many used to gain a revision of the treaties. It represented both the object and the symbol of Franco-German antagonism in the same way that the war debts functioned as object and symbol of Anglo-American rivalry. Reparations and debts in their mutual interaction provided the foundation for a multilateral set of interconnected effects. Taken together, they compelled France to perform a difficult though never successful balancing act between Great Britain and the United States concerning the debt issue, on the one side, and Germany on the reparations issue, on the other.

American "Reparations" to Germany, 1919–1933

Stephen A. Schuker

The international monetary system facilitates trade and exchange across national boundaries. It can maintain its legitimacy and effectiveness only so long as the principal trading nations believe that the system provides an equitable framework for international transactions and promotes the fair exchange of resources.

It is frequently possible for lesser participants to abuse the agreed or implicit rules of the system. They may succeed in maintaining a favorable, artificial exchange rate. They may manage to avoid painful domestic deflation by rescheduling or writing off their international debts. In effect, they achieve a cost-free transfer of claims on real resources from those who have produced them to themselves. The creditors acquiesce because they believe that they stand to gain more from the continued stability of the system than they may lose as a result of a particular failure to repay. In the past decade, Zaire, Poland, and Peru figure as prime examples of nations that have employed foreign loans for consumption rather than for investment and have then evaded the obligations incurred; and even now Argentina, Brazil, Chile, and Mexico show signs of following in their footsteps. The costs of default are borne by other borrowers through higher risk premiums, by bank stockholders, or by the taxpayers of creditor countries who "socialize" the losses through instrumentalities like the International Monetary Fund.

Even actors just below the first rank in the world economy have succeeded at times in manipulating their creditors without destroying the larger sense of trust that undergirds the international monetary system. Revolutionary regimes often decline to recognize financial obligations incurred by predecessors, although they immediately lay claim to the infrastructure built with the proceeds of those obligations. Thus the Bolshevik government in Russia, shortly after it came to power, repudiated the loans incurred by the Czar. The Turkish regime of Kemal Atatürk hoisted the nationalist banner at Lausanne in 1923 and obtained an end to the capitulations that protected foreign holders of the Ottoman debt. The People's Republic of China offered no greater accommodation to foreign investors when it overthrew the Kuomintang in 1949. Whatever the rhetorical gloss put on their actions, each of these regimes acted on the principle that the assets seized held greater value than continued access to capital markets, at least for the immediate future. Generally, that calculation proved correct. However great the outrage of bondholders at the time, defaulting debtor governments usually regain access to capital markets within a generation. Bondholders write off their losses. Emotion fades. New exporters emerge within creditor countries eager to promote loans in order to sell their goods.

More serious problems arise when a major industrial nation seeks to manipulate the monetary system in a manner that other participants view as unfair. Such cases can threaten the stability of the system itself. Of course, unfairness is a relative matter. The line between aggressive defense of national interests and actual sabotage of a monetary system often seems exceedingly fine. Moreover, standards of international comity differ over time. Methods of defending the national interest through tariff and non-tariff barriers and through exchange-rate manipulation that routinely characterized the 1930s came to appear virtually an affront to international comity by the 1960s; the pendulum has now swung partially back in the other direction. Yet when allowance is made for these qualifications, it remains true that, when a pillar of the monetary system ceases to support an equitable burden, the edifice can not stand for long without fundamental redesign.

The governments of the Weimar Republic, during the successive stages of inflation, stabilization, and deflation, sought to manipulate the international monetary system for Germany's benefit. In the short run, they did so successfully. Not only did they avoid paying net reparations to the Allies; they actually extracted the equivalent of reparations from the former Allied powers, and principally from the United States. The methods of obtaining this income stream varied from 1919 to 1933. Over the whole period, however, the German people maintained a higher standard of living than they could have done without these "reparations". The resources reached Germany through speculation on the mark in the first phase, through a long- and short-term capital inflow in the second phase, and through a Standstill agreement that privileged "essential" imports in the last phase of the Republic. The "reparations" found reflection in increased wage and salary levels, even in sectors with lagging productivity gains, in an uneconomic shift to white-collar employment in labor-force composition, in mounting government welfare expenditures, and (although precise figures are not obtainable) in the secretion of German assets abroad. On the other hand, German manipulation of the monetary system contributed in no small part to the breakdown of the gold exchange standard in 1931 and to the instability and autarchic trends that characterized the international economy thereafter.

These conclusions will seem to many readers overdrawn. Contemporary debate continues to focus on the effects of the reparations paid *by* Germany. The perspicacious Wolfram Fischer has of course warned against exaggerating the economic importance of reparations. Even in the years 1925–31, he concedes, when Germany made payments on schedule, they amounted on average to no more than 1.70 per cent of gross national product or 2.22 per cent of national income at factor cost. Yet Peter Krüger, in an important and rather more characteristic recent summation of scholarly thinking, contends that even payments of that modest magnitude had greater depressing effects on the Weimar economy than a similar percentage transfer would have on the rich industrial societies of the present era. He emphasizes the destabilizing effects of the reparations controversy on Weimar politics both in the inflationary and deflationary phases of the Republic. And he faults Allied leaders for embracing a zero-sum view of the world economy and of war-cost apportionment rather than the enlightened precept that international cooperation could promote recovery and growth for all[1]. Some

analysts have taken a yet more extreme position. Given Allied policies, they intimate, Germany might actually have done better after 1924 to keep its discount rate low in order to promote domestic investment and high employment, to bypass American loans if necessary, and to risk an early "transfer" crisis[2]. While such a counterfactual proposition cannot be tested, it would appear not to take full account of the magnitude of the capital inflow from abroad and of the advantages that this stream of payments conferred on the German economy.

The interpretation advanced here does not depend on a conspiracy theory. Nor does it necessarily imply that those who made foreign economic policy in the Weimar Republic had a long-term plan to expropriate foreign funds. In fact, widespread misperception of the way that the international monetary system works to redistribute real resources is not unusual. Analysis of the international economy is a subjective and highly politicized science. That remains the case even for the post-World War II era, for which econometricians can generate more accurate data than they can for the interwar years.

* * *

It will help set the Weimar experience in perspective to examine another case in which a major participant sought to manipulate the international monetary system, and in which analogous instability resulted. Between 1961 and 1980 the United States took advantage of its reserve-currency position and power over money markets to extract a disguised subsidy from Japan and the Common Market countries. Freed from the constraints of balancing its international accounts, the United States could sustain the *Pax Americana* abroad and create an expansive welfare state at home despite the nation's declining relative productivity[3]. One can identify certain officials during this period (among them Secretary of the Treasury John Connally) who more or less openly advocated the crude use of American monetary seigniorage to achieve the desired political ends. But most policymakers saw themselves responding – as did their Weimar predecessors – to a sequence of short-term problems and choosing reluctantly among unattractive options. The grand design appears clearly only in retrospect.

[1] Compare *Wolfram Fischer*, Die Weimarer Republik unter den weltwirtschaftlichen Bedingungen der Zwischenkriegszeit, in: *Hans Mommsen, Dieter Petzina*, and *Bernd Weisbrod* (eds.), Industrielles System und politische Entwicklung in der Weimarer Republik, II, (Düsseldorf 1974) 46–47; and *Peter Krüger*, Das Reparationsproblem der Weimarer Republik in fragwürdiger Sicht, in: Vierteljahrshefte für Zeitgeschichte 81 (1981) 21–47.

[2] *Dietmar Keese*, Die volkswirtschaftlichen Gesamtgrößen für das Deutsche Reich in den Jahren 1925–1936, in: *Werner Conze* and *Hans Raupach* (eds.), Die Staats- und Wirtschaftskrise des Deutschen Reichs 1929/33, (Stuttgart 1967) 66–67.

[3] *Jacques Rueff*, who won his spurs as a financial attaché reporting on similar problems in the 1920s, identified the American policy of exported inflation in: The Balance of Payments, (New York 1967) and The Monetary Sin of the West, (New York 1972). The present study draws heavily on the systematic analysis by *David P. Calleo*, The Imperious Economy, (Cambridge, Mass. 1982).

Let us simplify a complicated series of events. The Bretton Woods monetary system stipulated that foreign central banks would hold dollars as the principal reserve against their own issue of currency. The system worked satisfactorily in the fifteen years following World War II because the United States dominated global industrial production and because dollar-denominated financial assets represented relatively stable claims against real wealth. Yet Bretton Woods embodied a potential danger of world inflation. It provided for no systemic check on American monetary expansion. If electoral politics in the United States mandated fiscal and monetary policies that generated balance-of-payments deficits, the Washington authorities could cover the gap by issuing U.S. Treasury instruments. Foreign central banks that came to hold these certificates would then use them as the basis for national monetary expansion. Still, the difficulty did not loom large in the 1950s. World trade grew so fast that there arose a relentless demand for dollars as the medium for financing international transactions. Economists even spoke of a "dollar shortage". Moreover, the Eisenhower administration practiced fiscal and monetary restraint.

After 1961, however, the Kennedy administration embraced a new philosophy for coping with balance-of-payments deterioration. The problem derived in part from continuing overseas military expenditure, foreign aid, and capital investment abroad by American multinationals. These outlays seemed less sustainable than formerly as Western Europe and Japan completed their postwar recoveries and as the productivity of their economies began to catch up with that of the United States. Kennedy advisers sought to meet the challenge by spurring domestic growth through a supply-side tax cut. But the intellectual legitimation they offered for budget deficits – the disingenuous notion of a "full-employment balanced budget" – had grave consequences. Only once in the next generation would the United States actually balance its budget. When the Johnson administration sought to finance the Great Society social programs and an unpopular war in Vietnam without raising taxes, an inflationary psychology spread.

At that point the phenomenon of real wage increases exceeding productivity gains became imbedded in the American economy. Long-planned trade liberalization under the Kennedy Round, designed to improve the basic balance, instead exposed a structural trade deficit. Moreover, the ensuing recession of 1970 demonstrated that Great Society policies had fostered changes in the economy engendering stagflation. Generous welfare supports inclined workers to risk unemployment rather than accept a decline in real wages. Businesses too preferred in recession to cut output, raise prices, and await the next round of government stimulation. In short, for several reasons, a sharp decline in American competitiveness resulted. It became increasingly difficult to maintain the Bretton Woods system and America's hegemonic place in it.

In the 1960s the United States had derived several advantages from an overvalued dollar. American corporations had acquired assets abroad cheaply. The government had, in effect, financed its deficits by inflating the monetary base of the rest of the world. After 1971, these techniques required modification. But in the following decade, the United States found a way to benefit also from an undervalued dollar.

President Nixon's "New Economic Policy" of 1971 ended convertibility of the dollar into gold. His counselors waved the nationalist flag. They thought it inadvisable to

pursue a restricted-growth policy for balance-of-payments reasons and sought to dispel any "Marshall Plan psychology" that remained[4]. They aimed to force devaluation, restore the trade surplus, and redistribute defense burdens within the Western alliance. They recognized that to jettison Bretton Woods might disrupt trade, encourage the avarice of Third World raw-material producers, and destabilize the international economy generally. Still, they hoped that the breathing space secured would allow them to restructure the domestic economy for more productivity and less inflation.

The gamble, however, did not pay off. The explosion in oil and raw-material prices all over the world in 1973–74 caused a deterioration in the terms of trade for all industrial countries. At home, Nixon failed to eliminate the inflationary social programs inherited from his Democratic predecessor; indeed, through revenue sharing with local governments he actually expanded them. The social-service bureaucracies that sprang into being constituted a permanent lobby for ever-increasing entitlement spending. And the Watergate scandal undermined for some years the possibility of strong presidential leadership in the economic field. Under the circumstances, American competitiveness worsened further. When floating exchange rates became institutionalized after 1973, the temptation grew to balance every upward ratchet of inflation at home with a compensating depreciation abroad. During the Carter administration particularly, Treasury officials made strenuous efforts to "talk the dollar down" with the hope of boosting domestic employment.

The Europeans and Japanese, however unwillingly, had to tolerate these maneuvers. Oil prices were denominated in dollars. The other industrial nations recognized that, if the dollar was held below purchasing-power parity, it would diminish the price of their oil. Moreover, the newest American stratagem had natural limits. Owing to the volume of Eurodollar claims resulting from past deficits, the Treasury could not push the policy too far without creating a crisis of confidence. Finally, in 1980, the presidential election resulted in at least momentary triumph for the anti-inflation forces. While the Weimar model suggests that creditor elements in a society rarely secure enough power to stop inflation without external constraints, the American experience since 1981 apparently constitutes an exception.

In retrospect, American foreign economic policies over the previous two decades appeared less than successful. They had diminished American power abroad. They had undermined the institutional arrangements that the United States had labored to establish for postwar monetary cooperation. Moreover, they bore witness less to any long-term scheme of beggar-thy-neighbor diplomacy than to the inability of the American system of government to force rational choices. Nevertheless, these reflections offered poor consolation to the citizens of other industrial countries who, for the better part of twenty years, had found themselves obliged to shoulder much of the cost of the American welfare state.

* * *

[4] The phrase is that of White House adviser *Peter G. Peterson,* later head of Lehman-Kuhn Loeb. See his remarkably candid state paper, The United States in a Changing World Economy, 2 vols., (Washington, D.C. 1971).

The American example illustrates what can happen when, in an era of perceived scarcity, a crucial partner in the world monetary system seeks to resolve a conflict over distribution of domestic resources through international manipulation. The analogy with the foreign economic policies of the Weimar Republic immediately springs to mind. Of course the symmetry is not perfect. The United States took advantage of its special strengths. Weimar Germany, by contrast, made a virtue of its position as the weak link in the armor of international finance. The United States followed policies that, whatever their domestic logic, impeded security and military policies on which a national consensus had heretofore existed. In Germany, by contrast, prevailing opinion had long considered an end to reparations as the chief object of national policy, and that was achieved, at however high a price. The parallels nevertheless seem instructive enough to justify sketching Weimar foreign economic policy in an analogous broad way, while passing lightly over those detailed political and social questions that micro-historical study can best illuminate.

War often acts as a spur to economic growth[5]. But World War I proved so destructive that it diminished the net resources of the principal European belligerents. That war also increased expectations among the working classes which had fought in the trenches and suffered domestic privation. Each combatant nation underwent an inflation in the war- and immediate postwar period. Inflation constituted the easiest means by which governments everywhere could satisfy their own requirements and also reconcile the conflicting claims of opposed social groups. Suspension of the gold standard and then adoption of a floating exchange-rate regime after the war removed the previous international constraints on inflation[6]. The lost war and the ambiguous outcome of the 1918 revolution made it virtually certain that Germany would encounter distributional conflicts in more acute form than would the other industrial countries of Western Europe.

Yet once inflation got underway, German leaders found an additional motive not to bring it under control. Undoubtedly their policies were overdetermined. The industrial peak organizations did not wish to undergo the certain rigors of a stabilization crisis until they could end the state regimentation of the economy imposed during the war and roll back gains made by labor in 1918–19. Socialist and union forces meanwhile insisted on preserving those gains and the intricate complex of state subsidies that complemented and perpetuated them. Still, as this writer has suggested elsewhere, from the adoption of the London Schedule of Payments in May 1921 to the final collapse of the mark in the summer of 1923, the Wirth and Cuno governments declined to consider balancing the budget and stabilizing the currency principally for reasons of foreign policy. They hoped that seeming monetary chaos would bring a reduction or even an end to Allied reparation claims[7].

[5] *Alan S. Milward,* War, Economy and Society 1939–1945, (Berkeley 1977) 1–17.
[6] See reflections on this issue in League of Nations [*Ragnar Nurkse*], International Currency Experience: Lessons of the Interwar Period (Princeton 1944).
[7] *Stephen A. Schuker,* Finance and Foreign Policy in the Era of the German Inflation, in: *Otto Büsch* and *Gerald D. Feldman* (eds.), Historische Prozesse der deutschen Inflation 1914 bis 1924, (Berlin 1978) 343–61. The argument has not proven universally persuasive. Note, for example,

Up to the summer of 1922, the policy resulted also in an enormous and virtually cost-free net capital inflow deriving from the depreciation of foreign-held mark bank balances, paper currency, and mark-denominated securities. This phenomenon sparked wide discussion in the financial press of the period, although it did not temper official Berlin rhetoric about the reparations "burden"[8]. Even if contemporaries differed about the magnitude of the inflow, it clearly bulked large enough to cover all reparations paid in cash and kind, a substantial import surplus, and the export of some German capital to safe havens, principally in the United States. Precise figures will be left for later discussion. Nevertheless, these exchange profits from inflation seem to have figured rather as a by-product than as the prime motive for the policy. Significantly, neither Wirth nor Cuno proved amenable to stopping the inflation when the capital flow abated. Instead they hazarded the final collapse of the mark by breaking with the tactic of "fulfillment" and risking a Ruhr occupation as part of a general revolt against the Versailles treaty. German policy during the Ruhr crisis reflected the long tradition, dating back to Bismarck, of the *Primat der Außenpolitik.* It emphasized foreign-policy objectives over prudential considerations of public finance.

The end of the inflation led to a stabilization crisis characterized by an acute capital shortage. But the Dawes Plan, after coming into operation in September 1924, shielded the German economy from large reparations demands during the projected recovery period. During the first two years of the plan, modest payments would come from interest on railroad and industrial bonds and from a small transport tax. Only subsequently would the German government have to provide a budgetary contribution. As a result of a complex accounting agreement that stretched out later payments, the German government in fact made a token budgetary contribution of 300 million RM in October 1926. The direct budgetary burden, however, never exceeded 1 milliard marks before 1929. Furthermore, the bulk of reparation revenues from all sources, totalling less than 3,130 million RM through August 1927, went for the occupation armies and deliveries in kind. (Direct cash transfers by the Agent-General for Reparation Payments amounted to less than 330 million RM up to that date.) Reparations, then, could not account for the growing problems of German public finance, nor for the resumption of import surpluses on a large scale. (The merchandise deficit reached 3,400 million RM during the first Dawes year alone.)[9]

the treatment by *Carl-Ludwig Holtfrerich,* Die deutsche Inflation 1914–1923, (Berlin 1980) 135–54. See, however, recent renewed emphasis on the importance of reparations for government policy in *Agnete von Specht,* Politische und wirtschaftliche Hintergründe der deutschen Inflation 1918–1923, (Frankfurt/M., Bern 1982).
[8] On the mechanism behind the capital inflow, see *Holtfrerich,* Internationale Verteilungsfolgen der deutschen Inflation 1918–1923, in: Kyklos 30 (1977/2) 271–92. For press discussion, *John Maynard Keynes,* Speculation in the Mark and Germany's Balances Abroad, Manchester Guardian Commercial, 28 Sept. 1922, in: *Elizabeth Johnson* (ed.), The Collected Writings of John Maynard Keynes, XVIII, (Cambridge 1978) 47–58.
[9] Reparation Commission, Official Documents, vol. 14. The Experts' Plan for Reparation Payments, (London 1927); Reports of the Agent-General for Reparation Payments, (London 1925–27). See also useful analysis in *Etienne Weill-Raynal,* Les Réparations allemandes et la France, (Paris 1947) II: 552–53, III: 210–11, 344.

