-

mitted or unreasonable claim on German resources — either before or after establishment of the London Schedule of Payments. The reason why German industrialists declined to conclude agreements on a private basis with their French counterparts is equally easy to ascertain. The fact, as Bruno Bruhn of Krupp's expressed it, »politisch unterlegen, wirtschaftlich stärker«. ²⁶

Despite this accurate perception of the German economy's potential for recovery, a surprisingly large number of political and business figures subscribed to the theory that improvement in public finance was impossible so long as the trade balance remained passive and reparations weighed adversely in the balance of payments. President Rudolf Havenstein of the Reichsbank figured as the most prominent exponent of this theory. Indeed, Havenstein told the foreign experts called in by the German government in November 1922 to advise on stabilization of the mark that the payments deficit on current account was so formidable not even a reparations moratorium and a foreign loan together could end it. Some German financial experts came to realize eventually that Havenstein carried his pessimism too far for the purpose at hand. The Warburg Bank economist whom John Maynard Keynes had picked to serve as secretary of the November 1922 experts' committee expressed anxiety lest foreign nations draw the conclusion that »die Reparationszahlungen nicht die entscheidende Ursache für die Passivität der deutschen Zahlungsbilanz gewesen sein können, da sie niemals einen derartigen Betrag erreicht haben«. ²⁷ Earlier in 1921 and 1922, however, performances such as Havenstein's convinced prominent British observers that German monetary officials lacked not merely the political power, but also the technical ability to stem the mounting inflation without help from abroad. British reparations delegate Sir John Bradbury told the cabinet in London during May 1922 that the root of the problem was »gross mismanagement of Germany's public finance«; and Lord D'Abernon, the ambassador to Berlin, agreed that the conduct of public finance there was »extraordinarily bad«. ²⁸

For a number of reasons, the view that German ills derived primarily from monetary mismanagement or from a passive trade balance became increasingly implausible in the eighteen months following adoption of the London Schedule of Payments. Not all theoretical economists agreed at the time about the extent to which fiscal policy could shape a nation's trade balance over time. But central bankers who carefully monitored trends realized, as Carl Snyder of the New York Federal Reserve Bank put it, that a nation's ability to generate a surplus over time depended less upon the »nominal balances« of export trade than upon »the disposition to restrict expenditure, or as we may put it, to tax themselves«. ²⁹ German failure to tax was so flagrant that even foreign statesmen who lacked familiarity with the intricacies of international finance could grasp the point of the

Reich's fiscal policy. Winston Churchill, generally a moderate on reparation matters, observed in May 1922: »Germany was kept busily employed not for the purpose of paying her indemnities by means of exports, as was done by France in 1870, but for the purpose of consumption within Germany.« ³⁰

By late 1921, moreover, yet another objection to the passive-trade-balance theory had arisen. The deficit had disappeared. Exact figures are hard to ascertain. Since the Statistisches Reichsamt found it inexpedient to keep accurate records on foreign trade, ³¹ one must perforce rely on foreign estimates. The calculations of the French Finance Ministry, which show the German trade balance about equal for 1920 and somewhat favorable for 1921, may be optimistic. ³² But almost certainly by the end of 1921 Germany no longer registered a deficit in the Balance of payments on current account that could justify the depreciation of the mark.

In the fall of 1921, moderate French experts who tracked the German economy concluded that the government in Berlin was permitting the currency to depreciate for foreign policy reasons. Louis Loucheur, minister of liberated regions, suggested in September that Germany's well-advertised sale of paper marks on the open market in order to raise the first milliard due under the London Schedule constituted a »cleverly camouflaged« scheme to depress the currency. Calculation, he thought, played a greater part in this scheme than simple ignorance. ³³ Jacques Seydoux, chief reparations expert at the Foreign Ministry, noted the next month that German industry appeared »in a condition of prosperity, expansion, and wealth which permits it every hope and every audacity«. The German government, he contended, was attempting to perpetrate a »fraudulent bankruptcy« in order to escape payment of reparations. ³⁴ Of course the *Reichsbank* and the German Finance Ministry both produced periodic memoranda designed to counter that impression. But such exercises characteristically advanced calculations based on the unrealistic assumption that paper marks were comparable over time no matter how much depreciation took place. The memoranda betrayed such tortured reasoning that outside observers could hardly help but suspect some combination of unusual incompetence and casuistic intent at work. ³⁵

