REPARATION AND THE GERMAN FINANCIAL SYSTEM, 1919-1924

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at the Australian National University

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B.E. Kent
### TABLE OF CONTENTS

**INTRODUCTION**

<table>
<thead>
<tr>
<th>PART I</th>
<th>THE GERMAN ECONOMY AND FINANCIAL SYSTEM DURING THE FIRST WORLD WAR</th>
<th>Page</th>
</tr>
</thead>
</table>

**PART II**

**THE FIRST THIRTY MONTHS OF PEACE**

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>The German Economy and Financial System before May 1921</td>
<td>35</td>
</tr>
<tr>
<td>II</td>
<td>The Economic Impact of Reparations Before May 1921</td>
<td>42</td>
</tr>
<tr>
<td>III</td>
<td>The Direct Financial Impact of Reparation Payments before May 1921</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Reparation Payments and Government Expenditure</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>(b) Reparations and the Balance of Payments</td>
<td>75</td>
</tr>
<tr>
<td>IV</td>
<td>The Indirect Financial Impact of Reparation Payments before May 1921:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Psychological and Political Repercussions</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td>(a) Deliveries under the Armistice before the Signature of the Versailles Treaty</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td>(b) The Reparation Chapter of the Versailles Treaty</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td>(c) Deliveries under the Armistice between the Signature and the Ratification of the Versailles Treaty</td>
<td>119</td>
</tr>
<tr>
<td></td>
<td>(d) Coal Deliveries before May 1921</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td>(e) Negotiations over the General Reparation Question before May 1921</td>
<td>175</td>
</tr>
<tr>
<td>V</td>
<td>German Domestic and Foreign Financial Policy before May 1921</td>
<td>221</td>
</tr>
</tbody>
</table>

(Continued overleaf)
TABLE OF CONTENTS (Continued)

PART III THE ATTEMPT AT A FULL-SCALE REPARATION SCHEME, MAY 1921 - JANUARY 1923

Section I : The German Economy and Financial System between mid-1921 and the end of 1922 295

Section II : The Economic and the Direct Financial Impact of Reparations between May 1921 and the end of 1922
(a) The Economic Impact of Reparations 307
(b) The Direct Financial Impact of Reparations 311

Section III : German Domestic and Foreign Financial Policy between May 1921 and January 1923
(a) The London Schedule of Payments and Financial Deterioration, May to November 1921 317
(b) Moratorium and Loan Negotiations: a Financial Breathing Space, November 1921 to June 1922 319
(c) From the Report of the Loan Committee to the Occupation of the Ruhr: Financial Collapse, June 1922 to January 1923 346

Section IV : Postscript: From the Occupation of the Ruhr and Financial Collapse to the Dawes Plan and Financial Stabilisation, January 1923 to August 1924
(a) The Ruhr Conflict and Financial Collapse 399
(b) Stabilisation 406

CONCLUSION 416

APPENDIX 419

BIBLIOGRAPHY 454
INTRODUCTION

It has often been said that the reparation question was the "stone in the road" of German democracy. When applied to the period between 1919 and 1924, this statement has usually had one of two meanings. In the mouths of the moderate politicians who formed the early governments of the Weimar Republic it has been a reference to the way in which the reparation problem handicapped them in their rivalry with opposition groups of the extreme Left and Right. Nationalist groups, it is claimed, profited by being able to condemn the policy of "fulfilment" as unpatriotic; while communists made much capital out of the charge that, by paying reparation, the government was conniving at the exploitation of the German working class by world capitalism. Reparation payments were, on this view, a hindrance to German democracy because they embarrassed and weakened those parties which were most closely associated with the democratic Weimar constitution.