Instead, the difficulties arose as a consequence of the familiar conflicts that had wracked the social polity since the war[10]. In real terms the national income (at least according to official figures) did not surpass the 1913 level until 1927. But expectations grew much faster. Even if no reparations transfer took place, the nation's productive capacity would not suffice to satisfy all domestic claimants on existing resources. The precarious political balance made it difficult to impose discipline on conflicting pressure groups. And while the Dawes Plan offered a breathing space for reparations transfers, it tied Germany into the international economy immediately. The plan's banking stipulations required the Reichsbank to maintain adequate reserves to preserve the mark's exchange value. The gold-exchange standard in effect precluded resort to devaluation as a method of lowering real wages and other costs to a competitive level. Nor could Berlin force the pace of economic growth again through inflation without incurring the displeasure of the Agent-General. As a result of such deficit spending by the Reich and *Länder* as did take place, consumer prices rose in Germany by 8 per cent from 1925 to 1929, while they fell 2.3 per cent over the same period in the United States[11]. Hence relative costs grew more out of line as the decade progressed. Under the circumstances, to draw in resources from the rest of the world through loans figured as the path of least resistance.

The picture of a society living beyond its means emerges with unambiguous clarity from the attached tables. The individual statistical series for the later 1920s may prove hard to reconcile precisely with each other, but there is no reason to question the general magnitudes they suggest. Table I indicates that, by 1928, national income at factor cost had reached 102.9 per cent of the 1913 level (when adjusted for a 55.6 per cent rise in gold-mark prices). But real pretax income for farm enterprises stood at only 57.3 per cent of the prewar figure, and real income for industry stood at only 79.7 per cent of the prewar level. Adjusted wages and salaries, by contrast, had jumped to 123 per cent of the 1913 norm. Of course, the destruction of rentier assets during the inflation explains part of this extraordinary social change before 1925. But only the burgeoning power of organized labor – coupled, perhaps, as C.-L. Holtfrerich suggests, with a shift in employment patterns toward more highly-paid salary categories and with an increase in the total number of persons employed – can explain what happened thereafter[12]. From an international point of view, it is of secondary importance whether employees received their swollen share of national income in wages and salaries, fringe benefits, higher salary classifications, shorter work weeks, or more persons employed per family. The consequences remained much the same. Table II underscores the significant conclusion that price-adjusted net investment in the later Weimar period consistently remained under the prewar level, and that, when the Depression struck, this minimal investment receded quickly while consumption (as one might expect) fell extremely slowly.

[10] Although the analysis here focuses primarily on international questions, the approach to issues of distribution and the constraints on public policy owes much to the pioneering essays of *Knut Borchardt*, now collected in: Wachstum, Krisen, Handlungsspielräume der Wirtschaftspolitik. Studien zur Wirtschaftsgeschichte des 19. und 20. Jahrhunderts, (Göttingen 1982).

[11] Compare *Walther Gustav Hoffmann*, Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts, (Berlin 1965) 600–1 (Table 148), and *U.S. Bureau of the Census*, Historical Statistics of the United States. Colonial Times to 1957, (Washington, D.C. 1960) 117, 125. Wholesale price indices declined in both countries, but in similar proportion.

[12] *Holtfrerich*, Zu hohe Löhne in der Weimarer Republik? Bemerkungen zur Borchardt-These, in: GG 10 (1984) 122–41.

Taxation and government welfare expenditures magnified the shift in income distribution. Already by 1928, government revenue had risen to 172 per cent of the prewar figure in real terms (Table I). Taking the long view, Andic and Veverka calculate that direct and indirect taxes jumped from 8.1 per cent of national income in 1913 to 24.0 per cent by 1932. On the expenditure side, the combined total allocated per inhabitant for defense, police, education, debt service, and promotion of business remained virtually stationary from 1913 to 1932. By contrast, the per capita sum devoted to government salaries rose 65 per cent, and the amount spent on social services quintupled – to more than half the budget[13].

Figures independently generated by the Agent-General and by Dietmar Keese from German sources confirm these impressions. S. Parker Gilbert's study of the Federal budget alone for the Dawes Plan era demonstrates that, during his six-year tenure as Agent-General, Reich transfers to states and municipalities increased by 19.1 per cent, costs of government operations went up 57.7 per cent, and social expenditures grew 419.3 per cent (see Table III). (Since prices at the end of the period stood only 1.5 per cent higher than they did at the beginning, the real figures closely resemble the nominal figures.) Keese's study of current income and expenditure by public authorities on all levels during the calendar years 1925–30 underscores the growing significance of transfer payments (especially unemployment and other social insurance remittances), which reached almost 10 per cent of national income by 1930 (see Table IV). Moreover, the unbroken increase in interest charges on public debts indicates that at no point did the nominal surplus on current account (item 3.6) suffice to cover real disbursements on capital "investment".

In short, the fiscal difficulties of the Reich and the inexhaustible demand for foreign capital after 1924 resulted from German social policy. Reparations imposed at most a marginal additional burden. Indeed, since deliveries in kind constituted two-thirds of all payments in the early years, it seems logical that those orders (arranged under the Dawes Plan through private channels) helped keep the wheels of industry turning during the severe recession that persisted from the fall of 1925 to the winter months of 1927. Nevertheless, as William McNeil demonstrates conclusively, the makers of foreign economic policy in Berlin always kept in mind the eventual goal of ending repa-

[13] *Suphan Andic* and *Jindřich Veverka*, The Growth of Government Expenditure in Germany since the Unification, in: Finanzarchiv 23 (1964/2) 169–278. The analysis by *David Abraham*, The Collapse of the Weimar Republic, (Princeton 1981) 237–80, is helpful though not always accurate in detail. Full discussion also in *Bernd Weisbrod*, Schwerindustrie in der Weimarer Republik, (Wuppertal 1978); *Ilse Maurer*, Reichsfinanzen und große Koalition, (Bern, Frankfurt/M. 1973); and *Helga Timm*, Die deutsche Sozialpolitik und der Bruch der großen Koalition im März 1930, (Düsseldorf 1952). The interpretation here owes much also to *Robert Dahlberg*, Heinrich Brüning, the Center Party, and Germany's Middle Way, (Ph.D. diss., School of Advanced International Studies, Johns Hopkins University 1983).

rations altogether, even if this represented but one of several determinants of fiscal and monetary policy in the short run[14].

The Dawes Plan opened American and other foreign capital markets to Germany for the first time since the war. The major corporations that had joined (and indeed led) the "flight to real values" during the inflation now desperately required working capital. Such loans would enhance industrial efficiency. Foreign lenders considered them "productive". Even selected flotations for states and cities, if used to modernize the energy and transportation infrastructure on which industry depended, might spur productivity. Yet by the fall of 1925 American officials began to feel that the volume of lending, and the uses to which the funds were put, had gotten completely out of hand. Herbert Hoover's Commerce Department had long favored imposing government supervision on foreign lending. But after some indecision, State Department and Treasury officials concluded that the United States government dare not interfere[15].

These officials did not mistake the mentality of the American public, which showed alarming willingness to speculate unreflectively in foreign bonds because of the interest-rate differential. Nor did they fail to observe the new breed of investment bankers now crowding Wall Street, who would satisfy that demand without balancing risk against return. (One of these later told a Congressional committee: "The banker is like the grocer. He supplies what the customer wants."[16]) Furthermore, they did not overlook the political implications of improvident German borrowing. If a crisis came, they recognized, Germany might well claim that repayment of commercial debts ought to rank (contrary to the stipulations of the Versailles treaty) ahead of reparations; and that would exacerbate the conflict of interest between Allied reparation creditors and American private lenders. Yet a more immediate danger outweighed all of this. If the Treasury once got involved in passing on the business risk attendant on German loans, it would open itself to litigation on the charge of having implicitly endorsed loans that it did not forbid. The Treasury could not run that chance.

The American government consequently sought to induce Germany to control the quality and volume of borrowing directly. Over the next three years the Agent-General for Reparation Payments engaged in a protracted struggle to impose that restraint. He won a few skirmishes, but lost the war. The Beratungsstelle für Auslandskredite

[14] *William C. McNeil,* American Money and the German Economy: Economics and Politics on the Eve of the Great Depression, (Ph.D. diss., University of California at Berkeley 1981). Also still useful are *Werner Link,* Die amerikanische Stabilisierungspolitik in Deutschland 1921–32, (Düsseldorf 1970), and *Gerd Hardach,* Weltmarktorientierung und relative Stagnation: Währungspolitik in Deutschland 1924–1931, (Berlin 1976). *Claus-Dieter Krohn,* Stabilisierung und ökonomische Interessen: Die Finanzpolitik des deutschen Reiches 1923–1927, (Düsseldorf 1974), brings a strong ideological commitment to his analysis.

[15] See extensive discussion in Box 85 (German Foreign Loans, Jan. 1925–Apr. 1926), Record Group 39 (Treasury, Bureau of Accounts), U.S. National Archives; also Benjamin Strong–S. Parker Gilbert correspondence for 1925 in file 1012.1(1–2), Benjamin Strong Papers, Federal Reserve Bank of New York (hereafter FRBNY).

[16] *Garet Garrett,* A Bubble That Broke the World, (Boston 1932), reprinted in *Garet Garrett* and *Murray N. Rothbard,* The Great Depression and New Deal Monetary Policy, (San Francisco 1980) 13.

(Foreign Loans Advisory Council) – which passed on state and municipal issues – had the power under 1925 legislation to exempt foreign bonds from the flat 10 per cent income tax and the 2 per cent securities turnover tax. A Finance Ministry committee could grant similar tax-free status to industrial loans not traded on the Berlin Bourse. Without tax exemption neither type of loan would appeal to the American market, and on that issue the battle was joined. Reichsbank President Hjalmar Schacht, occasionally seconded by Peter Reinhold during his tenure as finance minister, vetoed some of the more flagrant municipal loan proposals. Yet generally the economics minister and the *Länder* representatives on the Advisory Council outvoted them when state loans came up for review.

Schacht, in so far as so egocentric an individual can be said to have followed a consistent policy, opposed municipal loans primarily because he wished as soon as possible to provoke a transfer crisis that would "prove" Germany's inability to pay reparations[17]. But Economics Minister Julius Curtius came to fear that a cutoff of borrowing by so capital-short a country as his own might bring about a recession, reduce internal demand, and paradoxically demonstrate that Germany could generate an export surplus[18]. The severe cyclic downturn of 1926, moreover, appeared to substantiate Curtius's views. That downturn also focused attention on the weakness of German capital markets and the misallocation of investment in plant and equipment that persisted as a legacy of the great inflation. The supposedly conservative Luther cabinet responded in some panic to the upsurge of unemployment by initiating a make-work program and channeling funds into state-run enterprises, measures that it financed through an "extraordinary" budget. Deficit spending, once begun, usually conjures up political pressures for its continuance, and these pressures soon became irresistible.

In 1927 Germany enjoyed an economic boom. Conditions seemed propitious – as Agent-General Gilbert observed with increasing urgency – for a countercyclical policy and for generation of the export surplus necessary to make the Dawes Plan work smoothly[19]. Instead the Reich widened its budget deficit, increased its subsidies to the states, and countenanced more loans that in effect financed imports for consumption. In July the Reichstag passed a drastically underfunded unemployment insurance scheme that represented a virtual blank check on government coffers – within four years it would claim 28 per cent of combined Reich and *Länder* revenue[20]. In October the legislators followed with a Civil Service Compensation Act that raised government salaries and pensions across the board by 25 per cent. No doubt some conservatives deplored Finance Minister Heinrich Köhler's financial recklessness and political pusillanimity. (The joke circulated in banking circles that it might be a good thing for Ger-

[17] *Link,* Amerikanische Stabilisierungspolitik, 382–437. But note Schacht's admission (p. 433) to Carl von Schubert of the Foreign Office in August 1927 that Germany could easily pay the standard Dawes annuity.

[18] *McNeil,* American Money, 174–77, provides a good formulation.

[19] See especially Report of the Agent-General for Reparation Payments, 10 Dec. 1927 (London 1927), and explanations in letters and telegrams to officials of the Federal Reserve Bank of New York in Binder 1, George L. Harrison Papers, Columbia University Library.

[20] *Abraham,* Collapse of the Weimar Republic, 251.

many if Gilbert served as finance minister and Köhler as Agent-General[21].) Nevertheless, a sound-money coalition remained a political impossibility so long as Germany benefited from transfer protection.

In early 1928, when even such internationalist-minded Americans as Benjamin Strong of the New York "Fed" had turned against further capital issues for Europe, the Reich government finally moved to curb municipal borrowing. But soon thereafter the German states rushed into the vacuum by taking out umbrella loans that they parcelled out in turn to smaller borrowers. Moreover, municipalities that found themselves crowded out increasingly had recourse to the short-term money market to meet long-term needs. Raising the discount rate in 1927 to dampen stock-market speculation had brought a hot-money inflow that lay beyond easy control. The balance-of-payments figures for 1928–30 show clearly how securities speculation and short-term capital movements came to dominate international transactions in those years (see Table V). The Reichsbank, however, evinced a curious indifference to the mounting short-term foreign liabilities of the private banks. Schacht began to collect statistics on the question late in 1927. Yet when the head of the Deutsche Girozentrale asked him whether he worried that political developments might cause foreigners suddenly to withdraw these funds, he replied that "this didn't concern him as Reichsbank president; the private economy had to take care of itself"[22]. The net capital inflow figures, which historians usually cite, moderated slightly in 1929 because the onset of the German Depression reduced the demand for funds at the same moment that the New York stock market boom enticed speculative German capital to the United States. The breakdown of the flow both ways detailed in Table V, however, suggests that the gross inflow of short-term funds terminated only after the real onset of the American Depression in May 1930 and the startling Nazi gains in the Reichstag elections held in September of that year. As the Depression deepened, Germany possessed a rationalized industrial plant, a variety of municipal amenities ranging from subsidized worker housing to swimming pools, and a lavish social welfare system unequaled anywhere outside Great Britain. The foreigners who had financed much of it held paper claims – just as they had in 1919–23.

The final panel of the historical triptych opened with the adoption of the Young Plan in 1930. Germany received another hundred million dollars – the proceeds of one-third the Young loan. Two small public-works flotations followed a month later on Wall Street. This marked the termination of American capital lending. The great bitterness within Germany that had attended ratification of the Young Plan and the unseemly squabbles among the Allies over division of the spoils put the quietus on hopes that had lingered since Thoiry for "commercializing" reparations. Moreover,

[21] Pierre Jay to Benjamin Strong, 13 Nov. 1927, Strong Papers 1012.3(2), FRBNY; on the Reich budget, Jay to Strong, 8 Mar. 1927, ibid.

[22] On Strong's change of heart, see Strong to Jay, 26 Mar. 1928, Strong Papers 1012.3(1), FRBNY. On Schacht, see „Niederschrift des Herrn Stadtrats Jursch (den 13. Oktober 1931) über eine Besprechung mit Dr. Schacht am 26. September 1927", Nachlaß Hans Luther, Nr. 337, Bundesarchiv (hereafter BA). By this point, according to Schacht's best guess, private bank foreign liabilities alone had already reached 3.7 milliard RM (62.7% of the July 1931 figure).

even if the Depression lifted, few insiders expected the Young Plan to last. Even the British expert, Sir Josiah Stamp, who had elaborated many of the technical details embodied in the plan, had hoped merely for "as good an approach shot as possible, so that the next effort may hole out"[23]. The question remained what would happen to the private loans to Germany when the Young Plan did break down.

The reparations debate no longer focused on German "capacity to pay". The issue had become frankly political. Most Young Committee members, if not all academic economists, had accepted the recent findings of Bertil Ohlin and Jacques Rueff concerning the transfer problem. Not only would taxation generate the surplus necessary to pay reparations, but changes in disposable income in paying and receiving countries, magnified through the effects of the multiplier, would facilitate the actual transfer in goods and services. But how could one realistically expect Germany to accept during the Depression the fiscal discipline that it had steadfastly evaded during the halcyon years?

An analogous problem loomed in regard to commercial debts. By 1930 Germany's transfer liability for interest on private debts had reached 1.4 milliard RM – not far short of the Young annuity (see Table V). The foreign lenders thus found themselves increasingly hostage to German fiscal policy. Moreover, the powers had come to no understanding whether public or private creditors should have priority when the Young Plan did break down. The Agent-General had steadfastly refused to rule on the matter. The Young Plan, which divided the annuity into "conditional" and "unconditional" parts, could be read to imply that private transfers would enjoy priority over conditional reparations, which not coincidentally equaled the precise amount that the European Allies owed America on war-debt account. But when Germany mounted its final challenge to reparations, it might not do so by invoking the moratorium procedures specified in the Young Plan. In short, prudent investors had a strong inducement to withdraw their funds at the first sign of trouble.