It is nevertheless difficult, even today, to fathom the precise intentions of the Reichsbank and the political leadership through an examination of official records alone. Even at cabinet meetings and confidential planning sessions held in the ministries, German officials rarely stated explicitly that they planned to let the inflation proceed until the Allies gave up their reparation demands. In private as well as in public, rhetoric often replaced economic analysis. The catchwords »passive trade balance« and »enormous burdens« elicited predictable lamentations. A general assumption

prevailed that the London Schedule constituted a levy beyond all reason. The fact itself appeared self-evident; the only thing worth debating was how to convince the Entente of it. And nothing much could be done about balancing the budget, it seemed to follow, until the hard-hearted enemy granted relief. A mood of gloom and despair bordering on psychological paralysis suffused most discussions of finance at the *Reich* Chancellery in 1921–22. Yet the attentive scholar finds evidence of a quite different attitude in private records and, here and there, even in unguarded remarks uttered within an official context.

German financial experts were actually by no means united in believing that the payments deficit caused the inflation. Carl Melchior, who represented Germany at the Brussels financial conference in late 1920, admitted quite candidly: »Die Gründe für die Inflation sind außerordentlich einfach. Sie liegen in dem gewaltigen Defizit unseres Etats.«³⁶ Joseph Wirth hinted as much in October 1920, when as Finance Minister he reminded the Reichstag that the German budget comprised »ein beachtenswertes Mittel, um die Welt über unsere wahre Lage aufzuklären.«³⁷ As the »fulfillment chancellor« from May 1921 through November 1922, Wirth pursued the very strategy he had adumbrated as finance minister. This emerges with striking clarity through consideration of his attitude toward the imposition of a mild form of capital taxation.

In the fall of 1921 Wirth appealed to the *Reichsverband der deutschen Industrie* for a hard-currency loan. Such a loan would serve two purposes at once. It would allow the government to pay the next reparation installments without raising the income tax, and it would undercut proposals drawn up by State Secretary Julius Hirsch of the Economics Ministry for a tax on capital, the so-called *Erfassung der Sachwerte*.³⁸ The debate that followed within the RdI is particularly revealing. Those who favored the loan, like Otto Wiedfeldt of Krupp's, contended that the government required a »short reprieve« of six to nine months in order to achieve revision of the Versailles treaty. For this high purpose industry should sacrifice its foreign currency reserves, he declared; »ob unser Haushalt dabei balanciert oder nicht, tritt dahinter zurück.«³⁹ But not everyone on the executive committee echoed Wiedfeldt's public spirit. As Müller-Oerlinghausen put it: »Vielleicht ist der österreichische Weg, die eigene Valuta zu ruinieren, der richtigere.«⁴⁰

In September 1921, Wiedfeldt's position seemed likely to prevail, but two months later, majority opinion in the RdI had swung against granting the government a loan. Those who opposed the credit operation rallied behind two principal arguments. Lignite executive Paul Silverberg, speaking for *Fachgruppe Bergbau*, contended that the Wiesbaden Accords vitiated the purpose of the operation. The stipulations agreed upon in early Oc-

tober at Wiesbaden provided a practical method for the German government to deliver reparations in kind to France. Yet industry had considered the loan a commendable sacrifice originally because it would buy time for the Reich to mount a trade offensive. By dumping goods at ruinous prices, Germany might hope to create so much economic disruption and unemployment in the Entente countries that the latter would themselves demand revision of the London Schedule. With goods flowing smoothly under the Wiesbaden scheme, this effect could not be achieved. Jakob Hasslacher, chairman of the *Rheinische Stahlwerke*, did not resort to such subtleties. He dismissed the talk of catastrophe if industry failed to cooperate as a mere »slogan« that would not bear analysis. The collapse of the currency, he observed, was coming anyway (his colleagues echoed: »very true«). It appeared foolish to surrender hard-currency reserves that would be needed to import raw materials in order to delay the collapse by two or three weeks.⁴¹