More recently the rather broader assertion has been made that the reparation problem harmed German democracy by contributing to the eventual abandonment of the Weimar constitution. In the words of a contemporary German historian, the reparation issue was "a psychological factor encouraging the forces of left and right extremism, which within a few years were to threaten the very existence of the German democratic republic. The reparation policy of the Allies after Versailles must bear an important part of the blame for this development".¹

¹ E. Schmacke, Die Aussenpolitik der Weimarer Republik, 1922-25, unter Berücksichtigung der Innenpolitik, p. 62.
There is truth in both of these claims, although it may be remarked in passing that many other factors besides the reparation problem affected the partisan balance of power in the early twenties and, a fortiori, the decline of republican institutions ten years later. It is, however, somewhat superficial to study the impact of the reparation problem solely through the eyes of the hard-pressed moderate politicians of the early Weimar period or from the vantage-point of present-day historians who are preoccupied with the demise of the republic in 1933. The fundamental problem of the early post-war years in Germany was that of monetary instability and economic disorganisation. These developments had an exceedingly important influence on the course of political events before 1924. Their long-term social and economic repercussions were, moreover, partly to blame for the later political weakness of the Weimar Republic. An examination of the contribution of the reparation problem to the financial and economic malaise before 1924 is therefore a necessary preliminary to any balanced judgment about the significance of the reparation question in the history of both the early and the later years of the republican régime.

The relative importance of the financial and economic impact of the reparation question can only be grasped if a preliminary examination is made of the extent to which the war of 1914-1918 dislocated the German economy and strained the German financial system. After this examination has been completed, it will be possible to isolate the impact of reparations
in the post-war period by determining firstly the extent to which they aggravated Germany's economic dislocation, secondly, how much they added directly or indirectly to Germany's internal and external financial burdens, and, thirdly, how far they erected psychological and political barriers to the implementation of an effective internal and external financial policy by the German government.

It will be found that, in the thirty months between the end of the war and May 1921, the reparation problem, although a weighty one, did not have an overpowering effect on the German economy, the German budget and balance of payments, or domestic and foreign attitudes towards Germany's financial future. After May 1921, however, both the financial and psychologico-political impact of reparations became more marked; and the latter was almost entirely responsible for the catastrophic depreciation of German currency which occurred in the second half of 1922. The twenty months between the occupation of the Ruhr in January 1923 and the ratification of the Dawes Plan in August 1924 witnessed first the final collapse of the German financial system and then its complete reconstruction. The connection between the reparation problem and these developments will be examined with a view to demonstrating that collapse was produced less by the reparation problem as such than by the existence of a state of war between France and Germany, and that the ultimate reconstruction of German finances was due not to any mitigation of Germany's reparation burden but to a financial change of heart both in Germany and in the creditor nations of the world.
PART I

THE GERMAN ECONOMY AND FINANCIAL SYSTEM

DURING THE FIRST WORLD WAR
THE GERMAN ECONOMY AND FINANCIAL SYSTEM
DURING THE FIRST WORLD WAR

The financial and economic history of Germany in the early post-war years was in many respects a continuation of developments which began during the war of 1914-18. This does not mean that the war can be directly blamed for the German financial collapse of the early twenties. The financial and economic chaos of 1923-24 was by no means inevitable at the end of 1918. However, the war caused economic exhaustion and maladjustment which persisted well into the post-war period; and it exposed weaknesses in the German financial system which contributed in an important way to the eventual financial breakdown. An examination of the economic dislocation and financial weakness of post-war Germany must therefore be prefaced by a brief account of economic and financial trends in the war years.

The diversion of a considerable part of German economic resources and manpower to the task of equipping and fighting a war reduced the production of many sections of the German economy. Even the output of such strategically important enterprises as coal mining, the iron and steel industry, and agriculture fell sharply between 1914 and 1918. Black coal production, which was 190 million tons in 1913 had declined to 160 million tons by 1918. Over the same period, output

of pig iron had fallen from 12.9 million tons (1913) to 9.2 million tons (1918); while production of crude steel, which had been 15.3 million tons in 1913, had dropped to 12.9 million tons by the last year of the war. All important forms of livestock, except goats, had diminished in numbers between December 1913 and December 1918, viz, 2.

<table>
<thead>
<tr>
<th>(Thousand head)</th>
<th>1 December 1913</th>
<th>4 December 1918</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horses</td>
<td>4,523</td>
<td>3,493</td>
</tr>
<tr>
<td>Cattle</td>
<td>20,994</td>
<td>18,095</td>
</tr>
<tr>
<td>Sheep</td>
<td>5,521</td>
<td>5,382</td>
</tr>
<tr>
<td>Pigs</td>
<td>25,659</td>
<td>10,545</td>
</tr>
<tr>
<td>Goats</td>
<td>3,548</td>
<td>4,426</td>
</tr>
</tbody>
</table>

The yield of major crops also declined sharply during the war, viz, 3.