The crisis came in the spring of 1931 for reasons of foreign policy rather than economic necessity. The Müller cabinet had accepted the Young Plan principally to achieve evacuation of the Rhineland five years early. Those ministers who dismissed the vestigial occupation of the Rhine as a wasting asset for France had rallied to the decision in order to obtain an immediate 30 per cent reduction in the reparations burden. But with those advantages secured, discussion in Berlin turned subsequently on the practical question of when to demand the next moratorium. In the spring of 1931 Finance Ministry professionals held that the proper time had not yet arrived to expect a sympathetic hearing. Admittedly the international deflation that accompanied the Depression had increased the real weight of the Young Plan just at the time that falling revenues had diminished the internal tax base. Yet the Allies could easily show, State Secretary Hans Schäffer conceded, that "Germany's economic and financial difficulties derive not at all or at least less from reparations obligations than they

[23] Sir Josiah Stamp to J. M. Keynes, n.d. (early March 1929), in *Keynes*, Collected Writings, XVIII, 306–7.

do from [domestic] financial and economic policy since stabilization"[24]. Reichsbank President Luther also advised privately that Germany should put its own house in order first and seek to maintain the confidence of the short-term lenders. Chancellor Brüning, nevertheless, insisted that the mood of the German people would brook no delay.

Brüning attempted in 1930–31 to create a broad-based national conservative party. Drawing on the idea of a cooperative national community foreshadowed in the Essen Program a decade earlier, he sought to forge an alliance of the old middle classes that had opposed the great inflation, the East Elbian Junkers and other members of the prewar elite, the non-Marxist workers in the free trade unions, and the export-oriented modern growth industries. With the backing of these centrist groups he hoped to break with the system of cartel prices, administered wages, welfare subsidies, and civil service monopolies that had benefited the special interests at the expense of the consumer and taxpayer for most of Weimar's history.

Brüning did not intend to repudiate the commercial foreign debt. Rather he hoped to improve Germany's export performance by subjecting prices and wages to the discipline of the market. By balancing the budget he could then restore Germany's credit and reschedule short-term foreign obligations at a reduced interest rate. Unfortunately, the events of 1930 demonstrated that no solid Reichstag majority, and no support in the Reichsrat at all, existed for the measures of mutual sacrifice that such a program presupposed. A fierce nationalist by instinct and conviction, Brüning also came to believe by early 1931 that he would have to offer tangible foreign-policy successes in order to secure public backing for his program of equitable deflation. While he hoped for abolition of the Polish Corridor, some sort of union with Austria, and extension of German influence in the Danube basin generally, he set his sights first on ending reparations.

During the summer of 1931 the German government played a dangerous game. It sought to destroy the Young Plan and to finish with reparations once and for all. It succeeded contrary to its own expectations in bringing down the edifice of international finance as well. This is not the place to rehearse the dramatic events of those months: the Hoover moratorium on intergovernmental debts, the collapse of the Darmstädter- und Nationalbank, the financial panic that radiated out from Central Europe, and the ultimate collapse of the pound sterling. The account here will focus on developments as they appeared to the New York bankers charged with protecting foreign creditor interests. No crisis illustrates better the precept that in international finance the lender easily becomes the prisoner of the borrower – particularly the borrower in bad faith.

[24] Denkschrift Schäffers über die Reparationsfrage, 9 Apr. 1931, and concurring memoranda by other bureaucrats, in Nachlaß (NL) Hermann Dietrich, Nr. 214, pp. 5–251, BA: some reproduced in *Ilse Maurer* and *Udo Wengst* (eds.), Politik und Wirtschaft in der Krise 1930–1932: Quellen zur Ära Brüning, I, (Düsseldorf 1980) 583–610. The analysis here draws also on *Wolfgang Johannes Helbich,* Die Reparationen in der Ära Brüning, (Berlin 1962); *Heinrich Brüning,* Memoiren 1918–1934, (Stuttgart 1970); *Edward Wells Bennett,* Germany and the Diplomacy of the Financial Crisis, 1931, (Cambridge, Mass. 1962); *Karl Erich Born,* Die deutsche Bankenkrise 1931, (Munich 1967); and *Robert Dahlberg's* insightful „Heinrich Brüning".

In early 1931 New York banking leaders warned Berlin that to refuse further reparations transfers would adversely affect German credit. As a last resort the Reich might apply to the Bank for International Settlements for an advance as the Young Plan stipulated. Still, the most sensible course lay in hanging on until the American bond market improved sufficiently to allow long-term borrowing again. Ambassador Sackett seconded this judgment. Germans who had sent their money abroad in September 1930 were now largely repatriating it in order to earn the higher return available at home. The Reichsbank could easily wait. The proper fiscal policy would raise government credit and allow conversion of some short debt to longer maturities. The German government, however, showed little disposition to examine the question from a purely financial point of view[25].

Reichsbank President Hans Luther, who had succeeded Schacht, responded with a lengthy jeremiad. Even now Luther failed to grasp the magnitude of the problem facing him: he estimated total foreign commercial indebtedness at 19.3 milliard RM, less than two-thirds the figure later ascertained. Still, he saw no prospect that Germany could service this sum, let alone pay future reparations, except through additional borrowing. Luther enlarged on the theme that the Reich ran a natural trade deficit. Since a surplus from production did not exist, events since 1924 had obliged the country to go "deeper and deeper into debt" in order to purchase imports, transfer reparations, and service the loans that made it all possible. The favorable merchandise balance that had arisen in 1930 merely reflected the decline of domestic purchasing power and the "cruel compulsion" to sell goods below true cost, thus occasioning a loss of national *Substanz.* No one knew what the rate of domestic capital formation was – estimates ranged from zero to six milliard RM annually – but, whatever the true figure, Luther pronounced it "by no means adequate" to offer hope of repaying the debts through growth. Nor could one tap the large sums secreted abroad by German nationals to seek safety or to escape taxation. These assets might return when the crisis eased, but they were "not available for the repayment of indebtedness".

Luther could see but one way out. Foreigners should provide more money – preferably long-term credits at lower rates than obtained in the short market. The Reichsbank president had mastered his craft sufficiently to know that inverted yield curves do not appear spontaneously during a depression, so he drove the point home. The Allies should furnish two milliard RM at "really bearable rates" that did "not make operating on a profit basis impossible for the debtor". More broadly, to escape from the vicious circle, one required "a thorough-going change of the present international system of relations" – in other words, revision of the Versailles treaty[26].

[25] Deputy Governor Jay Crane memorandum for Governor George Harrison (FRBNY), 24 Jan. 1931; Luther to Amb. Frederic Sackett, 27 Feb. 1931; Luther to Harrison, 16 Mar., Sackett to Harrison, 17 Mar. and 10 Apr. 1931, in „Reichsbank/Dawes Committee/Young Committee 1929–31" correspondence file, FRBNY.

[26] Luther to Sackett, 27 Feb. 1931, ibid.

This program called attention to an alarming development. Responsible German opinion had begun to blur the distinction between the reparation debt and the commercial debt. In view of the threat to basic social and political institutions in the Reich, even officials professionally concerned with Germany's credit standing would scarcely dare impose fiscal policies that reserved a fixed slice of the shrinking economic pie to meet foreign claims of any description. Given the unpredictability of hot-money flows, holders of German commercial obligations had almost as much to fear from a sudden breakdown as did government creditors under the Young Plan. A general foreign-payments crisis thus seemed not unlikely well before a run on the mark began as a sequel to the Austrian customs union imbroglio in June 1931.

Banking observers agreed that the speculation against the mark had its origin in Berlin. Governor Harrison of the New York "Fed" targeted the problem in Germany, as in Austria, as "more largely a flight from their own currencies by their own nationals than a withdrawal by foreign creditors"[27]. Another regional governor of the Federal Reserve remarked that Germany seemed to be "playing very high stakes in connection with reparation matters"[28]. When the crisis began, Harrison immediately joined with Montagu Norman of the Bank of England – despite skepticism about German political aims in Washington – in arranging a credit for the Reichsbank. He also twisted the arms of the major New York private bankers who, some with better grace than others, agreed to maintain their short-term portfolios intact.

But Harrison's mood turned to irritation when it became evident that the Reichsbank would take no effective steps to prevent German flight from the mark. Instead, having run through the first $100 million credit, Luther talked of needing $500 million to $1 billion more in order to avoid a breakdown[29]. Harrison now insisted: "We should not be asked to participate in another credit ... until we have definite evidence that the Reichsbank has taken more stringent steps than it has yet taken to limit or control the export of capital by German nationals."[30] Yet for another month, little improvement came about. A junior officer of the bank chronicled the evidence observable at Liberty Street: "Not a day passes but we are called on to cash checks drawn on us by Heinies who have chosen this as an ideal time to get out of Germany and see the world. ... Apparently they have little trouble obtaining Reichsbank checks."[31]

The fact that the capital flight came from Germany itself should have made it technically easier to reverse the flow of funds[32]. But Luther presented himself as "quite helpless" during the crisis[33]. Negotiations for an additional central bank credit got nowhere. A bankers' advisory committee that met in Basel during August determined that in the present state of international relations the consolidation of short-term indebtedness appeared "out of the question"[34]. The foreign creditors found they had no choice but to accept a Standstill Agreement that froze their assets, and when Berlin established exchange controls, these applied as rigorously to foreigners as to German nationals[35].

It seems worthwhile tarrying over the debate among bankers during the crisis months because it illustrates just how deeply politicized the question of what to do with the private loans had become. S. Parker Gilbert of J. P. Morgan & Co., the former Agent-General, took the hardest line on Wall Street. Germany, he wrote in July, had thought "she could go bankrupt in water-tight compartments and keep her general credit while advertising her inability to perform her international obligations under the Young Plan". Let the Reichsbank, he insisted, therefore embargo the outflow of domestic capital. Let Brüning, who had bogged down in financial trivia, really balance the budget. And let the powers ask that Germany employ reparations relief under the Hoover moratorium to reduce its short-term indebtedness and raise its credit standing accordingly. The time had come for the German government "to act to save itself, instead of looking to foreign loans and credits as a means of avoiding the disagreeable job of internal reform"[36].

What Parker Gilbert did not explain was who could force Germany to adopt that advice. Shepard Morgan, his former assistant in Berlin, who now served as vice-president in charge of Central Europe at the Chase National Bank, denounced as chimerical the theory that American bankers could turn short credits into self-liquidating credits and gradually retire from Germany. He deprecated the common notion of letting the French decide whether to intervene, either to save Germany from Hitlerism or Communism or to protect their reparation revenues. In fact most of the short-dated debt had circulated in Germany since 1927–28 and formed an essential part of that country's economic fabric. Any attempt to withdraw it would exacerbate deflationary trends and imperil the long-dated debt. The latter – which included $1,355 million of German securities placed in America and $675 million in direct corporate investment or American holdings of German securities – would be lost without a "restoration of confidence". That in turn required the scaling back of reparations and war debts, not because of doubts about German capacity to pay, but because reparations constituted a "factor of disturbance" in German politics[37].

27 Harrison to Gov. McDougal, FRB Chicago, 9 July 1931, in „U.S. Problems and Credits to Austria/Germany/Hungary, Jan.–July 1931" correspondence file, FRBNY.
28 Gov. George J. Seay, FRB Richmond, to Harrison, 10 July 1931, ibid.
29 Excellent account in *Stephen V. O. Clarke,* Central Bank Cooperation, 1924–1931, (New York 1967) 189–201. Jørgen Pedersen's complaint that the United States holds responsibility for not supporting the mark is based on inadequate information. (*Jørgen Pedersen,* Some Notes on the Economic Policy of the United States during the Period 1919–1932, in: *Hugo Hegeland* (ed.), Money, Growth and Methodology, (Lund 1961) 473–94.)
30 Harrison to McDougal, 9 July 1931, loc. cit.
31 E. O. Douglas to Jay Crane, 10 Aug. 1931, „Crane's trips 1925–33" file, FRBNY.
32 Deputy Gov. W. Randolph Burgess memorandum for Harrison, 21 July 1931, in „U.S. Problems and Credits" correspondence file, op. cit.

33 The judgment is that of Leon Fraser, vice-president of the Bank for International Settlements. See *Clarke,* Central Bank Cooperation, 197.
34 Albert H. Wiggin (Chase National Bank) tel. to Harrison, 11 Aug. 1931, in „Correspondence with Wiggin Committee in Basel and Bank for International Settlements, 1931–34," FRBNY.
35 On operation of the Standstill agreements, see *Charles R. S. Harris,* Germany's Foreign Indebtedness, (Oxford 1935) 22–39.
36 S. Parker Gilbert memorandum, 21 July 1931, in „Reichsbank/Dawes Committee/Young Committee 1929–31" correspondence file, FRBNY.
37 Shepard Morgan, „Memorandum on German short-dated debt reduction", 6 July 1931, ibid.

Deputy Governor W. Randolph Burgess, the keenest economist among the Fed's top officers, took a more optimistic view of Germany's balance-of-payments prospects than most. From a technical point of view he saw no reason why Germany could not maintain a current-account surplus and reduce the short indebtedness over time. Yet everything depended on capital movements, and those movements reflected primarily social and political attitudes and the state of national feeling. He, Shepard Morgan, and W. W. Stewart, the American adviser to the Bank of England, concluded in September 1931 that the fate of the Polish Corridor, an adjustment in German relations with Eastern Europe, and the resolution of French security fears constituted the real variables behind the German payments crisis. Their pessimism derived from a conviction that the nations of Europe would not tackle those political problems successfully[38].

The American bankers had correctly grasped the issues uppermost in the minds of German officialdom. Luther's apparent lethargy during the negotiations for enlarging the central-bank credit in July 1931 stemmed from his fear that the Anglo-Americans might condition such aid on the continuance of token reparations. Moreover, since he expected long-term rates to fall as the Depression deepened, Luther felt little enthusiasm for a conversion scheme that locked Germany into high-rate obligations for an indefinite period[39]. With reparations suspended and a Standstill for short debts achieved, Luther and Brüning concentrated their efforts during the autumn of 1931 on making sure that the Standstill renewal would carry no linkage to French demands for a suspension of German cruiser building and for the renunciation of designs on Austria and Poland[40].

Despite these political preoccupations, both Brüning and Luther sought to keep Germany anchored within the international economic system. Ideas of autarchy or devaluation did not appeal to them. They did not wish openly to repudiate the loans contracted from abroad, because that would bolt the door to further foreign credit – a door that stood, at least as they saw it, still slightly ajar. At least on paper, therefore, they stood committed to additional deflation in order to restore German competitiveness. In November 1931 Brüning went so far as to tell John Foster Dulles, a lawyer for American creditor banks, that the Reich might substitute its own notes for both public and private short-term debt in return for a final reparations writeoff[41]. Privately, however, the Reichsbank expressed extreme pessimism about doing anything more than paying current interest on the 23.5 milliard RM of foreign-denominated debt now outstanding. Any amortization would have to come from a reduction in interest rates below market levels[42].

[38] W. Randolph Burgess, „What Does Germany Require?", 21 July 1931; also Burgess memorandum for Harrison, 3 Sept. 1931, in ibid.
[39] Luther to Hans Schäffer, 4 Sept. 1931, NL Luther, Nr. 337, BA.
[40] See especially Niederschriften Luthers, 23.–31. August, 2. Sept.–14. Nov. 1931, in NL Luther, Nrs. 365–66, BA.
[41] John Foster Dulles to Sullivan and Cromwell, 8 Nov. 1931, in Correspondence file C 261.12, FRBNY.
[42] Reichsbank memorandum, „Exportüberschuß und Tilgung kurzfristiger Auslandsschulden", 5 Nov. 1931, NL Luther, Nr. 338. The Reichsbank clearly adopted a „worst-case" position. It dismissed earnings from Germany's foreign assets as no more than required to cover interest on direct investment in Germany denominated in Reichsmarks. It did not think the improvement in German terms of trade (owing to falling raw material prices) would last. It feared that currency depreciation in Great Britain, and protection in France and Switzerland, would cut off key markets. It thought Russia and other soft-currency partners would not buy except on long-term credit. It insisted that exporters could not be obliged to repatriate their earnings. The memorandum expressed optimism only about renewal of a short-term capital inflow, but emphasized that such resources provided only an „artificial possibility of transfer" and could not be counted when calculating the sums available for retiring outstanding debt. According to Reichsbank calculations, if Germany consistently generated a 2 milliard RM current-account surplus – which seemed virtually impossible – the net amount left for amortization of outstanding debt would be 0–200 million RM!

Actually Brüning nurtured unrealistic hopes to the end of his chancellorship that massive foreign lending would resume. As late as April 1932 he tried to "enlarge" the Lausanne Conference agenda. The Allies should not merely cancel reparations, but supply a 2 milliard RM loan as well. But when Foreign Minister Paul Hymans of Belgium, a key intermediary, asked what assets Germany offered to pledge for such a loan, Brüning turned evasive. He could not pledge the German railways because Germany needed its railway revenue to balance the budget as foreign financiers demanded. Nor could he pledge industrial properties. Profits from business were "indispensable" to the nation's life, and besides that they were small. Furthermore, French and American capitalists already owned many of the big industries. Hymans got the impression that, beyond the familiar dithyrambs on German suffering, Brüning offered nothing concrete[43]. New York bankers, in part perhaps because of their inadequate appreciation of German political complexities, also lost patience with Brüning in the end. Despite his brave talk about economy, so ran the complaint, he had pushed welfare payments up to 45 per cent of the German budget and generally joined the "socializing mob" – incidentally leaving nothing over for debt repayment[44].

Notwithstanding Brüning's accommodating manner, the monetary authorities serving under him put in place a battery of exchange controls that complemented the Standstill Agreement and made it impossible for foreigners to withdraw their investments. The exchange restrictions required all proceeds from international transactions to pass through a blocked account. In essence that enabled German monetary authorities to decide what imports were essential and to what extent the export surplus might be employed to diminish short credits. The Reichsbank shortly began to manipulate the "blocked marks" system to promote exports and to improve German terms of trade. The blocked marks owed to foreigners traded at a depreciated level. With a license, however, those marks could be used to purchase designated German exports. The Reichsbank developed a procedure so that foreign buyers could purchase overpriced German goods with these funds. The German exporter got full value, and the foreign creditor who wished to repatriate his holdings did so at a substantial loss. The

[43] Note Hymans, „Conférence avec Brüning", 22 Apr. 1932, in Belgium, Ministère des Affaires Etrangères et du Commerce Extérieur, Série numérique No. 11.108 bis (Conférence de Lausanne). The 2 milliard figure equaled what Luther had requested on 27 Feb. 1931. See fn. 26, supra.
[44] L. Galantiere (Chief of Foreign Information Division) to Deputy Gov. Jay Crane, 9 June 1932, Correspondence file C 261.12, FRBNY.