In the end the RdI torpedoed the proposed credit operation indirectly by hedging its offer round with so many conditions that to implement it became impracticable. Yet significantly, Chancellor Wirth did not then turn to what many financial analysts, especially on the left, considered the logical alternative, namely, some sort of tax on capital. On the contrary, Wirth fought vigorously against such a tax to balance the German budget. He explained why openly to party leaders in January 1922:

»Das Ziel unserer ganzen Politik müsse der Abbau des Londoner Ultimatums sein. Es sei daher falsch, wenn man durch eine Sachwertfassung im jetzigen Moment das Ultimatum zu etwa 80 % für tragbar erkläre.«⁴²

Foreign Minister Walther Rathenau, the chancellor's chief confidant and strategy adviser, outlined a related facet of government policy shortly before the Genoa Conference:

»Die Erfüllungspolitik sei niemals als Selbstzweck angesehen worden. Sie mußte aber geführt werden, nachdem wir das Londoner Ultimatum unterschrieben hatten. . . . Diese Politik . . . sei eben keine Erfüllungspolitik sans phrase, sondern sei begrenzt. . . . Die Aufgabe sei, jetzt zu beobachten, wieweit das Eis tragfähig sei.«⁴³

In this spirit Rathenau counseled resistance to the Reparation Commission's attempt to impose an additional fiscal effort on Germany in the spring of 1922. The evening before his assassination Rathenau engaged in an unusually frank discussion about the inflation with industrialist Hugo Stinnes. The setting was the American Embassy in Berlin, where Ambassador Alanson B. Houghton had invited the two men to meet Assistant Reparations Delegate James A. Logan. Rathenau and Stinnes figured as personal enemies, but their substantive views turned out not to differ so much as was popularly supposed.

Rathenau considered the main objection to inflation social; it seemed to him »no worse economically than controlling rents«. It merely »took from

those who had and gave to those who had not, which in a country so poor as Germany was entirely proper«. Stinnes, by contrast, declared that inflation was »wholly unsound economically«. However, he explained, »the choice had been between inflation and revolution and as between the two he favored inflation«. Rathenau and Stinnes found themselves in substantial agreement about Germany's current dilemma. Stabilization would lead to »industrial and commercial disaster«, yet if the mark continued to decline an eventual drop toward the level of the Austrian crown appeared inevitable. Both men professed to see a solution only in a large foreign loan and a decrease in reparations. It was Germany's »first duty« to restore its internal finances, Rathenau admitted, but such rehabilitation was possible only »after readjustment of the indemnity bill to a figure within Germany's capacity to pay«. Tactical differences between the statesman and the entrepreneur remained. When Stinnes criticized Rathenau for having promised the Entente what he could not perform, the latter replied apologetically: as a member of the government he was »forced to reconcile the political exigencies with business considerations« and could not treat the question solely on Stinnes's »business principles«, despite his personal inclination to do so.⁴⁴

The next morning Rathenau lay dead — shot by right-wing extremists who did not realize how tenaciously he had fought for many of their concerns. And Wirth, increasingly jittery and fearful for his own life, began to lose his grip on policy. The chancellor still paid lip service to his particular notion of »fulfillment«, but it now constituted a mere holding operation with no clearly discernible final objective. When the powers began their wearisome negotiations for a compromise that would disguise Germany's failure to pay what little it owed under a moratorium arrangement for the last four months of 1922, opposition to the charade grew even within the government's ranks. President Havenstein hinted broadly at the spirit that now informed Reichsbank monetary policy:

»Wir ständen in einem Wendepunkt des Schicksals Deutschlands. Die Frage sei, ob die Zeit gekommen sei, die Erfüllungspolitik abzuschließen. Er bejahe dies. Diese Politik sei nach dem Londoner Ultimatum notwendig gewesen, jetzt sei sie nicht mehr durchführbar. . . . Er sei erfreut, daß die Autonomie der Reichsbank sich jetzt als ein Segen erweise, denn hierdurch käme der Reichskanzler um einen schweren Gewissenskonflikt herum.«⁴⁵

While Wirth waited passively and without conviction for a miracle, Stinnes continued throughout the summer and fall to fabricate plans for a general settlement at home and abroad. The *Reichsverband der deutschen Industrie*, meanwhile, set up a Special Committee for an Economic Program that sought to elaborate business desiderata for reshaping the German economy and society as preconditions for stabilization.⁴⁶ Stinnes characteristically proposed a comprehensive program. At home he demanded introduction of the ten-hour working day, draconian penalties against

strikes, return of the railroads and other public enterprises to the private sector, abolition of remaining vestiges of wartime controls over the economy, and revision of the tax laws to »stimulate thrift« and »promote the formation of capital«. In foreign policy, Stinnes insisted on equally drastic changes. The Allies would have to evacuate the Rhineland, give back the Saar, limit reparations to the repair of material damages in France and Belgium, and abrogate those provisions of the Versailles treaty that denied Germany most-favored-nation treatment or restricted its access to raw materials or colonial markets on an equal footing with the dominant powers. As a final step, after the Allied powers and the United States had granted Germany a large currency and reparations loan, the mark would be stabilized. To his fellow industrialists, Stinnes reiterated that the several elements in his program had to follow in a precise order: »Erst muß die Mehrarbeit kommen, dann die Stabilisierung der Valuta an dem Tage, wo man sicher ist, das Reparationsproblem gelöst zu haben.«⁴⁷

Chancellor Wilhelm Cuno did not endorse this wide-ranging program as a whole when he came to power in November 1922, but he had to take account of it. For the new Chancellor proclaimed that his highest priority was to achieve cooperation between business interests and the *Reich* in framing an integrated internal and external policy. At the very meeting of the Rdl executive committee at which Stinnes had delineated his preconditions for stabilization, Cuno (then chairman of the *Hamburg-America Line*) had voiced his own conviction that Germany could not solve its domestic financial problems without first addressing related issues in foreign affairs: »Von der äußeren Gesundheit hängt die Gesundheit der inneren Verhältnisse ab.«⁴⁸ Cuno's personal views on the connection between reparations and inflation therefore take on unusual interest.

In May 1922, five months before he assumed the responsibilities of public office, Cuno provided a revealing analysis of German monetary policy to a foreign banker. Frank C. Tiarks, a director of the Bank of England who held a partnership in an Anglo-German banking house, came to Hamburg on a study tour. The two men discussed the reasons for the depreciation of the mark, and afterward Cuno wrote Tiarks:

»In the view of the idea which you assure us is prevalent in many quarters that the Germans are not aware of the dangers of inflation, we should like to put on record that the great danger of the continued use of the Printing Press for banknotes is fully realized by the bankers and leading men of Germany.«

However, Cuno added, continued resort to the printing press figured as »the unavoidable sequel of the deficit in the German budget, which is mainly due to the fact that Germany, owing to the consequences of the war, the Armistice conditions and the Treaty of Versailles, has been and is forced to pay large sums in foreign exchange (reparations, clearing-balances, import of foodstuffs, etc.) and in paper currency (counter-value of deliveries in kind, compensation for liquidated property abroad, cost of armies of occupation, etc.) which far exceed her taxable capacities.«

Cuno foresaw that the present policy would lead to economic chaos, but he considered the only alternative a refusal to pay that would lead to a fresh occupation of German territory. »Of these two evils«, he declared, Germany »obviously prefers the former in the hope that some revision of the Treaty will be made which will make it possible for her to put her house in order and stop the use of the printing press before it is too late.«⁴⁹