Reichsbank also permitted German exporters to repurchase depreciated German securities abroad and to resell them at home at par value as a means to finance "additional" exports[45]. The Nazi regime had merely to refine these methods for separating the hapless foreign creditor from his investment.

Hjalmar Schacht put the process into high gear after resuming his post as Reichsbank president following the *Machtergreifung*. After three years in the political wilderness, Schacht yearned to display his power. When Sir Walter Layton, who had devised the Standstill, inquired in late March 1933 whether Hitler had any notions about finance, Schacht replied: "Yes, he had one idea and a very good one. It was, leave it to Schacht."[46] Schacht left no doubt in the minds of visiting Englishmen or Americans about his intentions. He planned to suspend service on both the short and long-dated debt, but wanted to do so through "negotiation". For example, the Allied governments might wish to lend Germany the necessary funds cheaply so that the private creditors could be paid off[47].

Figures compiled by the State Department Economic Adviser, Herbert Feis, demonstrated that Schacht's program did not derive from financial exigency[48]. Even with the most sophisticated techniques, it had become a matter of guesswork for outsiders to penetrate fully the fog of misleading statistics put out by the Reich Statistical Office. Still, it seemed apparent that Germany had by May 1933 diminished outstanding short debt from 13.1 to around 8.3 milliard RM through conversion into blocked accounts and by discontinuing unused credit lines. The Standstill Creditors' Committee had accepted a reduced interest rate on the remainder. Moreover, the German government had already secretly repurchased some long-dated bonds (although Feis's figure of 2 milliards face value for this item represented a serious overestimate)[49]. The German surplus on current account (including the return on investment abroad) would

[45] *Harris,* Germany's Foreign Indebtedness, 31–39, 51–81. For a more sympathetic appreciation of German strategy, see *Frank C. Child,* The Theory and Practice of Exchange Control in Germany, (The Hague 1958).
[46] Layton Diary, 31 Mar.–3 Apr. 1933, copy sent to the Prime Minister, in James Ramsay MacDonald Papers, PRO 30/69/282, Public Record Office, London.
[47] Layton Diary, ibid; also H. C. Hageman to Gov. Harrison, „Germany's Internal Debt", 25 Mar. 1933, enclosing W. R. Gardner to Eugene Meyer (Governor, Federal Reserve Board), 17 Mar. 1933, in Correspondence file C 261.12, FRBNY.
[48] See Feis memoranda, „Estimate of Charges on the German Balance of Payments", 26 April 1932, and „German Foreign Debts and the Transfer Problem", 1 May 1933, in U.S. State Department file 862.51/3636, Record Group 59, National Archives (hereafter cited as US/file number).
[49] Germany began to purchase depreciated bonds secretly in 1932. These bonds traded at 15–30% of par at the time of the Lausanne Conference, and subsequently rose to 50–65% of par before Schacht's maneuvers drove them down again. Department of Commerce officials concluded that, by the time Hitler took power, Germany had purchased around $400 million of dollar bonds and $80 million of sterling bonds at par value, probably at an average discount above 60%. These figures, however, did not match up with German official statistics. The Reporting Office for Foreign Debts in Berlin published the following data for foreign-denominated debt, i.e. excluding direct investment (quoted in H.C. Hageman memorandum for Jay Crane, „Germany's Indebtedness", 26 June 1934, file C 261-German government, FRBNY):

suffice to cover all remaining foreign liabilities and leave a comfortable margin of some 630 million marks for debt retirement.

But such calculations proved quite beside the point. Schacht intended to husband his foreign exchange for rearmament purposes. Unfortunately, the administration that took office in Washington in March 1933 exhibited an extreme animus against creditor interests, and this sentiment played into Schacht's hands. In May the Reichsbank head arrived in the United States to prepare the way for default. He expected an indignant outburst from the Oval Office. Instead President Roosevelt gave his thigh a resounding smack and explained with a laugh, "Serves the Wall Street bankers right!"[50] The next day, after Roosevelt's advisers had explained to him the consequences of this display of pique, Secretary of State Hull obtained authorization to say that the president was "profoundly shocked". Hull declared himself "utterly nonplussed". And the following month, Feis mustered the courage to tell Schacht at the London Economic Conference that, if he continued servicing the Standstill debt held largely by the London City while suspending payment on long loans owed primarily to the United States, or if he discriminated among creditor nations depending on the bilateral trade balance, Americans would interpret it as a concession to "British interests"[51]. Schacht was shrewd enough to realize that the first reaction from the White House figured as the important one. He gave Roosevelt the highest accolade: the president reminded

German Foreign Indebtedness (milliards of RM at current rates of exchange)

Date	*Short-term*			*Long-term*	*Total*
	Standstill	*Other*	*Total*		
July 1931	6.3	6.8	13.1	10.7	23.8
Nov. 1931	5.4	5.2	10.6	10.7	21.3
Feb. 1932	5.0	5.1	10.1	10.5	20.6
Sept. 1932	4.3	5.0	9.3	10.2	19.5
Feb. 1933	4.1	4.6	8.7	10.3	19.0
Sept. 1933	3.0	4.4	7.4	7.4	14.8
Feb. 1934	2.8	3.9	6.7	7.2	13.9

55.2% of the long-term debt was denominated in dollars and 11.5% in sterling. By February 1934, the United States had devalued the dollar 40.94% and sterling floated at a 37.5% discount from the 1931 par. Hence devaluation alone would have reduced the long-term debt to 7.82 milliards, suggesting a maximum repurchase by Germany of 620 million RM of bonds at face value. These calculations suggest that (1) German statistics are false; or (2) Americans overestimated the size of the repurchase program; or (3) Germany actually devoted some of its assets to repurchasing foreign-owned stock shares, internal bonds, and real estate denominated in Reichsmarks; or (4) some combination of the above. By contrast, dollar and sterling devaluation reduced German short-term liabilities by only about 4 milliard RM, so that possibly 2.4 milliards of the short-debt reduction represented a real repayment.
[50] See the brilliant account in *Frank Freidel,* Franklin D. Roosevelt: Launching the New Deal, (Boston 1973) 397–98; also Documents on German Foreign Policy, Ser. C, I: 283, 394. *Gerhard Weinberg,* Schachts Besuch in den USA im Jahre 1933, in: Vierteljahrshefte für Zeitgeschichte 11 (1963) 166–80, and *ders.,* The Foreign Policy of Hitler's Germany, (Chicago 1970) 135–44, are excellent on Schacht's motives, though incomplete on the American side.
[51] Hull memorandum of conversation with Schacht, 9 May 1933, US 862.51/3988½; Feis memorandum of conversation with Schacht, 13 June 1933, US 862.51/3618½.

him "in every way of Hitler"[52]. After all, an administration that repudiated the gold clause in government bonds, including those held by foreigners, could scarcely afford to take the high moral ground regarding the sanctity of international obligations.

Instead of defaulting at once, Schacht stretched out the process over three agonizing years, playing with the Foreign Bondholders Protective Council – the creditor defense organization – like a cat with a ball of string. It was Schacht who seized the high moral ground. The 10.3 milliard RM of long-term loans, he told the American Chamber of Commerce in Berlin, had "never been invested in the German economy". Instead these loans had served only to pay reparations or interest on themselves. The Dawes Plan had assumed that payment would come from a trade surplus. Thus a violation of the spirit of the plan had occurred. Germany had already liquidated all debts of a true commercial nature. Was it not obvious that "the entire remaining German foreign debt corresponded exactly to its political origins"? The liberal spirit, Schacht intimated grandly, mandated the "clearing up" of intergovernmental indebtedness as the condition precedent to the revival of world trade[53].

At the same time, the Reichsbank president did not neglect the practicalities of expropriation. He exhibited no little originality in offering various forms of scrip and promissory notes (all later to prove worthless) in lieu of interest[54]. Schacht, and Hitler too, took particular satisfaction in driving down the price of German bonds through these tactics, and then buying them back secretly for a song[55]. For several years, Schacht made special arrangements with Britain, Holland, Switzerland, and other creditor nations to continue token interest payments in return for increased German exports. By 1936, however, German officials and business leaders grew restive and began to campaign for a frank repudiation of all long-term debt, public and private[56]. A New York Federal Reserve Bank study in 1938 concluded that, although most of the Standstill debt had been liquidated, the European nations had profited very little from their attempts to recover long-dated investments through bilateral arrangements with Germany[57].

The persistent indifference of high Roosevelt administration officials to the despoliation of American creditors figures as the strangest part of the story. Administration leaders kept their distance from the Foreign Bondholders Protective Council, even

[52] Schacht's comment to Irving Lehman, quoted in *Weinberg*, Foreign Policy of Hitler's Germany, 141 n.
[53] „Dr. Schacht über das Auslandsschuldenproblem", Deutsche Nachrichtenbüro, 16 Mar. 1934, copy in J. C. White to State Department, 21 Mar. 1934, US 862.51/3915.
[54] For the full story, see US 862.51/3631–4795 (June 1933–Dec. 1939).
[55] See Schacht's gleeful account to an American diplomat in Wilson tel. 393, 13 Mar. 1938, in US 462.00R296 BIS/585; Hitler comment in *Henry Picker* (ed.), Hitlers Tischgespräche im Führerhauptquartier 1941–1942, (Stuttgart 1965) 351.
[56] Lord Riverdale, president of Capital Steel Works and C.I.D. emissary, to Sir Maurice Hankey, 9 Mar. 1936, reporting conversation with Ministerialdirektor Helmuth Wohlthat of the Reich Economics Ministry, Fritz Thyssen, Ernst Trendelenburg, Abraham Frowein, and Freiherr Tilo von Wilmowsky, in PRO 30/69/640, MacDonald Papers.
[57] G.L. Harrison to Secretary Hull, 26 Aug. 1938, and memorandum, „Rearrangement of Germany's Foreign Debt Service", C 261-German government file, FRBNY.

though it had been formed with tacit government sponsorship. The Republican Progressive, Senator Hiram Johnson, campaigned originally to exclude Wall Street bankers from any role in the bondholders' protective organization on the ground that they had "perpetrated the wrong". Roosevelt wanted Johnson's support in the Senate, and he remained personally uninterested in the bondholders' fate. Later, partisan Democrats complained that the council had begun to look like Hoover's State Department. The newly formed Securities and Exchange Commission, purporting to protect the small investor from manipulation by the powers of high finance, carried on a wearying two-year investigation of Bondholders Council practices. The SEC uncovered no evidence that the council had sacrificed bondholder interests to those of the banks. Nevertheless, it forbade contributions to the organization from the houses of issue, and this, coupled with the Treasury's denial of non-profit tax-exempt status, resulted paradoxically in limiting the council's effectiveness in protecting the ordinary investor[58].

By 1935 some 600,000 Americans owned defaulted foreign bonds. The average holding approximated only $3,000, and, as Bondholders Council spokesmen insisted, numerous people of modest means – "including literally many widows and orphans" – had invested their life savings in these issues. But the bondholders were not generally perceived as New Deal voters. Nor did they form the natural constituency of any government agency. Secretary of the Treasury Henry Morgenthau felt free to draw the conclusion, therefore, that any return to the bondholders would come at the expense of exports and employment. Officers of the Export-Import Bank formed under the aegis of George Peek expressed themselves even more directly: "We should not let the existence of frozen balances and unliquidated debts ... be a stumbling block to new exportations. Crying over spilt milk, in the spilling of which we were perhaps as much at fault as the foreign countries ... involved, will not revive our export trade." Certain middle-level State Department officials, notably in the Economic Adviser's office, did make efforts to assist creditor representatives when they could. Yet even they placed emphasis on the "diversity of American interests". They noted that, under the Trade Agreements Act of 1934, their first duty was to promote the resumption of trade on a free multilateral basis. They could not attempt to secure a preference for creditors in the reciprocal trade arrangements under negotiation, for to do so would strengthen the tendency toward bilateral clearings that had impeded trade recovery and prolonged the Depression[59].

[58] For a summary from a New Deal point of view, see *Michael E. Parrish,* Securities Regulation and the New Deal, (New Haven 1970) 73–107. On formation of the Bondholders Council, see also *Edgar B. Nixon* (ed.), Franklin D. Roosevelt and Foreign Affairs, I, (Cambridge, Mass. 1969) 115 ff., 152 f., 334–38, 377–82, 462 ff. On the 1935–37 SEC investigation and its consequences, see US 800.51/1149–1347; note particularly the exchange between Francis White of the council and Herbert Feis of the State Department on whether Commissioner James M. Landis or William O. Douglas figured as the real „fanatic" responsible for SEC demands, US 800.51/1263.
[59] J. Reuben Clark, president, Foreign Bondholders Protective Council, to Hull, 19 Jan. 1935, US 611.0031/1315, provides statistics on the distribution of bondholder assets and states the moral and legal case for defending them. For the State Department reaction and conception of its mission under the Trade Agreements Act, see Feis memorandum for Henry Grady and Alvin Han-

In no area of the globe did the bondholders receive less government support than in Germany. William E. Dodd, the Chicago history professor and agrarian ideologue whom Roosevelt appointed as ambassador in Berlin, nurtured an obsessive hatred of businessmen and moneylenders[60]. Before leaving for his post, Dodd declared that he couldn't "find the necessary time" to see lender representatives. Once he settled in Berlin, Dodd limited himself to perfunctory protests to third-string Foreign Office functionaries as Schacht pursued his "salami tactics" in regard to American assets[61]. Finally the investment banking houses complained. Parker Gilbert reported that even German officials had expressed "mystification" at Dodd's failure to protest the discrimination against American holders of the Dawes and Young loans embodied in the British-German clearing agreement of 1934. Dodd had told all comers that the United States had "no special interest" in these loans and "didn't want to get mixed up in them"[62]. Yet departmental representatives in Washington took much the same line. As Bondholders Council spokesmen prepared for a key confrontation with Schacht in March 1934, Undersecretary William Phillips advised them not to resist all concessions and to remember that the Dawes and Young loans particularly were "connected with intergovernmental agreements to which the American government is not a party". When a few weeks later Feis begged the Treasury to endorse a mild telegram protesting German favoritism for short over long lenders, with the hope of strengthening the bondholders' negotiating hand, Undersecretary Coolidge demurred. He was "not a good judge of the effect of diplomatic communications". And while he would mention the matter to Secretary Morgenthau, he "did not think he could get more than two minutes of his time" for it[63].

Schacht, like banking officials in the debtor countries generally, quickly sensed the priorities of the New Deal and took advantage of them for his own purposes. No doubt he drew encouragement also from the demand, voiced with particular insistence by British bankers, that their claims ought to secure preference over those of the bondholders. As early as mid-1932 R.H. Brand, spokesman for the Joint Committee of British Short-Term Creditors, urged his own foreign secretary to take the lead in arranging an international plan that would mandate the suspension of service on all German long-dated debt. Only thus could the Reich hope to recover sufficient liquidity both to repay the Standstill creditors and to abandon exchange control. Brand explained with unusual candor why the interests of the London City coincided with those of civilization as a whole:

> The tendency of the Standstill is to ask the short-term creditors alone to make sacrifices. This is absolutely wrong. If the international monetary and banking machinery is to continue to work satisfactorily, the special position of the short-term banking debts must be recognized.... While any such [international] cooperation would be attacked as a sort of 'Bankers' relief scheme', it is in fact of such enormous importance to Governments and Nations to see a return to freedom and to increased production and trade that it would be wholly justified from the public point of view.

Not until 1934 did Brand and his City colleagues come to realize that, whatever happened to the long-term debt, German domestic financial policy rendered chimerical the hope of restoring freedom of exchange and rolling over the Standstill debt on terms more favorable to London[64].

If the commercial bankers in New York harbored thoughts analogous to those expressed by their London counterparts, they remained too discreet to make representations to their government on the matter. Still, by 1938 they had managed to recover the greater part of their Standstill advances, while individuals who held the bulk of German bonds and direct investment had lost their entire stake. At that point some in the New York banking community began to look enviously again at British competitors who were still making money by financing German trade. A fortnight after the *Kristallnacht* excesses of November 1938, a top-drawer delegation from City Bank and the Chase National Bank arrived in Berlin to explore the possibilities. Winthrop Aldrich, president of the Chase, subsequently explained their strategy: "However much we might dislike those things which are going on in Germany, yet Germany is a fact and we must still continue to do business with Germany." In Berlin, however, one of the bankers injudiciously asked Douglas Miller, commercial attaché at the American Embassy, what he thought about new lending. Miller had followed the entire expropriation process since 1931. He reported his terse reply to Washington: "If I were in New York I would lead a mob to throw stones through their windows."[65] The lesson seemed to strike home – at least for that generation.

* * *

sen, 12 Apr. 1935, and Hull to Clark, 28 Apr. 1935, in ibid; also Livesey memorandum, 15 Sept. 1934, in 611.0031/1165. For Morgenthau's position, see *Parrish*, Securities Regulation, 103–7; and *John M. Blum*, From the Morgenthau Diaries: Years of Urgency, 1938–1941, (Boston 1965) 50–58. For the Peek standpoint, see Charles E. Stuart, vice-president, Second Export-Import Bank, to Assistant Secretary R. Walton Moore, 21 June 1934, US 611.0031/752.

[60] One manifestation of Dodd's neurosis illustrates the point: in Berlin he devoted a surprising amount of his energy to persecuting a clerk on the Embassy payroll because one of her relatives headed a company in which a former graduate student of his had lost money. See vols. 40–51, William E. Dodd Papers, Library of Congress.

[61] J. P. Moffat memorandum for William Phillips, 22 June 1933, US 862.51/3635; Dodd to secretary of state, 6 Jan. 1934, describing a conversation with Dr. Köpke, US 862.51/3811.

[62] Gilbert memorandum for secretary of state, 11 July 1934, US 862.51/4131.

[63] Feis memorandum on Phillips conversation with Reuben Clark and Pierre Jay, 30 Mar. 1934, US 862.51/3935; Feis memorandum of conversation with Undersecretary T. Jefferson Coolidge of the Treasury Department, 14 May 1934, US 862.51/4030.