When Cuno commenced his duties as Reich Chancellor, however, he concentrated his efforts on developing a reparation plan upon which domestic interests could unite; he gave scarcely any thought to what might lead to reasonable accommodation with the Entente. The plan developed for the January 1923 Paris Conference fell so far short of a serious offer — its present value did not exceed 12 milliard gold marks — that State Secretary Carl Bergmann, the German reparations negotiator, felt too embarrassed to communicate it formally at the *Quai d'Orsay*.⁵⁰ Thus Cuno found himself pursuing simultaneously the two policies he had presented to Tiarks as alternatives. He continued to resort to the printing press, and he provoked a Ruhr occupation by refusing flatly to pay. Although he understood the economic consequences attendant on further inflation of the currency, he sought to finance passive resistance exclusively through a succession of expedients. Only at the end of July 1923, with his government tottering at the edge of collapse, did Cuno first appeal for the imposition of higher taxes. The moment of truth came at last. To the leading bankers who gathered in Berlin Cuno explained what had motivated his delay:

»Wenn man Ihnen den Vorwurf machte, daß Sie ihr Steuerwesen nicht in Ordnung gebracht hätten, so wäre naturgemäß der Wunsch gewesen, die Steuerordnung erst nach den Reparationen vorzunehmen.«⁵¹

Here Cuno voiced the sentiment of a majority of German political and business leaders. Undoubtedly the inflation had yielded economic benefits up to a point. But German leaders had let it continue beyond that point. In the final year of hyperinflation, they allowed a political objective to prevail over prudential considerations of public finance. And their willingness to risk everything did bring a measure of success: they secured — concomitant with stabilization — abandonment by the Allies of reparation claims large enough to make a difference in comparative economic development. The question remains whether the political gains for Germany abroad outweighed the social costs at home.

Anmerkungen

- 1 Ingvar Sevénnilson, *Growth and Stagnation in the European Economy*, Geneva 1954.
- 2 On these issues, see Arthur I. Bloomfield, *Monetary Policy under the International Gold Standard 1880—1914*, New York 1959; William Adams Brown, Jr., *The International Gold*

Standard Reinterpreted 1914—1934, 2 vols., New York 1940; Ragnar Nurkse, *International Currency Experience*, Princeton/N.J. 1944; and the general survey by Leland B. Yeager, *International Monetary Relations: Theory, History, and Policy*, New York 1966.

3 See the elaboration on this theme in Stephen A. Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan*, Chapel Hill/N.C. 1976.

4 Treasury, Committee on Currency and Foreign Exchanges after the War, 1918—19, *Proceedings*, T185/1—3, Public Record Office, London; ably summarized in D. E. Moggridge, *British Monetary Policy 1924—1931: The Norman Conquest of \$ 4.86*, Cambridge 1972, pp. 16—28. (All official British Cabinet, Foreign Office, and Treasury materials cited below are held at the Public Record Office.)

5 Andrew Boyle, *Montagu Norman: A Biography*, London 1967, p. 132.

6 Compare the monetary arguments presented by Moggridge in *British Monetary Policy* with the structural analysis made most recently by Derek M. Aldcroft, *The Inter-War Economy: Britain 1919—1939*, New York 1970. On the return to gold, see also Stephen V. O. Clarke, *Central Bank Cooperation 1924—31*, New York 1967; and R. S. Syers, *The Bank of England*, 3 vols., London 1976.

7 J. M. Keynes, *Scheme for Rehabilitation of European Credit* (1919), Chancellor of the Exchequer Miscellaneous Papers, T172/988.

8 Frank Freidel, *Franklin D. Roosevelt: Launching the New Deal*, Boston-Toronto 1973. For a contrary view see Charles P. Kindleberger, *The World in Depression 1929—1939*, Berkeley-Los Angeles 1973, pp. 199—231.

9 See the elegant formulation of these propositions by the British counselor of embassy in Berlin, Joseph Addison, 11 September 1924, F.O. 371/9753: C14653/70/18.

10 See, for example, Controller of Finance Basil P. Blackett's memorandum, »British Government's Debt to the United States Government«, 11 May 1920, CAB 24/105: C. P. 1259.

11 CAB 23/30: Cabinet Conclusions 42(22), 25 July 1922.

12 John Maynard Keynes, *Essays in Persuasion*, New York 1931, pp. 105—113, 116—117.

13 The best longitudinal studies of French postwar monetary policies are still Georges Lachapelle, *Les Batailles du franc*, Paris 1928, and *Le crédit public*, 2 vols., Paris 1932; and Robert Murray Haig, *The Public Finances of Post-War France*, New York 1929. On the social costs to the rentier class, see André Bouton, *La Fin des rentiers*, Paris 1930.

14 Russell C. Leffingwell of J. P. Morgan & Co., »Memorandum on French Public Debt«, 19 May 1925, Folder 9, Box 95, Thomas W. Lamont Papers, Baker Library, Harvard Graduate School of Business Administration, Boston.

15 Erienne Clémentel, *La France et la politique économique interalliée*, Paris 1931, pp. 337—348.

16 Pierre Miquel, *La Paix de Versailles et l'opinion publique française*, Paris 1972, p. 437.

17 Minister of Finance (written by Jean Parmentier) to President of the Council, 22 October 1921, F³⁰/782, Ministère des Finances et de l'Économie, Paris.

18 Jacques Bariéty, »Les Conséquences pour l'économie française du retour de l'Alsace-Lorraine à la France en 1919«, in: *Francia* 3 (1975), p. 533—553; Bariéty, »Le Rôle de la mine dans la sidérurgie allemande et la restructuration de la sidérurgie allemande après le traité de Versailles.« *Travaux et recherches*, Metz 1973, 3, p. 233—393.

19 S. Schuker, *The End of French Predominance in Europe . . .*, pp. 295—393.

20 Reply of the Allied and Associated powers to the German delegation, 16 June 1919, cited in: *A History of the Peace Conference of Paris*, ed. H. W. V. Temperley, 6 vols., London 1920, 2, p. 262.

21 Frank D. Graham, *Exchange, Prices, and Production in Hyper-Inflation: Germany, 1920—1923*, Princeton 1930; Costantino Bresciani-Turroni, *The Economics of Inflation: A*

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22 Karsten Laursen and Jørgen Pedersen, *The German Inflation 1918—1923*, Amsterdam 1964.

23 Carl-L. Holtfrerich, *Internationale Verteilungsfolgen der deutschen Inflation, 1918—1923*, in: *Kyklos* (1977), Nr. 2.

24 Carl-L. Holtfrerich, *Domestic and International Factors in a Case of Hyperinflation*, (forthcoming). I thank the author for supplying me with an advance copy of this paper.

25 Note Seydoux, *Question des réparations — Conférence de Bruxelles, 7 January 1921*, Carton XXIX, Fonds Alexandre Millerand, Ministère des Affaires Étrangères, Paris. See also Georges Soutou's several articles on the subject, notably: *Die deutschen Reparationen und das Seydoux-Projekt, 1920—1921*, in: *Vierteljahrshefte für Zeitgeschichte*, Nr. 3 (1975); G. Soutou, *Problèmes concernant le rétablissement des relations économiques franco-allemandes après la première guerre mondiale*, in: *Francia* 2 (1974); and G. Soutou, *Une autre politique? Les Tentatives françaises d'entente économique avec l'Allemagne, 1919—1921*, in: *Revue d'Allemagne*, janvier/mars 1976.

26 Aufzeichnung vom 21. März 1922 betr. Internationales Eisenkartell, R 13 I/261, Verein deutscher Eisen- und Stahlindustrieller, Bundesarchiv, Koblenz (henceforth cited: BA).

27 Notiz Dr. Kocherthaler für das Tagebuch, 10. November 1922, Nachlaß Max Warburg, Bd. 196a, Brinckmann, Wirtz & Co., Hamburg.

28 CAB 23/30: Cabinet Conclusions 29(22), 23 May 1922.

29 See Carl Snyder's refutation of the opposite view put by Reginald McKenna of the Midland Bank: Snyder memorandum, »Foreign Debts«, 3 November 1922, Federal Reserve Bank of New York correspondence file C261, New York City. (Snyder served as head of research for the FRBNY.)

30 CAB 23/30: Cabinet Conclusions 29(22), 23 May 1922.

31 See Chancellor Wirth's comments on this matter in October 1922, in: BA, Alte Reichskanzlei, R 43 I/31/228—229.

32 See the analysis by Jean Tannery, head of the German Affairs Section at the rue de Rivoli: »La Faillite de l'Allemagne. Nouveau texte Tannery«, 7 November 1921, copy in Folder 13, Box 5, Louis Loucheur Papers, Hoover Institution, Stanford, California.