[64] See R. H. Brand memorandum on the problem of the German Standstill debt, 28 June 1932, in vol. 72, 1st Viscount Simon Papers, Bodleian Library, Oxford University. Circumstantial evidence in the Ludwig Kastl NL, BA, suggests that the substance of this memorandum may have leaked to Gustav Schlieper, the principal German negotiator on the Standstill Committee. For the 1934 negotiations, which led the British government to propose a clearing against the wishes of most bankers in the City, see vol. 190, Robert H. Brand Papers, Bodleian Library, Oxford University. Brand's growing pessimism is best expressed in his letter to P. Jaberg, Union Bank of Switzerland, 27 Mar. 1934, ibid.

[65] Aldrich comment to Federal Reserve staff members in F. L. Livesey memorandum, „New York Banks Contemplating New Short Credits to Germany", 7 Jan. 1939, in US 862.51/4702; Miller comment in Commercial Attaché Weekly Economic Report, ibid. In fact, nothing came of the Aldrich mission because the business was „not there". See L. W. Knocke to President Harrison, 24 Feb. 1939, C 261-German government file, FRBNY.

It remains to determine the magnitude of "reparations" to Germany between 1919 and 1933. One should be able to calculate the net capital inflow and then to subtract the amount of German outpayments to the Allies. In practice, it is difficult to ascertain either of those figures, not only because the data are incomplete, but because the statistics lend themselves to subjective interpretation. Before entering into details, however, it may prove useful to dispose of three misconceptions that have clouded historical thinking on the subject. The first proposition holds that Germany ran a natural trade deficit and that to eliminate it would have created insuperable *economic* problems during the Weimar Republic. The second maintains that a circular flow characterized the world balance of payments in the 1920s, with loans going from America to Germany, reparations streaming to the Allies, and with war-debt remittances completing the circuit back to the United States. The third proposition suggests that high American tariffs undermined the dynamic equilibrium of the system and made a payments crisis inevitable. If any of these propositions held water, it might follow that the real transfer to Germany resulted from ineluctable structural processes in which politics played only a subordinate role. But none of the claims stands up under examination.

The notion that Germany ran an immutable trade deficit in the 1920s figured as the stock-in-trade of Weimar politicians. The theory comes in several versions. Both Schacht and Luther advanced variants to prove why Germany could not pay reparations. William McNeil typifies the modern approach. McNeil plots the actual relationship between unemployment and the trade balance during the 1926 recession. He then suggests that to develop any significant export surplus Germany might have had to accept a static economy with unemployment in the 15 to 20 per cent range[66]. Yet Peter Temin's more detailed scrutiny of the 1926 and 1929 contractions reveals that an autonomous fall in inventory investment appears to explain each downturn better than does any element in the balance of payments. Moreover, while imports did correlate with the business cycle, exports expanded from 1924 through 1929 at a roughly constant rate without much relationship to the state of the domestic economy[67].

Still, over the long run German ability to export reflected relative costs, of which labor figured as the largest component. In 1929, John Maynard Keynes put it this way: "Under the Dawes scheme Germany has to pay the equivalent of her 'natural' trade surplus. We cannot obtain more, unless we give a special stimulus to German exports, either by forcing down German wages … or in some other way."[68] For his own country the question thus became how far Great Britain wished to "force down German wages in order that Germany may steal her export industries"[69]. Although real wages, according to his calculations, had increased 23 per cent in the previous five years,

[66] *McNeil,* American Money, 173–76.
[67] *Peter Temin,* The Beginning of the Depression in Germany, in: Economic History Review 24 (1971) 240–48, and *ders.,* Did Monetary Forces Cause the Great Depression? (New York 1976) 152–58. Note however the reply by *Malcolm Edward Falkus,* The German Business Cycle in the 1920s, in: Economic History Review 28 (1975) 451–65.
[68] Allied Debts and Reparations, in: Daily Express, 22 Apr. 1929, copy in: Collected Writings, XVIII, 322–29.
[69] Prof. Fisher discusses reparations problems with John M. Keynes, in: New York Evening World, 25 Mar. 1929, in: Collected Writings, XVIII, 313–18.

Keynes held that it would not be "humanitarian" to limit them. But this obviously constituted special pleading. The claim that, if the German government generated an export surplus through tax policy, unemployment would necessarily rise, rests on the assumption that real wages were inflexible downward. In the post-stabilization phase of the Weimar Republic, industrial wages largely depended on Labor Ministry arbitration awards, and white-collar salaries correlated closely with government salaries[70]. In short, a state-administered incomes policy that kept both wages and unemployment high and perpetuated the "structural" trade deficit reflected the outcome of a political process and not any economic necessity[71].

Keynes also developed the classic formulation of the circular flow theory:

> Reparations and inter-Allied debts are being mainly settled in paper and not in goods. The United States lends money to Germany. Germany transfers its equivalent to the Allies, and the Allies pay it back to the United States government. Nothing really passes – no one is a penny the worse. The engravers' dies, the printers' forms are busier. But no one eats less, no one works more.

Although interest on German private loans theoretically continued to mount, Keynes insisted in 1926, the "game" could go on only so long as the American investor tolerated it. He concluded ominously, "It will be for the American investor in due course of time to give the word – and for the American public to find a solution"[72].

But the American balance-of-payments figures do not confirm Keynes's analysis (see Table VI). During the years 1919–30 new foreign issues in the United States plus government loans averaged $925 million annually. During the peak years 1924–28 American foreign investment, including refunding, averaged $1.63 billion[73]. By contrast, Allied remittances on war-debt account averaged only $185 million during 1919–30, of which Great Britain furnished more than $160 million. The latter sum represented a levy of no more than 0.8 per cent a year on British overseas investment, and could be financed outside Europe (in point of fact, by a small amount of disinvestment in Latin America). Other countries paid trivial amounts. War debts accounted for no circular flow.

It is true that net interest and dividends on private account received from abroad (less interest and dividends paid to foreigners) averaged $358 million from 1919 to

[70] See *Hans-Hermann Hartwich,* Arbeitsmarkt, Verbände und Staat 1918–1933: Die öffentliche Bindung unternehmerischer Funktionen in der Weimarer Republik, (Berlin 1967).
[71] A similar political process operated to keep unemployment in the United States at a high level during the 1930s. Roosevelt's National Recovery Administration established uneconomic wage minima for reasons of social justice and as a crude method of demand stimulation. The tradeoff between wages and employment worsened, aggravating the Depression. New Dealers then began to talk about the economy's „structural" problems. See the analysis by *Michael Weinstein,* Recovery and Redistribution under the NIRA, (Amsterdam 1980); summary and evaluation by *Philip Cagan* in *Karl Brunner* (ed.), The Great Depression Revisited, (Boston, The Hague, London 1981) 262–85.
[72] The Progress of the Dawes Scheme, in: The Nation and Athenaeum, 11 Sept. 1926, in: Collected Writings, XVIII, 281–88.
[73] Figures in *William Adams Brown, Jr.,* The International Gold Standard Reinterpreted, 1914–1934, I, (New York 1940) 586; not shown in Table VI.

1930. But from 1922 to 1930 (leaving out of consideration the abnormal immediate postwar years), that did not do much more than cover the $216 million average deficit on commodity trade and invisibles. The balance-of-payments statistics, however, call attention to another remarkable phenomenon. From 1923 through 1930 private investment by foreigners in the United States (mostly in securities) exceeded by $3.465 billion – or $433 million annually – the very substantial direct investment by Americans abroad. This figured as the major source of disequilibrium in the balance of payments. No good figures for German capital exports in 1923 exist, but from 1924 to 1930 German capital exports totalled 10,884 million RM, or $370 million annually (see Table V). Presumably most of this went to the United States. In short, of long-term American capital exports during this period, the equivalent of two-fifths came back in a form representing real claims on American assets, and of that Germans held a substantial part[74].

A third misconception often reiterated in the scholarly literature holds that the United States erected an insuperable tariff barrier in the 1920s, making it impossible for Europeans to service their debts. Benjamin Rhodes typically faults American policymakers for having failed to comprehend the importance of the country's shift to creditor status and for having formulated tariff policy in "a nineteenth-century frame of reference"[75]. Even Charles Kindleberger propagates a variant of the argument and complains that the United States failed to maintain a market for distress goods in a crisis[76]. The general theory may still find wide reflection in scholarship because it figured so prominently in political debate at the time. Franklin Roosevelt attacked Republican tariff policy this way during the 1932 presidential campaign:

A puzzled Alice asked the Republican leadership some simple questions:

"Will not the printing and selling of more stocks and bonds, the building of more plants, and the increase of efficiency produce more goods than we can buy?"

"No", shouted Humpty Dumpty, "The more we produce, the more we can buy."

"What if we produce a surplus?"

"Oh, we can sell it to foreign consumers."

"How can the foreigners pay for it?"

"Why, we will lend them the money."

"I see", said little Alice, "they will buy our surplus with our money. Of course these foreigners will pay us with their goods."

"Oh, not at all", said Humpty Dumpty. "We will set up a high wall called a tariff."

"And", said Alice at last, "how will the foreigners pay off these loans?"

"That is easy", said Humpty Dumpty. "Did you ever hear of a moratorium?"[77]

[74] *Brown's* analysis in International Gold Standard I, 539–51, is very helpful.

[75] *Benjamin D. Rhodes,* The United States and the War Debt Question, 1917–1934, (Ph.D. diss. University of Colorado 1965) 389; argument also summarized in the author's Reassessing Uncle Shylock: The United States and the French War Debt, 1917–1929, in: Journal of American History 55 (1969) 787–803.

[76] *Charles P. Kindleberger,* The World in Depression, 1929–1939, (Berkeley 1973) 291–94.

[77] Columbus Speech, 20 Aug. 1932. See the extensive discussion of drafting this speech in *Rexford Tugwell,* The Brains Trust, (New York 1968) 386–99; quotation on 393.

Despite the rhetorical brilliance of this passage, the evidence points to a more nuanced conclusion. The 1922 Fordney-McCumber tariff raised rates substantially, but authorized the president to reduce levies by half through negotiation. In the event the flexible provisions of the tariff never came into wide use. Yet the reasons why significant downward adjustment failed to occur were complex. Protectionist obstruction did play a role. The Tariff Commission found it exceedingly difficult to determine relative costs of production, which would figure as the basis for rate adjustment under the law. It was perhaps equally important, however, that European nations showed little interest in mutual reductions that would apply to all under the unconditional most-favored-nation system of rate-setting adopted in 1922. American tariff specialists had hoped that the unconditional most-favored-nation clause would mitigate the severity of the tariff and lead generally to freer trade, but Continental (and particularly German) trade experts increasingly complained that the "Open Door" benefited efficient American manufacturers at the expense of their own[78]. Subsequently, the Hawley-Smoot tariff of 1930 imposed rates that seemed more erratic than prohibitive, and, in the view of State Department analysts, actually worsened the merchandise balance from the American point of view[79].

Significantly, imports continued to grow steadily under the high-tariff regime – indeed in real terms faster than they had under the lower Underwood tariff – until the Depression struck. Table VI demonstrates that, in the entire twelve-year period when Republican tariff legislation applied, the merchandise surplus only twice sufficed to cover the deficit on tourism, immigrant remittances, and other invisibles. These combined accounts show a deficit from 1922 to 1933 averaging $211 million annually[80]. While the two Republican tariffs imposed forbidding rates on certain specific products

[78] For evidence of German disillusionment with the results of the unconditional most-favored-nation clause embodied in the German-American trade treaty of 1923, see Wallace McClure memorandum of conversation with Emil L. Baer, German commercial attaché, 5 May 1929, US 611.6231/270. For the French refusal to negotiate trade concessions on the most-favored-nation basis, see US 611.5131/455, 468, 500, 509–10 et seq. On the wider issues, see *Melvyn P. Leffler,* The Elusive Quest: America's Pursuit of European Stability and French Security, 1919–1933, (Chapel Hill 1979) 29–30, 43–54, 168–173, 192–202, 295–300. My judgments rest also on other material in Boxes 4, 46–51, William S. Culbertson Papers, Library of Congress, and in numerous State Department trade files.

[79] See J. G. Rogers memorandum, „Temporary Commercial Policies", 11 Sept. 1931, US 611.0031/374; Feis memorandum, „The Economic Interdependence of the United States", 29 Sept. 1932, US 611.003/3068.

[80] For a sophisticated discussion that minimizes the importance of U.S. tariff legislation, see *Malcolm Edward Falkus,* U.S. Economic Policy and the „Dollar Gap" of the 1920s, in: Economic History Review 24 (1971) 599–623. For contemporary analysis focusing on trade with the country that had complained most vociferously about American tariff barriers, see U.S. Tariff Commission, „How far are the French justified in attributing to the American tariff the decline in their exports to the United States?", 2 Jan. 1929, US 611.5131/757. The Tariff Commission concluded that the Fordney-McCumber tariff had not substantially affected the volume of French exports to the United States. Of course, the French exported mainly luxury goods for which the elasticity of demand was low. Demand for German manufactures may have proven to be more price-sensitive. In the absence of a political conflict, however, the Tariff Commission does not seem to have studied the German case in detail.

in which Germany excelled – chemicals, machine tools, and optics, for example – and thereby distorted the bilateral trade balance somewhat, the multilateral figures provide a more accurate measure of the effect of these tariffs on global German export opportunities. In short, we can look neither to war-debt requirements nor to American tariff policy as the principal motivating force behind the one-way transfer of capital resources to Germany.

* * *

The controversy over the size of German reparation payments to the Allies involves less than meets the eye. For propaganda purposes the German government argued that by 1924 it had paid over 50 milliard gold marks, and even so scrupulous a scholar as Carl-L. Holtfrerich credits it with half that amount[81]. The German figures, however, are purely fanciful. They include, for example, claims for the fleet sunk at Scapa Flow and for the imputed value of labor by German prisoners of war, as well as arbitrary overvaluations of German property in ceded areas. The Reparation Commission calculations, by contrast, do not reflect any gross distortions. The mutual compensation arrangements among the Allies became so complex that some of the commission's procedures may not bear rigorous scrutiny from an accountant's point of view. Nevertheless, the commission's figures – summarized in Table VII with emendations suggested by Etienne Weill-Raynal on the basis of his contemporary experience – portray the order of magnitude of German payments with reasonable accuracy.

As Table VII indicates, total German reparations from November 1918 through June 1931 amounted to 22.891 milliard RM. But by no means all of this represented a charge on the balance of payments. Actual cash transfers or cash equivalents (including the proceeds of Rhineland customs, the British Reparation Recovery Act to 1924, and the mixed-claims and Belgian-mark agreements) amounted to 6.819 milliards. Ordinary reparations in kind (ordinary in the sense that they might as easily have given rise to a cash transfer) totalled 6.779 milliards. "Hothoused" reparations in kind (a category that lumps together Armistice deliveries, surrendered war materiel, public-works development contracts under the Dawes plan, actual transferrable profits of the Ruhr occupation, and a rectification for undercrediting of wood and ship deliveries) adds 2.388 milliards more. The true charge on the German balance of payments comes therefore to 15.986 milliard RM. The part of the Young loan that went directly to the creditor powers falls into an anomalous category, but for accounting purposes it seems best to classify the 845 million RM involved also as a cash transfer. That boosts the total to 16.831 milliards. The rest of the reparations credited (some 6.060 milliards), including state property in ceded territory, occupation and commission costs, and supplies utilized by Franco-Belgian authorities in the Ruhr during the military incursion of 1923–24, represented a burden on the German economy but not on the balance of payments.

[81] See his definitive econometric study, Die deutsche Inflation, 144–46, listing the German government claim item by item.

Adding together the national income estimates of F.-W. Henning and P.-C. Witt for 1919–24 with the figures given by W. G. Hoffmann for 1925–31, German national income at factor cost comes to about 842 milliard RM. Accordingly, over the period 1919–31, it appears that Germany transferred (including the Young loan) about 0.91 per cent of national income in cash reparations, and 2.00 per cent in cash and kind. The gross burden on the German economy of all amounts credited works out to 2.72 per cent of national income[82].

Analysis of the capital transfer to Germany between 1919 and 1931 proves less straightforward. Economists who study the capital inflow during the 1919–23 inflation must rely upon guesswork. All who have investigated the problem begin with the figures generated by the Second Committee of Experts headed by Reginald McKenna in 1924. While the Dawes Committee drew up a reparation payments plan, the McKenna Committee was supposed to estimate the amount of exported German capital and to suggest ways to ensure its repatriation. In fact, that committee failed to turn up data reliable enough to facilitate a scientific determination of the important elements in the German balance sheet[83].

The German trade deficit between 1919 and 1922 figured as the most significant variable on which the committee hoped to construct its reckoning. But the two statisticians designated to work out figures, Leonard Ayres of the Cleveland Trust Company and R. Pilotti of the Committee of Guarantees Export Section in Berlin, could not remotely agree. Ayres, who took a rigorous statistical approach, estimated the German trade deficit at 7.0–8.9 milliard gold marks. Pilotti, who thought that the official statistics were systematically distorted and included an intuitive correction in his calculations, put up a figure of 5.5–6.5 milliards. McKenna and his colleagues did not want to leave so wide a margin of difference because that might "cause doubts" about the quality of the committee's work. They therefore fastened on an arbitrary compromise figure of 6.3–7.3 milliards[84].

[82] Henning's and Witt's estimates of German national income for 1919–24 are compared in *Holtfrerich,* Die deutsche Inflation, 220–24. Their respective findings, expressed as percentages of the accepted national income figure for 1913, can easily be converted into real values. Henning's reconstruction, based on the volume of production in each branch of industry, and Witt's, developed inductively from tax statistics, differ for individual years. But both come implicitly to a total of 365 milliard gold marks for the six-year period. The total of 477 milliards for 1925–31 comes from *Hoffmann,* Das Wachstum der deutschen Wirtschaft, 509, and is relatively reliable. There exist grounds for reasonable differences concerning the exact amount of German reparation payments. The very thorough *Sally Marks,* The Myths of Reparations, in: Central European History 11 (1978) 231–55, cites the figure of 20.598 milliards.

[83] Minutes of the Second Committee of Experts, January-April 1924, MS. in Hoover Institution, Stanford University.

[84] Minutes of the Second Committee of Experts, 21–22 Mar. 1924. Pilotti's skepticism about official statistics derived from his field experience with the Committee of Guarantees. For example, before the war the Rhineland accounted for 10% of German exports and 9.8% of German imports. In the postwar period, however, the Rhineland seemed to provide 27% of German exports and take in only 6.6% of German imports. One phenomenon accounts for much of this apparent shift. After the war, Rhineland merchants had to apply to the High Commission Economic Service at Bad-Ems for foreign-trade licenses. They could not understate their exports. Elsewhere in

Similar confusion marked the committee's deliberations on other problems. Ayres found the Latin representatives' memoranda "full of tricks, misquoted data, and sly transference of items from one side of the account to the other". But when he worked up precise data for German balances, his principal, the banker Henry Robinson, complained that he had shown "too clearly just what we had done" and called for something "more obscure". Ayres commented about the final decision to announce 5.7–7.8 milliard gold marks as the total amount of German capital abroad:

> This is in no sense a statistical, economic, or financial finding. It is the result of numberless compromises between the conflicting claims of the English and Americans on one side, and the Latins on the other. The final figures are not even the result of adding up both sides of the balance sheet and finding the difference. ... The final figures simply represent the result agreed upon, so as to have some result, after neither side would concede anything more[85].

The McKenna Committee made one true economic contribution by investigating the foreign mark-balances in German banks devalued by inflation. At first Ayres and his fellow specialists thought the whole inquiry "ridiculous". They discovered that the German bankers themselves had only "a very hazy idea" of what had happened. Eventually, however, the accountants agreed upon a method for converting the paper balances into gold values and persuaded officials of the top eight banks to cooperate. The accountants concluded that foreigners had lost almost 8 milliard gold marks by the devaluation of bank balances alone – about twice what McKenna had expected. Ayres pronounced this a "fairly real figure"[86].

Since for political reasons the British refused to admit that the figure for German capital abroad might be higher, and since the Latins declined to concede that the German trade deficit might be higher, the accounts would not balance unless the committee reported low figures for currency sold abroad and for the profit on mark-denominated securities and property. The committee estimated the maximum gain on currency at 700 million gold marks, and the profit on securities and real property at 1.5 milliards. Yet these figures appear impossibly low. As Keynes wrote in September 1922: "Everyone in Europe and America has bought mark notes. They have been hawked by itinerant Jews in the streets of the capitals, and handled by barbers' assistants in the remotest townships of Spain and South America." Keynes estimated that the German exchange profit on currency devaluation alone might have reached 3.5 milliards, and that foreign losses on securities and property might together account for another 2.5 milliards[87].

Economists like precision, but it is not clear that a much more accurate determination than this falls within the realm of possibility. Certainly, the research staff at the Federal Reserve Bank of New York found itself unable to make a definitive judgment at the time[88]. Among economists who studied the question in the 1920s, Frank Graham's conclusions seem particularly deserving of attention. Graham first corrected the McKenna Committee's assumptions on the basis of information and suppositions drawn from the inquiries of Harold Moulton and Constantine McGuire[89]. His analysis of the German balance sheet indicates that the total gains of the Reich from unredeemed currency or its equivalent amounted to between 15 and 17 milliard gold marks, or, to pick a precise sum, 15.665 milliards. This correlates with the figure of 15 milliards that comes from a direct calculation of the German import surplus between 1914 and 1923 for which no other explanation appears in the balance of payments.

Among modern students of the problem, Carl-L. Holtfrerich has shown particular resourcefulness in reestimating foreign losses on securities and property. He offers an elegant proof, confirmed circumstantially from a number of sources, that American purchases of (and losses on) mark-denominated bonds amounted to $300 million for 1919–22. Since Ayres' investigation into the German banks suggested that Americans held 40 per cent of the devalued bank balances, it would seem reasonable to infer that their holdings of bonds also constituted approximately two-fifths of the whole. That would point to a total German gain on bonds alone of $750 million (3.15 milliards), and a gain on securities and property together exceeding 3.5 milliards[90].

Except for his endorsement of Ayres' findings about devalued bank balances, Holtfrerich refrains from detailed discussion of other individual items in German foreign accounts. But he confirms Graham's general judgment that gross German exchange profits during the inflation years exceeded 15 milliard gold marks[91]. Given the gaps in the data, that figure seems as plausible as any.

Germany, officials connived at such understatement because the Reich was obliged to make a reparation payment equivalent to 26% of exports. After making statistical corrections, Pilotti and his colleagues on the Committee of Guarantees staff estimated that official figures might understate German exports by 40–50%. See Section du Contrôle des Exportations, „Le commerce extérieur de l'Allemagne et celui des territoires rhénans occupés", 1 Aug. 1923, Haute Commission Interalliée des Territoires Rhénans, AJ 9/3824, Archives Nationales, Paris. For Pilotti's reports to the McKenna Committee, see „Estimation of the Amount of German Capital Abroad", Berlin Doc. 3062, 19 Jan. 1924, and „The Value of German Imports and Exports from 1919 to 1923", Doc. 9131, 16 Feb. 1924, in Box 10 (Reports), Leonard P. Ayres Papers, Library of Congress.

85 Leonard P. Ayres Diary, 20 and 25 Feb., 17 and 23 Mar. 1924, Box 1, Ayres Papers.

86 Ayres Diary, 31 Jan.–12 Feb. 1924, ibid. The accountants admitted that their conclusions involved considerable extrapolation from partial figures. See Deloitte, Plender, Griffiths & Co. et al. to McKenna Committee, „Report on the Value in Gold Marks of Net Paper Mark Balances Standing to the Credit of Foreigners in the Books of German Banks", 20. Feb. 1924, Box 10, Ayres Papers.

87 Speculation in the Mark and Germany's Balances Abroad, in: Manchester Guardian Commercial, 28 Sept. 1922, in: Collected Writings, XVIII, 47–58.

88 See memoranda sent by Carl Snyder to Benjamin Strong, Oct. 1920–Oct. 1923, in: Strong Papers 320.451–453 (1 and 2), FRBNY.

89 *Frank D. Graham,* Exchange, Prices, and Production in Hyper-Inflation: Germany, 1920–1923, (London 1930) 251–59; *H. G. Moulton and C. E. McGuire,* Germany's Capacity to Pay, (New York 1923).

90 *Carl-Ludwig Holtfrerich,* Amerikanischer Kapitalexport und Wiederaufbau der deutschen Wirtschaft 1919–23 im Vergleich zu 1924–29, in: Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte 64 (1977/4) 497–529; also *ders.,* Internationale Verteilungsfolgen der deutschen Inflation 1918–1923, in: Kyklos 30 (1977/2) 271–92.

91 *Graham,* Exchange, Prices, and Production, 260–76, contends that one should subtract from the gross sum an amount to compensate for the worsening in German terms of trade owing to inflation. But he advances highly conjectural figures on this score, and treats the putative losses from selling goods below world market prices without considering the effects on domestic employment and factory utilization. *Holtfrerich's* treatment of the growth issue (Die deutsche Inflation, 193–217) provides a useful corrective.

Holtfrerich may err on the low side, however, in estimating the American contribution to this sum at 4.5 milliards[92]. That figure includes only identifiable American losses on mark balances in German banks (some $770 million according to Ayres' calculations) and $300 million in mark-denominated securities circulating in the United States. Yet those who suffered losses on their mark holdings fell into five categories: exporters who left their earnings on deposit in Germany, bondholders, purchasers of stock shares and properties, speculators (including occupation army veterans) who actually held currency, and importers who bought forward marks to cover themselves against exchange risk. Holtfrerich accounts fully only for the first two. Owing to the weakness of the New York acceptance market in the early 1920s, many traders still handled foreign transactions through London, and forward-mark purchases made through the City would not show up in Holtfrerich's calculations. Altogether, it seems possible that American losses approached 6 milliard gold marks (or $1.4 billion), although it would be rash to insist on a precise figure. Certainly the exchange gain sufficed fully to finance the import of American foodstuffs and raw materials that proved so crucial to the economy of the Reich after the war. Holtfrerich notes that the bilateral trade deficit for 1919–22 amounted to $951 million. But since some American exports to Germany undoubtedly passed through Holland and other neutrals, the true figure must stand higher.

Determination of net capital imports to Germany during the period 1924–30 ought to prove fairly simple. The official balance-of-payments figures (see Table V) show gross capital imports of 28.254 milliard RM and gross capital exports of 10.884 milliards over this period. The net capital import figure thus appears to be 17.370 milliards, or 18.215 milliards counting the Young loan. But actually up to the summer of 1931 no one possessed accurate information on the movement of short-term capital in and out of Germany.

The confusion took some time to clear. The Wiggin-Layton Committee in August 1931 estimated long-term debts at 9.2 milliard RM, short-term debts at 10.3 milliards, and foreign investments in mark-denominated securities and property at another 6 milliards. Yet those calculations soon stood revealed as incomplete. During the fall of 1931 internal Reichsbank memoranda used the figure of 12.3 milliards for short-term debt and 23.5 milliards for all debts denominated in foreign currencies. The Special Consultative Committee that met at Basel in December 1931 adopted the German figures with some emendations. Not until 1934 did the German government publish retrospective statistics endorsed by the Bank for International Settlements as definitive, and even those statistics represented a political quite as much as an economic judgment. This final determination indicated that, as of July 1931, Germany owed 13.1 milliards in short-term debts and 10.7 milliards in long-term debts, and that mark-denominated investments amounted to 5.9 milliards[93].

[92] Amerikanischer Kapitalexport und Wiederaufbau, 526.

[93] Privately, leading German bankers considered the successive official estimates of 10.3 to 13.1 milliard RM for the short-term debts rather misleading. Such figures lumped together trade acceptances secured by commodities in transit with finance credits, and included in the latter both local borrowing by the foreign subsidiaries of German firms and loans by those subsidiaries to the

If one takes on faith the relative accuracy of the latter figures, scope still remains for a wide range of interpretation concerning the real benefits that Germany drew from capital imports in 1919–31. The calculations presented here suggest that total capital imports for those thirteen years amounted to 44.7 milliard RM – more than 5.3 per cent of German national income. That would not quite equal the 5.5 per cent of national income that the Reich received as an indemnity from France in 1872–75, but it exceeds any other unilateral transfer between nations made across the exchanges before the oil crises of the 1970s[94]. If one subtracts 16.8 milliards for reparations transferred to the Allies, the net capital flow to Germany still amounts to a substantial 3.3 per cent of national income.

Moreover, the impact on German economic growth in the 1920s exceeded even what these figures would imply. Dietmar Keese calculates that the net capital inflow (after subtracting reparation payments) amounted to no less than 17.5 per cent of all gross domestic investment in 1925–30[95]. This confirms C. R. S. Harris's earlier finding that long-term capital provided by foreigners accounted for 18.7 per cent of all stocks, bonds, and mortgages issued in Germany from January 1924 through April 1929[96]. Holtfrerich and K. E. Born compute that foreigners accounted for 36 per cent of German bank deposits in 1919–21, and again for 38 per cent in 1929. Since foreigners – unlike domestic depositors – did not ordinarily figure as debtors of the institutions in which they placed their money, the importance of foreign funds in assuring the liquidity of the banking system is greater than what these percentages indicate at first glance[97].

controlling enterprises at home. Some double counting may have taken place. The Reichsbank insisted, however, and the private bankers agreed, that it would be unwise to make these distinctions publicly. See Carl Goetz of the Dresdner Bank to Hans Kraemer, 2 Dec. 1931, and the attached memorandum prepared for (but not shown to) George Davison, President of the Central Hanover Trust Co., in NL Ludwig Kastl, Nr. 11, BA; also the revealing comments by Gustav Schlieper and Oscar Wassermann of the Deutsche Bank and by Otto Jeidels of the Berliner Handels-Gesellschaft, in „Aufzeichnung über eine Besprechung in der Reichsbank betr. Vorbereitung der Stillhalteverhandlungen am 9. 12. 31", NL Kastl, Nr. 12. For the texts of the Wiggin-Layton Committee and Special Consultative Committee reports, see The Economist, Special Supplements of 22 Aug. 1931, 2 Jan. 1932, and 23 Jan. 1932. For generation of the official German figures, see Statistische Abteilung der Reichsbank, „Aufgliederung der kurzfristigen Auslandsverschuldung Deutschlands per 28. Juli 1931", 2 Nov. 1931, and „Exportüberschuß und Tilgung kurzfristiger Auslandsschulden", 5 Nov. 1931, both in NL Luther, Nr. 338; also Statistisches Reichsamt, Wirtschaft und Statistik, Mar. 1934; and Bank for International Settlements, Fifth Annual Report (1 Apr. 1934–31 Mar. 1935).

[94] For an imaginative comparative study of unilateral transfers (dealing with the Franco-Prussian War case and reparations in the 1920s, but not with the capital flow the other way), see *Fritz Machlup*, International Payments, Debts and Gold, (New York 1964) 374–95.

[95] *Keese*, Die wirtschaftlichen Gesamtgrößen für das Deutsche Reich, 51 (Table 5). Keese's calculations assume 9.9 milliards in gross reparation payments in 1925–30. If one counts only the 9.0 milliards actually transferred according to German figures, the share of long-term capital formation provided by foreigners rises to 18.7%.

[96] *Harris*, Germany's Foreign Indebtedness, 94 (Appendix II).

[97] *Holtfrerich*, Die deutsche Inflation, 286; *Born*, Die deutsche Bankenkrise 1931, 20–22. Holtfrerich's figures for 1919–21 are drawn from a survey of the large Berlin banks; Born's figure for 1929 refers to all joint stock banks.

It seems only fair to recognize, however, that some assets originally of German origin showed up under the rubric "capital imports" in the national accounts[98]. What happened to the 10.9 milliards of capital exported from Germany in 1924–30? The official German statistics admit to revenue of 325 million RM from foreign investments in 1924. Assuming an average return of 5–6 per cent, that would point to holdings abroad in the range of 5.4–6.5 milliard marks in that year. German assets abroad at the end of the war amounted reliably to 5.8 milliards, so that this obviously represents a minimum figure taking no account of exporters' well-known proclivities to leave their earnings abroad during the inflation. In fact, those who followed the question closely considered the McKenna Committee's "political" estimate of 5.7–7.8 milliards for assets abroad in 1924 implausibly low[99]. Yet, in 1930, German statistics show revenue from foreign investments of only 400 million RM, which implies that the assets in question had grown only to 6.6–8.0 milliard RM. The discrepancy between the minimum foreign holdings one would expect and the maximum figure officially admitted amounts to 8.3 milliard RM. The explanation for this discrepancy must lie in some combination of underreporting of assets held and reinvestment of the funds in Germany with the protective umbrella that a foreign bond issuer could provide.

The 1920s witnessed the increasing integration of capital markets, and money moved particularly freely in and out of the United States. Germans who invested indirectly through Wall Street might hope to evade both the securities turnover tax and the income tax on bonds at home. Altogether, it seems within the realm of possibility that up to a quarter of foreign long-term lending and direct investment in Germany (i.e., about 4.15 milliard RM) actually represented the disguised return of German funds.

Little information exists about the disposition of other foreign claims owed to Germany. The Office of Naval Intelligence asserted in 1936 that, notwithstanding Berlin's professed need to trade through barter because of a hard-currency shortage, German nationals still held $2 billion in secret assets outside the country (5 milliard RM after devaluation of the dollar). But with all the evidence available after World War II, Cleona Lewis could only identify $697 million (1.7 milliard RM) of specific German foreign holdings as of 1938[100]. The losses suffered by investors in all industrial countries during the 1930s point to the greater plausibility of the latter figure. A German national who, in September 1929, invested in foreign securities corresponding to the stock market indexes would, by June 1932, have lost 84.3 per cent of his money in the United States, 63.2 per cent in Switzerland, 78.8 per cent in Holland, and 61.5 per cent (including exchange depreciation) in Great Britain. If the same investor held his American portfolio intact until Wall Street recovered in 1938, he would nevertheless have lost 74.4 per cent of his principal[101]. In short, most German assets abroad simply disappeared in the Depression.

[98] Board Chairman Franz Urbig of the Disconto-Gesellschaft suggested to the expert accountants attached to the McKenna Committee that some proportion of the mark balances nominally held by foreigners in 1919–23 actually belonged to German nationals. But he could not quantify that supposition, and the accountants found no way to explore it further. (See the preliminary report of Deloitte, Plender, Griffiths & Co. to Reginald McKenna, 15 Feb. 1924, Box 10, Ayres Papers.) The discussion here, therefore, concentrates on 1924–30.

[99] See discussion in *Weill-Raynal,* Les Réparations allemandes et la France, II, 565–68.

[100] Office of Naval Intelligence, „Effect of Germany's Latest Step toward obtaining Foreign Credit", 24 Nov. 1936, in US 862.51/4459; *Cleona Lewis,* The United States and Foreign Investment Problems, (Washington, D.C. 1948) 306–7.

To sum up, a minimum calculation of Allied "reparations" to Germany during the Weimar Republic might rest on the limiting assumption that up to a quarter of long-term and direct investment (4.15 milliards) came from funds of German origin. One might also credit Germany with the eventual repayment of 6 milliard RM of the short-term loans (not counting the gain from sterling and dollar depreciation). That would still leave German gains from the net transfer at no less than 17.75 milliards, or 2.1 per cent of national income for 1919–31. Americans had floated 55.2 per cent of the long term debt and had supplied 48 per cent of direct investment, almost all of which was lost (at least until the London Debt Agreement of 1953 provided for partial retrospective compensation). American banks held approximately a third of German short-term debt and eventually recovered nine-tenths of their principal, although they too lost considerable interest and the use of the money for up to a decade[102]. Total American losses for 1924–31, following this reasoning, might approach 8 milliard RM after making the necessary correction for the pass-through of funds of German origin. American losses for the whole Weimar Republic, consequently, may have run as high as 14 milliard RM ($3.5 billion). Since the United States received only negligible amounts in direct reparations and precious little in war-debt repayment to offset its losses, the major burden of the capital transfer to Germany fell in one way or another on the American investor and taxpayer.

[101] Stock market figures from *Kindleberger,* The World in Depression, 111, 122–23. *Brown,* International Gold Standard, II, 1089, provides the monthly figures for sterling depreciation. The 1938 figure for the New York exchange is a monthly average, corrected for depreciation of the dollar.