33 Louis Loucheur, »La Faillite de l'Allemagne«, 10 September 1921, copies in Carton II, Fonds Millerand, and Folder 3, Box 5, Loucheur Papers.

34 Note Seydoux Nr. 95, »Question des réparations. Situation générale«, 29 October 1921, Carton II, Fonds Millerand.

35 See, for example, the memorandum drawn up by the *Reichsbank* for State Secretary David Fischer, head of the *Deutsche Kriegslastenkommission*, in preparation for the January 1922 Cannes Conference: »Niederlegung der Behauptung, Deutschland schaffe künstlich Inflation«, BA, R 43 I/24/143—146.

36 Melchior to S. Jasphe & Co., Ltd., 15 January 1921, in Nachlaß Max Warburg, Bd. 156.

37 *Verhandlungen des Reichstags, I. Wahlperiode, Stenographische Berichte*, Bd. 345, 27 October 1920, p. 800 B.

38 Bücher/Schweighoffer Rundschreiben, »Erfassung der Sachwerte«, 26 August 1921, in Nachlaß Otto Wiedfeldt, Werksarchiv Fried. Krupp, IV/2055, Essen.

39 Wiedfeldt to Geheimrat Hermann Bücher, 3 September 1921, Krupp WA IV/2055.

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41 *Stenographisches Protokoll der Mitgliederversammlung des Reichsverbandes der deutschen Industrie vom 5. November 1921*, copies in Krupp WA IV/2055 and GHH 30019320/5.

42 *Besprechung mit Parteiführern vom 9. Januar 1922*, in BA, R 43 I/2393/207—209; also *Akten der Reichskanzlei, Weimarer Republik: Die Kabinette Wirth*, ed. Ingrid Schulze-

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43 Ministerratssitzung vom 24. März 1922, *Akten: Wirth*, I, Nr. 231.

44 Compare the two extant accounts of this conversation: Logan to Roland Boyden, 26 June 1922, U.S. 462.00R 29/1853, and Houghton to William R. Castle, 26 June 1922, U.S. 862.00/1129, both in Department of State decimal files, Record Group 59, U.S. National Archives, Washington, D.C. Scholars who emphasize the policy differences between Stinnes and Rathenau overlook these reports. See, e.g., Ernst Laubach, *Die Politik der Kabinette Wirth 1921/22*, Lübeck-Hamburg 1968, p. 243; and David Felix, *Walter Rathenau and the Weimar Republic*, Baltimore-London 1971, pp. 171—172.

45 Kabinettsitzung vom 30. August 1922, *Akten: Wirth*, II, Nr. 361.

46 Stinnes framed several successive versions of his plan. See particularly the sketch he handed to Ambassador Alanson Houghton on 14 October 1922 in U.S. 862.00/1192; and the formulation presented to the Reich Finance Ministry in Dezember 1922, »Zehn Punkte Stinnes«, BA, R 2/1369 (*Reparationsvorschläge*). The work of the *RdI Sonderausschuß für ein Wirtschaftsprogramm* is documented in BA, Nachlaß Paul Silverberg, Nr. 312.

47 *Niederschrift über die Sitzung des Vorstandes des Reichsverbandes der deutschen Industrie, den 6. September 1922*, GHH 3001240/4.

48 *Ibid.*

49 Cuno to Frank C. Tiarks, 22 May 1922, Nachlaß Wilhelm Cuno, Hapag-Lloyd-Archiv, Hamburg.

50 See Bergmann's subsequent reproach to the cabinet: *Ministerbesprechung vom 30. April 1923, Akten der Reichskanzlei, Weimarer Republik: Das Kabinett Cuno*, ed. Karl-Heinz Harbeck, Boppard am Rhein 1968, Nr. 144.

51 Warburg Notiz, Nachlaß Max Warburg, Bd. 157 A. The official records of this meeting have somehow disappeared from Reich Chancellery files: see *Akten: Cuno*, p. 697 n.

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