[102] The Wiggin-Layton Committee estimated American holdings at 55.2% of long-term loans and 37% of short-term loans. State Department balance sheets drawn up subsequently accept the long-term figures, but give varying figures for the short-term loans down to 30%. The sum of $675 million (48%) for direct investment comes from Commerce Department figures as cited by Shepard Morgan, „Memorandum on German short-dated indebtedness", 6 July 1931, Reichsbank/Dawes Committee/Young Committee 1929–31 file, FRBNY.

Table I German National Income, Its Internal Distribution, U.S. Lending to Europe, and Reparation Outpayments, 1925–1930

Year	German National Income[1]	Govt. Revenues (All levels)	Reparation Outpayments[2]	U.S. Lending[3] to Germany/ to Europe	Pretax Income Distribution Shares[4] Agric. Ent.	Indus. Ent.	Wages/ Sal.	Consumer Price Index
1913	48.8/52.4	7.0	–		6.5	11.2	23.3	100
1925	58.6/67.3	12.9	.884	1.294/5.603	5.7	11.8	35.0	143.6
1926	57.6/65.5	14.7	1.108	1.739/3.066	5.8	12.8	36.1	140.5
1927	72.0/80.5	17.1	1.379	1.315/3.520	5.9	13.8	41.7	151.5
1928	78.2/84.0	18.7	1.815	1.772/4.318	5.8	13.9	44.6	155.6
1929	80.1/79.5	18.9	2.149	0.124/0.596	5.5	13.5	45.8	153.8
1930	72.9/71.9	18.8	.861	0.701/0.978	5.0	10.3	41.2	145.8

[1] Net social product (national income) at factor cost in current prices/national income at market prices. Estimate in milliards of gold marks. *W. G. Hoffmann* figures (alternative series for German national income show some variations).
[2] German figures (slightly less than those of the Agent-General). Includes reparations in kind, but excludes sums spent in Germany for occupation armies and commissions, as well as sum raised abroad in 1930 through Young loan for reparation account.
[3] Capital issues for European account, not counting trade, short-term loans, or currency transactions (4.2 RM = $1). 1924–28 figures, from *Brown*, I: 586, include refunding. 1929–30 figures from *Ohlin*, 320–31, do not include refunding.
[4] Major shares only, in milliards of gold marks. Agric. Ent. = Income of Agricultural Enterprises. Indus. Ent. = Income of Industrial Enterprises. Wages/Sal. = Income from Wages and Salaries.
Sources: *Walther Gustav Hoffmann,* Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts, (Berlin 1965); *Simon Kuznets* (ed.), Review of Income and Wealth, vol. 5, (London 1955); *William A. Brown, Jr.,* The International Gold Standard Reinterpreted 1914–1934, 2 vols., (New York 1940); Final Report of the Agent-General for Reparations Payments, (Berlin 1930); League of Nations, Balances of Payments, (Geneva 1932); League of Nations *[Bertil Ohlin],* The Course and Phases of the World Economic Depression, (Geneva 1931).

Notes to Table III: (at right)

[1] All tables taken from the Final Report of the Agent-General for Reparation Payments, 21 May 1930.
[2] Including the estimates of the supplementary budget, together with 169 millions of estimated revenues and 443 millions of authorizations of expenditure brought forward from 1928–9 and 51 millions of current revenues and expenditures in excess of the budget estimates for the reason explained in the Report of the Agent-General for Reparation Payments, 1930, 112.
[3] Including war pensions, partly estimated.
[4] Differences owing to rounding off.
[5] Including 978 millions of loan authorizations brought forward from 1928–9.
[6] Of this surplus 672 millions were transferred to 1925–6 and 220 millions to 1926–7.
[7] Of this deficit 704 millions were transferred to 1929–30 and 154 millions still remain to be transferred to 1930–1.
[8] This figure represents only the deficit for 1929–30, since in the estimates the ordinary budget deficit from 1928–9 (154 millions) has not been included and the cumulative deficit in the extraordinary budget (1,192 millions) has been covered merely by an equivalent amount of loan authorizations.
Source: *Charles R. S. Harris,* Germany's Foreign Indebtedness, (Oxford 1935) 99.

Table III German Public Finance, 1924–30[1]
Consolidated Budget Statements of the Reich (Rm. millions)

	1924–5 actual	1925–6 actual	1926–7 actual	1927–8 actual	1928–9 actual	1929–30 estimates[2]
Current revenues:						
Tax revenues	7,322	6,856	7,175	8,490	9,025	9,096
Administrative revenues	435	478	515	471	626	815
Industrial charge	–	–	–	–	–	150
Total revenues	7,757	7,334	7,690	8,961	9,651	10,061
Current expenditures:						
Tax transfers to states and communes	2,770	2,596	2,626	3,016	3,413	3,299
General administration	1,521	1,884	2,156	2,296	2,401	2,399
Service of the public debt	450	262	421	512	502	673
Charges arising out of war:						
Execution of Dawes Plan	–	291	550	899	1,220	665
Execution of Young Plan	–	–	–	–	–	410
Internal charges[3]	2,108	1,513	1,496	1,560	1,915	1,752
Social expenditure	259	507	811	766	1,101	1,345
Investments, loans, etc.	112	391	483	267	334	305
Total expenditure[4]	7,220	7,444	8,543	9,316	10,888	10,846
Current surplus	537	–	–	–	–	–
Current deficit	–	110	853	355	1,237	785
Transfers from previous years:						
Surplus brought forward as additional cover to meet commitments transferred from previous years	–	396	382	59	55	–
Surplus brought forward as cover for current deficit	–	276	400	200	162	–
Deficit brought forward into 1929–30	–	–	–	–	–	704
Transfers from special working fund	–	–	–	190	62	–
Surplus after foregoing transfers	537	562	–	94	–	–
Deficit after foregoing transfers[4]	–	–	71	–	959	1,489
Proceeds of loans:						
From loans actually issued	355	–	329	123	101	–
From loans authorized to be issued	–	–	–	–	–	1,192[5]
Cumulative surplus indicated in the accounts	892[6]	562	258	217	–	–
Cumulative deficit indicated in the accounts[4]	–	–	–	–	859[7]	298[8]

Table II Distribution of German National Income at Market Prices (millions of marks in constant 1913 prices)

Year	Private consumption (excluding government-purchased services)	Net investment	Public expenditure	Capital account balance (including gold and foreign currency balance) + balance of unilateral transfers (including reparations)	National income at market prices: columns 1–4	Current account balance (excluding reparations)	National income at market prices: columns 1–3 + column 6
	1	2	3	4	5	6	7
1894	24 739	3 710	2 231	817	31 497	– 484	30 196
5	26 079	4 010	2 264	459	32 812	– 274	32 079
6	26 366	4 860	2 376	792	34 394	– 225	33 377
7	27 116	5 360	2 523	843	35 842	– 260	34 739
8	28 205	6 650	2 600	1 005	38 460	– 642	36 813
9	28 837	6 010	2 723	400	37 970	– 710	36 860
1900	28 825	5 330	2 941	426	37 522	– 630	36 466
1	29 168	4 470	3 026	448	37 112	– 467	36 197
2	29 841	4 060	3 055	580	37 536	– 88	36 918
3	31 029	5 890	3 138	482	40 539	75	40 132
4	31 857	6 630	3 298	677	42 462	478	42 263
5	32 434	6 710	3 580	1 457	44 181	622	43 346
6	32 641	7 040	3 883	527	44 091	735	44 299
7	34 208	7 740	4 019	153	46 120	214	46 181
8	35 566	6 020	4 025	579	46 190	799	46 410
9	35 901	6 700	4 281	439	47 321	630	47 512
1910	35 400	6 610	4 258	796	47 064	1 189	47 457
1	36 699	7 830	4 301	683	49 513	818	49 648
2	38 254	8 590	4 577	453	51 874	493	51 914
3	38 202	8 170	5 129	939	52 440	939	52 440
1925	37 471	5 380	5 804	–1 229	47 426	–1 758	46 897
6	36 917	3 300	6 132	1 142	47 491	238	46 587
7	41 919	8 070	6 381	–1 700	54 670	–3 262	53 108
8	42 527	6 880	6 686	– 157	55 936	–2 143	53 950
9	42 154	3 550	6 565	294	52 563	– 575	51 694
1930	40 400	2 790	6 496	1 022	50 708	– 397	49 289
1	39 030	–1 360	6 321	1 241	45 232	– 78	43 913
2	38 160	– 680	6 277	325	44 082	–1 997	41 760
3	39 600	2 310	7 720	199	49 829	–2 255	47 375
4	42 072	3 250	9 774	– 515	54 581	–2 994	52 102
5	42 289	5 790	12 367	– 94	60 352	–1 788	58 658
6	42 895	7 260	15 691	380	66 226		
7	45 434	11 200	16 253	280	73 167		
8	47 244	11 950	22 461	– 320	81 335		

Year	Private consumption (excluding government-purchased services)	Net investment	Public expenditure	Capital account balance (including gold and foreign currency balance) + balance of unilateral transfers (including reparations)	National income at market prices: columns 1–4	Current account balance (excluding reparations)	National income at market prices: columns 1–3 + column 6
	1	2	3	4	5	6	7
1950	30 779	6 970	7 811	– 543	45 017	– 656	44 904
1	31 915	7 290	8 277	2 343	49 825	830	48 312
2	34 541	7 580	9 074	2 144	53 339	465	51 660
3	37 673	7 380	9 071	3 055	57 179	607	54 731
4	40 419	9 900	9 579	2 810	62 708	– 164	59 734
5	43 676	12 620	9 769	2 104	68 169	–1 309	64 756
6	47 538	12 240	9 890	3 664	73 332	– 457	69 211
7	50 274	11 920	10 313	4 422	76 929	– 716	71 791
8	52 693	11 290	11 362	4 020	79 365	–2 262	73 083
9	56 240	13 420	12 558	2 465	84 683	–3 692	78 526

Source:
Walther Gustav Hoffmann, Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts, (Berlin 1965) Table 249.

Table IV Income Accounts for all Public Bodies (Germany, 1925–36)

Zusammengefaßtes Einkommenskonto für den Staat

Linke Seite	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
3.1 Laufende Käufe des Staates von Gütern und Diensten	7,9	8,3	8,7	9,6	10,0	8,7	7,8	6,9	7,0	7,2	7,9	8,5
3.2 Rüstungsausgaben	0,6	0,7	0,8	0,8	0,7	0,7	0,6	0,6	0,7	3,3	5,2	9,0
3.3 Zinsen auf öffentliche Schulden	0,2	0,6	0,7	0,8	1,0	1,2	1,3	1,2	1,2	1,1	1,2	1,1
3.4 Laufende Übertragungen an Haushalte (netto)	3,2	4,6	4,7	5,5	6,2	7,0	7,2	6,7	6,1	5,2	5,1	4,9
3.5 Reparationen	1,1	1,2	1,6	2,0	2,3	1,7	1,0	0,2	0,1	–	–	–
3.6 Ersparnis des Staates	2,0	2,3	4,0	3,5	2,7	3,1	1,4	0,7	1,1	0,9	±0	–1,5
Laufende Ausgaben und Ersparnis des Staates	15,0	17,7	20,5	22,2	22,9	22,4	19,3	16,3	16,2	17,7	19,4	22,0
Rechte Seite												
3.7 Vermögens- und Unternehmereinkommen des Staates	1,5	2,0	2,4	2,5	2,5	2,3	1,2	1,0	0,9	1,0	1,1	1,3
3.8 Indirekte Steuern abzgl. Subventionen	8,0	9,2	10,3	10,7	10,9	10,9	9,8	9,0	9,3	10,0	10,6	11,4
3.9 Direkte Steuern und Sozialversicherungsbeiträge der Haushalte	5,3	6,2	7,4	8,4	8,9	8,7	8,0	6,1	5,8	6,4	7,2	8,4
3.10 Direkte Steuern der Kapitalgesellschaften	0,2	0,3	0,4	0,6	0,6	0,5	0,3	0,2	0,2	0,3	0,5	0,9
Laufende Einnahmen des Staates	15,0	17,7	20,5	22,2	22,9	22,4	19,3	16,3	16,2	17,7	19,4	22,0

Quellen:

3.4 Konjunkturstatistisches Handbuch, 1933, hrsg. v. Institut für Konjunkturforschung, (Berlin 1933) 80 und 1936, (Berlin 1936) 95; Statistisches Handbuch von Deutschland 1928–1944, hrsg. v. Länderrat des amerikanischen Besatzungsgebietes, (München 1949) 600; *René Erbe*, Die nationalsozialistische Wirtschaftspolitik 1933–1939 im Lichte der modernen Theorie, hrsg. v. Basle Centre for Economic and Social Research, (Zürich 1958) 104; abzgl. 40% der Verwaltungseinnahmen als laufende Übertragungen der Haushalte an den Staat.

3.5 Statistisches Handbuch, a.a.O. S. 602/3; *René Erbe*, a.a.O. 117 (für 1936).

3.6 Saldo der linken Seite.

3.9 Gesamte Steuereinnahmen (siehe Konjunkturstatistisches Handbuch, a.a.O. 1933, 173; 1936, 161 u. 166; Statistisches Handbuch, a.a.O. 541, 551/2) einschl. 40% der Verwaltungseinnahmen minus indirekte Steuern minus direkte Steuern der Kapitalgesellschaften plus Arbeitnehmer- und Arbeitgeberbeiträge zu den Sozialversicherungen (s. Konjunkturstatistisches Handbuch, a.a.O. 1933, 161/2; 1936, 148 und diverse Statistische Jahrbücher für das Deutsche Reich) = 3.9.

Source:

Dietmar Keese, Die volkswirtschaftlichen Gesamtgrößen für das Deutsche Reich in den Jahren 1925–1936, in *Werner Conze* and *Hans Raupach* (eds.), Die Staats- und Wirtschaftskrise des Deutschen Reichs 1929/33, (Stuttgart 1967) 47.

Table V A. The German Balance of Payments, 1924–28 (Rm. millions)

	1924			1925			1926			1927			1928		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Merchandise	7,810	9,626	−1,816	9,546	11,990	−2,444	10,677	9,884	+ 793	11,118	14,078	−2,960	12,627	13,938	−1,311
Shipping and other services .	–	–	+ 191	–	–	+ 289	–	–	+ 449	1,337	897	+ 440	1,460	963	+ 497
Armies of occupation, etc. . .	83	–	+ 83	173	–	+ 173	93	10	+ 83	205	–	+ 205	175	–	+ 175
Interest payments	325	166	+ 159	320	326	− 6	340	513	− 173	335	680	− 345	382	945	− 563
Reparations payments	–	281	− 281	–	1,057	−1,057	–	1,191	−1,191	–	1,584	−1,584	–	1,990	−1,990
Balance on current account .	–	–	−1,664	–	–	−3,045	–	–	− 39	–	–	−4,244	–	–	−3,192
Gold and foreign exchange . .	–	1,255	−1,255	476	566	− 90	56	624	− 568	574	122	+ 452	–	931	− 931
Long-term loans and bonds repurchased	1,000	–	+1,000	1,136	12	+1,124	1,463	87	+1,376	1,345	135	+1,210	1,368	100	+1,268
Movements of securities . . .	–	–	–	–	–	–	–	–	–	575	20	+ 555	2,276	1,846	+ 430
Other foreign investments in Germany	–	–	–	–	–	–	–	–	–	15	72	− 57	14	57	− 43
Other German investments abroad	1,000	–	+1,000	200	–	+ 200	–	–	–	–	5	− 5	147	14	+ 133
Short-term capital movements	1,256	750	+ 506	182	75	+ 107	178	31	+ 147	2,401	622	+1,779	2,170	835	+1,335
Indefinable capital movements	413	–	+ 413	1,704	–	+1,704	–	916	− 916	310	–	+ 310	1,000	–	+1,000
Balance of capital movements	–	–	+2,919	–	–	+3,135	–	–	+ 607	–	–	+3,792	–	–	+4,123

B. The German Balance of Payments, 1929–33 (Rm. millions)

	1929			1930			1931			1932			1933		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Merchandise	13,632	13,676	− 44	12,175	10,617	+1,558	9,733	6,955	+2,778	5,834	4,782	+1,052	4,957	4,288	+ 669
Shipping and other services .	2,069	1,545	+ 524	1,841	1,303	+ 538	1,516	1,066	+ 450	1,163	898	+ 265	–	–	+ 232
Armies of occupation, etc. . .	188	–	+ 188	–	–	–	–	–	–	–	–	–	–	–	–
Interest payments	400	1,200	− 800	400	1,400	−1,000	300	1,500	−1,200	200	1,100	− 900	150	850	− 700
Reparations payments	–	2,337	−2,337	–	1,706	−1,706	–	988	− 988	–	160	− 160	–	149	− 149
Balance on current account .	–	–	−2,469	–	–	− 610	–	–	+1,040	–	–	+ 257	–	–	− 52
Gold and foreign exchange . .	510	345	+ 165	192	72	+ 120	1,653	–	+1,653	256	–	+ 256	524	–	+ 524
Long-term loans and bonds repurchased	340	111	+ 229	1,097	130	+ 967	358	232	+ 126	100	136	− 36	–	250	− 250
Movements of securities . . .	1,546	1,361	+ 185	1,013	1,175	− 162	512	723	− 211	200	150	+ 50	200	–	+ 200
Other foreign investments in Germany	7	17	− 10	–	–	–	185	–	+ 185	–	–	–	–	–	–
Other German investments abroad	275	19	+ 256	377	63	+ 314	80	–	+ 80	–	–	–	100	–	+ 100
Short-term capital movements	1,376	611	+ 765	1,191	1,074	+ 117	2,682	2,205	+ 477	250	1,013	− 763	703	1,250	− 547
Indefinable capital movements	879	–	+ 879	–	746	− 746	–	3,350	−3,350	236	–	+ 236	–	79	− 79
Balance of capital movements	–	–	+2,304	–	–	+ 490	–	–	−2,693	–	–	− 513	–	–	− 576

Source:
Sonderheft zu Wirtschaft und Statistik, No. 14, 1934, as cited by *Charles R. S. Harris,* Germany's Foreign Indebtedness, (Oxford 1935) 113–14.

Table VI The Balance of Payments of the United States, 1919–1935

Exports (credits) +, Imports (debits) – ; (millions of dollars)

	1919	1920	1921	1922	1923	1924
I The Problem and the Adjustment, First Statement						
1 Commodity trade (net)	+4,016	+2,950	1,976	+ 719	+ 375	+ 981
2 Current invisibles	–1,244	– 849	– 729	– 651	– 716	– 756
(1+2)	+2,772	+2,101	+1,247	+ 68	– 341	+ 225
3 Int. + Div. (incl. war debts)	+ 293	+ 103	+ 167	+ 382	+ 508	+ 487
The Problem (1+2+3)	*+3,065*	*+2,204*	*+1,414*	*+ 450*	*+ 167*	*+ 712*
4 Long-term capital	–2,157	–1,069	– 757	– 717	+ 1	– 602
5 Short-term capital		– 985[1]	– 435[1]	+ 375	+ 3	+ 216
Net capital movements (4+5)	–2,157	–2,054	–1,192	– 342	+ 4	– 386
6 Gold + Currency	+ 250	+ 50	– 786	– 235	– 245	– 266
The Adjustment (4+5+6)	*–1,907*	*–2,004*	*–1,978*	*– 577*	*– 241*	*– 652*
7 Error	–1,158	– 200	+ 564	+ 127	+ 74	– 60
Net adjustment	–3,065	–2,204	–1,414	– 450	– 167	– 712
II The Problem and the Adjustment, Second Statement						
1 Commodity trade + current invisibles	+2,772	+2,101	+1,247	+ 68	– 341	– 225
2 Int. + Div. (incl. war debts)	+ 293	+ 103	+ 167	+ 382	+ 508	+ 487
3 Long-term private capital (excl. new issues)	– 19	– 368	– 124	– 32	+ 381	+ 250
The Problem (1+2+3)	*+3,046*	*+1,836*	*+1,290*	*+ 418*	*+ 548*	*+ 962*
4 New foreign issues	– 357	– 461	– 547	– 685	– 380	– 852
5 Short-term capital		– 985[1]	– 435[1]	+ 375	+ 3	+ 216
6 Government loans	–1,781	– 240	– 86			
(4+5+6)	–2,138	–1,686	–1,068	– 310	– 377	– 636
7 Gold + Currency	+ 250	+ 50	– 786	– 235	– 245	– 266
The Adjustment (4+5+6+7)	*–1,888*	*–1,636*	*–1,854*	*– 545*	*– 622*	*– 902*
8 Error	–1,158	– 200	+ 564	+ 127	+ 74	– 60
Net adjustment	–3,046	–1,836	–1,290	– 418	– 548	– 962
III Subsidiary Tables						
Interest and Dividends						
1 War-debt receipts	+ 243	+ 53	+ 87	+ 157	+ 258	+ 182
2 Int. + Div. rec'd from foreigners	+ 150	+ 150	+ 180	+ 350	+ 400	+ 455
(1+2)	+ 393	+ 203	+ 267	+ 507	+ 658	+ 637
3 Int. + Div. paid to foreigners	– 100	– 100	– 100	– 125	– 150	– 150
Net Int. + Div. (incl. war debts) (1+2+3)	+ 293	+ 103	+ 167	+ 382	+ 508	+ 487
Long-term Capital						
1 Government capital	–1,781	– 240	– 86			
2 Private capital	– 376	– 829	– 671	– 717	+ 1	– 602
Net long-term capital movement (1+2)	–2,157	–1,067	– 757	– 717	+ 1	– 602
Private Long-term Capital						
1 New foreign issues	– 357	– 461	– 547	– 685	– 380	– 852
2 Other private capital movements	– 19	– 368	– 124	– 32	+ 381	+ 250
Net private long-term capital (1+2)	– 376	– 829	– 671	– 717	+ 1	– 602

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
I The Problem and the Adjustment, First Statement											
1 Commodity trade (net)	+ 683	+ 378	+ 681	+1,037	+ 841	+ 782	+ 334	+ 289	+ 225	+ 478	+ 236
2 Current invisibles	– 839	– 884	– 899	–1,053	–1,166	–1,010	– 823	– 650	– 414	– 385	– 403
(1+2)	– 156	– 506	– 218	– 16	– 325	– 228	– 489	– 361	– 189	+ 93	– 167
3 Int. + Div. (incl. war debts)	+ 542	+ 662	+ 725	+ 741	+ 772	+ 857	+ 649	+ 492	+ 404	+ 368	+ 350
The Problem (1+2+3)	*+ 386*	*+ 156*	*+ 507*	*+ 725*	*+ 447*	*+ 629*	*+ 160*	*+ 131*	*+ 215*	*+ 461*	*+ 183*
4 Long-term capital	– 487	– 602	– 723	– 662	– 137	– 267	+ 219	+ 217	+ 49	+ 202	+ 462
5 Short-term capital	– 61	+ 350	+ 900	– 188	– 80	– 485	– 709	– 409	– 385	+ 184	+1,075
Net capital movements (4+5)	– 548	– 252	+ 177	– 850	– 217	– 752	– 490	– 192	– 336	+ 386	+1,537
6 Gold + Currency	+ 42	– 112	+ 99	+ 232	– 135	– 258	+ 166	– 91	+ 83	–1,329	–2,075
The Adjustment (4+5+6)	*– 506*	*– 364*	*+ 276*	*– 618*	*– 352*	*–1,010*	*– 324*	*– 283*	*– 253*	*– 943*	*– 538*
7 Error	+ 120	+ 208	– 783	– 107	– 95	+ 381	+ 164	+ 152	+ 38	+ 482	+ 355
Net adjustment	– 386	– 156	– 507	– 725	– 447	– 629	– 160	– 131	– 215	– 416	– 183
II The Problem and the Adjustment, Second Statement											
1 Commodity trade + current invisibles	– 156	– 506	– 218	– 16	– 325	– 228	– 489	– 361	– 189	+ 93	– 167
2 Int. + Div. (incl. war debts)	+ 542	+ 662	+ 725	+ 741	+ 772	+ 857	+ 649	+ 492	+ 404	+ 368	+ 350
3 Long-term private capital (excl. new issues)	+ 461	+ 397	+ 478	+ 449	+ 494	+ 555	+ 431	+ 244	+ 59	+ 202	+ 506
The Problem (1+2+3)	*+ 748*	*+ 553*	*+ 985*	*+1,174*	*+ 941*	*+1,184*	*+ 591*	*+ 375*	*+ 274*	*+ 663*	*+ 689*
4 New foreign issues	– 948	– 999	–1,201	–1,111	– 631	– 822	– 212	– 27	– 10	0	– 44
5 Short-term capital	– 61	+ 350	+ 900	– 188	– 80	– 485	– 709	– 409	– 355	+ 184	+1,075
6 Government loans											
(4+5+6)	–1,009	– 649	– 301	–1,299	– 711	–1,307	– 921	– 436	– 395	+ 184	+1,031
7 Gold + Currency	+ 42	– 112	+ 99	+ 232	– 135	– 258	+ 166	– 91	+ 83	–1,329	–2,075
The Adjustment (4+5+6+7)	*– 967*	*– 761*	*– 202*	*–1,067*	*– 846*	*–1,565*	*– 755*	*– 527*	*– 312*	*–1,245*	*–1,044*
8 Error	+ 120	+ 208	– 783	– 107	– 95	+ 381	+ 164	+ 152	+ 38	+ 482	+ 355
Net adjustment	– 847	– 553	– 985	–1,174	– 941	–1,184	– 591	– 375	– 274	– 663	– 689
III Subsidiary Tables											
Interest and Dividends											
1 War-debt receipts	+ 187	+ 195	+ 206	+ 207	+ 207	+ 241	+ 113	+ 99	+ 20	+ 1	0
2 Int. + Div. rec'd from foreigners	+ 520	+ 735	+ 800	+ 893	+ 979	+ 916	+ 662	+ 461	+ 452	+ 493	+ 521
(1+2)	+ 707	+ 930	+1,006	+1,100	+1,186	+1,157	+ 775	+ 560	+ 472	+ 494	+ 521
3 Int. + Div. paid to foreigners	– 165	– 268	– 281	– 359	– 414	– 300	– 126	– 68	– 63	– 126	– 171
Net Int. + Div. (incl. war debts) (1+2+3)	+ 542	+ 662	+ 725	+ 741	+ 772	+ 857	+ 649	+ 492	+ 409	+ 368	+ 350
Long-term Capital											
1 Government capital											
2 Private capital	– 487	– 602	– 723	– 662	– 137	– 267	+ 219	+ 217	+ 49	+ 202	+ 462
Net long-term capital movement (1+2)	– 487	– 602	– 723	– 662	– 137	– 267	+ 219	+ 217	+ 49	+ 202	+ 462
Private Long-term Capital											
1 New foreign issues	– 948	– 999	–1,201	–1,111	– 631	– 822	– 212	– 27	– 10	0	– 44
2 Other private capital movements	+ 461	+ 397	+ 478	+ 449	+ 494	+ 555	+ 431	+ 244	+ 59	+ 202	+ 506
Net private long-term capital (1+2)	– 487	– 602	– 723	– 662	– 137	– 267	+ 219	+ 217	+ 49	+ 202	+ 462

[1] Department of Commerce Estimates of 1922, The International Financial Position of the United States, (National Industrial Conference Board, 1929) 80.

Source:
The Balance of International Payments of the United States in 1936, (Department of Commerce, 1937) 93–95; *William Adams Brown, Jr.,* The International Gold Standard Reinterpreted, 1914–1934, I, (New York 1940) 542–43.

Table VII German Reparation Payments, 1918–1932 (in millions of gold marks)

I. Postarmistice and Treaty Payments, Payments under the London Schedule, November 1918–August 1924:		
Cash payments under the London Schedule of Payments		1,700
Other cash payments (clearings, etc.)		160
Cash equivalents (Rhineland customs revenue, British Reparation Recovery Act yield)		376
Postarmistice deliveries (railway rolling stock, agricultural machines, abandoned war materiel, trucks)		1,295
Reparations in kind (ships, port materiel, coal, coke, coal derivatives, dyestuffs, livestock, cables, return of stolen art objects)	2,393	
– Less cash advanced by the Allies for coal deliveries according to Spa Agreement of 1920	– 392	
Net reparations in kind		2,001
State property in ceded territories (including Chinese concessions, parts of public debt ascribable to ceded territories; private property abroad)		2,809
Sale of destroyed German war materiel		52
Requisitions during the 1923–24 Ruhr occupation in paper marks and in kind (gross German payments less nominal agreed administrative and occupation costs) [Actual transferrable receipts 153 millions]		930
Payments credited for costs of occupation armies and commissions (does not include housing, transport, and communications facilities furnished without cost under Rhineland Agreement)		811
Total payments (1918–24)		10,134
II. Payments under the Dawes Plan, September 1924–August 1929:		
Cash transfers by Agent-General		1,736
Reparations in kind		3,612
Material for public works (special contract arrangements)		578
Reparation Recovery Acts and miscellaneous payments		1,166
Army of occupation and commission costs		461
Total payments (1924–29)		7,553
III. Payments under the Young Plan, September 1929–June 1931:		
Cash payments (including interest and exchange profits on the German annuities)		2,655
German-American mixed claims and Belgian mark agreements		192
Net yield of Young loan transferred to Allies		845
Army of occupation and commission costs		36
Total payments (1929–31)		3,728
Total payments (1918–31)		21,415
IV. Rectifications:		
Undercrediting of Germany for delivery of wood and ships in 1918–24		310
Undercrediting of Germany for occupation costs paid (value of housing, transport, and communications facilities provided to Allied armies without cost under the Rhineland agreement)		1,307
Repurchase of Saar mines by Germany in 1935		(141)
Total rectifications		1,476
Total payments including rectifications		22,891

Recapitulation:	
Cash transfers or cash equivalents	6,819
Normal reparations in kind	6,779
Forced or abnormal transfers in kind not the equivalent of cash payment	2,388
Young loan	845
Reparations not transferred across the exchanges	6,060
Total	22,891

Sources:
Reports of the Agent-General for Reparation Payments, 1925–30; Bank for International Settlements, Annual Reports, 1931–34; *Etienne Weill-Raynal,* Les Réparations allemandes et la France, III, (Paris 1947) 219–346, 753–91.

Zusammenfassung

Das historische Augenmerk konzentriert sich gewöhnlich auf die Reparationslasten, die Deutschland in Folge des Versailler Vertrages aufgeladen wurden. Demgegenüber versucht vorliegende Studie aufzuzeigen, daß sowohl während der Inflations- wie auch während der Stabilisierungsphasen der Weimarer Republik der Netto-Kapitalstrom nach Deutschland floß. Die Brutto-Kapitalzufuhr stieg während der Jahre 1919–31 auf 5,3% des deutschen Nationaleinkommens. Die Netto-Kapitalzufuhr nach Abzug aller Reparationen, die überwiesen wurden, und bei weitgehender Berücksichtigung der verdeckten Rückkehr deutscher Mittel, belief sich auf nicht weniger als 2,1% des Nationaleinkommens für den gleichen Zeitraum. Die Vereinigten Staaten allein stellten 3,5 Billionen $ zur Verfügung – den größten Einzelanteil in dieser außergewöhnlichen Subvention für die deutsche Wirtschaft.

Der Transfer war im übrigen ein tatsächlicher. Die kreisenden Kapitalströme, von denen man oft glaubt, daß sie die internationale Wirtschaft der zwanziger Jahre charakterisieren, erweisen sich als weit übertrieben. Auch schien die amerikanische Zollpolitik die Rückzahlungen der deutschen Sollsaldos im wesentlichen nicht behindert zu haben.

Das Beweismaterial, von dem hier zusammenfassend die Rede ist, legt den Schluß nahe, daß die deutsche Finanz- und Geldpolitik eine bemerkenswerte Rolle bei der Förderung dieser Transfers spielte. Das Ergebnis war die Aufrechterhaltung des Lebensstandards in der Weimarer Republik auf einem Niveau, das höher lag als die heimische Produktionskraft es aus eigenem Antrieb geschafft hätte. Vorliegende Studie zeigt des weiteren, daß die Zahlungseinstellung, die in Abständen zwischen 1931 und 1934 erfolgte, mehr aus politischen und weniger aus rein finanziellen Gründen verfügt war. Die Vereinigten Staaten als Hauptgläubigernation haben darauf verzichtet, das Billigkeitsrecht ihrer Bürger nachdrücklich zu verteidigen und zwar deshalb, weil sie

die Exporteure mehr unterstützt haben als die Wertpapierbesitzer. Eine eingehende Untersuchung der deutschen Gegebenheiten zwingt zu einer breiteren Schlußfolgerung. Trotz schwerwiegender finanzieller Schwierigkeiten spielten beim Zusammenbruch des internationalen Zahlungsverkehrs in den 30er Jahren politische Überlegungen die Hauptrolle – und sie würden es bei jedem künftigen Zusammenbruch genau so tun.

VI. Schlußbetrachtung

Weimar from Inflation to Depression: Experiment or Gamble?*

Gerald D. Feldman

For Franklin L. Ford

I think it fair to say that the Weimar Republic has attracted more enthusiastic interest on the part of historians than any comparably short lived regime in history. The interest is easy enough to understand since the study of inflation, depression and political disintegration have their obvious charms for students of human affairs, but the enthusiasm is more puzzling and can only be explained by the impact of what is known as Weimar Culture. Expressionism, the Bauhaus, *Die Weltbühne*, the Frankfurt School, Georg Grosz, Max Beckmann, Fritz Lang, Piscator and Bertold Brecht are terms and names to which historians and, indeed, most twentieth century intellectuals are conditioned to respond with appreciation and even reverence. The Culture of Weimar enjoys a sympathy denied its politics, but the aura that has come to surround that culture has rubbed off to some extent on the total experience. What has been called Germany's first experiment with political democracy provided the background for what has been identified as an experimental culture of remarkable range and power[1]. Thus, "Weimar", as a totality, is raised to the level of an experiment that failed. Here, however, I would like to view Weimar from those less edifying perspectives which I believe more appropriate to its reality and to consider Weimar as a gamble which stood virtually no chance of success. This is not because I do not appreciate Weimar Culture, nor because I would deny the important elements of experimentation that pervaded nearly every aspect of Weimar life, but rather because its most vital functions were subject to a degree of contingency far in excess of what experimentation would allow as well as to a measure of desperate risk taking incompatible with those elements of calculation and control that normally accompany experimentation.

The gambling metaphor, of course, is most easily applied to the years of inflation from 1918 to 1923, and it was very fitting that Fritz Lang's famous film *Dr. Mabuse*

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[1] For an important and stimulating discussion of Weimar's „experimental" character, see *Wolfgang Sauer*, Weimar Culture: Experiments in Modernism, in: Social Research 30 (1972) 254–284.

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Herausgegeben von
Gerald D. Feldman
unter Mitarbeit von
Elisabeth Müller-Luckner

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Die Stiftung Historisches Kolleg hat sich die Aufgabe gesetzt, Gelehrten aus dem Bereich der historisch orientierten Wissenschaften, die sich durch herausragende Leistungen in Forschung und Lehre ausgewiesen haben, während eines Kollegjahres die Möglichkeit zu bieten, frei von anderen Verpflichtungen eine größere Arbeit abzuschließen. Zu diesem Zweck vergibt die Stiftung Forschungsstipendien, deren Verleihung zugleich eine Auszeichnung darstellen soll. Professor Dr. Gerald D. Feldman (Berkeley/USA) war – zusammen mit Professor Dr. Erich Angermann (Köln) und Professor Dr. Hartmut Hoffmann (Göttingen) – Stipendiat des Historischen Kollegs im dritten Kollegjahr (1982/83). Den Obliegenheiten der Stipendiaten gemäß hat Gerald D. Feldman aus seinem Arbeitsbereich ein Kolloquium zum Thema „Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924–1933" vom 6. bis 9. Juni 1983 in der Bayerischen Akademie der Wissenschaften gehalten. Die Ergebnisse des Kolloquiums werden in diesem Band veröffentlicht.

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