<table>
<thead>
<tr>
<th>(Thousand metric tons)</th>
<th>1913</th>
<th>1918</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rye</td>
<td>12,222</td>
<td>8,035</td>
</tr>
<tr>
<td>Wheat</td>
<td>4,656</td>
<td>2,527</td>
</tr>
<tr>
<td>Barley</td>
<td>3,673</td>
<td>2,038</td>
</tr>
<tr>
<td>Potatoes</td>
<td>54,121</td>
<td>29,941</td>
</tr>
<tr>
<td>Oats</td>
<td>9,714</td>
<td>4,769</td>
</tr>
</tbody>
</table>

In all these cases declining output was associated with falling productivity as well as with decreased productive activity. This was due partly to the influence of such factors as the depreciation of capital equipment and the deterioration of land and partly to the widespread employment of underfed, ill-clothed and badly trained workers. By 1918 there had been a considerable decline in the output of coal.

1. ibid., Appendix XV, p. 79.
and iron per miner \^1\^ and in the agricultural yield per hectare.\^2\^ It is also noteworthy that the productivity of the German railway system measured in terms of availability of rolling stock had decreased considerably.\^3\^ The process of deterioration and dislocation is generally agreed to have been accelerated by the National Service Law of 5 December 1916, which inaugurated a period of intensified production of war materials through the introduction of civilian forced labour.\^4\^ Although this law (the so-called Hindenburg Programme) certainly increased the volume of war production, it only did so by impoverishing the German economic system. In the words of a historian of the German war economy "anything and everything that seemed of any possible use for war purposes - factories, machinery, laboratories and every kind of institution - was forced into the compass of this, the last mobilisation of all available forces and was used up in it".\^5\^ By September 1918 the scarcity of food, the shortage of manpower and the lack of raw materials and machinery were so acute in Germany that the British Foreign Office regarded the German economic situation as critical.\^6\^
The internal disruption of the German economy was matched by the dislocation of Germany's foreign trade which resulted from the war. Despite the absence of complete figures, it is clear that German exports declined during the war period to well below their 1910-13 average of 8.9 billion gold marks. This was due to a great extent to the fact that over half of the German goods sold abroad in 1913 had found their market in Allied countries. Another important factor was the paralysis of German shipping caused by Allied naval supremacy which seriously reduced Germany's trade with overseas neutrals. Finally, although exports of coal, metallurgical products and chemicals were still made to neutral neighbours, most of what had in the past constituted an exportable surplus was almost certainly absorbed in the war effort. This absorption was what Walther Rathenau was referring to when, as head of Germany's war-time Department of Raw Materials in 1915, he commented upon a trend towards economic autarchy or towards the "protection of raw materials" which, he predicted hopefully, would continue after the war. However, with the coming of peace and the cessation of war production, it was to become clear that Germany had not become economically

5.

self-sufficient but had merely been deprived of her former export markets, which in 1913 had absorbed about 26% of her total industrial production.

Although exact figures are again not available, it is certain that the Allied blockade reduced Germany's imports during the war years to a much lower figure than the 1910-13 average of 10.2 billion gold marks. This reduction had a disastrous economic effect since nearly half of Germany's pre-war imports were raw materials for manufacture and another third consisted of livestock and foodstuffs. To make matters worse, German agriculture was heavily dependent on nitrates imported from Chile; and German dairy cattle subsisted largely on imported forage. The effects of the blockade were mitigated somewhat by the unwillingness of the Allies to offend neutrals such as Holland, Denmark, Sweden and Switzerland which maintained considerable trading ties with Germany throughout the war. However, there is ample evidence that a shrinkage of imports contributed substantially to the dearth of food and raw materials from which the German economy suffered in both the war and the post-war period.

The diversion of a great part of Germany's economic resources to the largely wasteful task of war production was likely to have an inflationary financial effect. The equipment used and the soldiers employed in fighting the war were paid

1. L. Grebler and W. Winkler, The Cost of the War to Germany and to Austria-Hungary, pp. 20-1.
3. ibid., passim.
for only by a drastic increase in public expenditure, viz,\(^1\).

<table>
<thead>
<tr>
<th>Budgetary Year (April - March)</th>
<th>Expenditure (billions marks)</th>
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</thead>
<tbody>
<tr>
<td>1913/14</td>
<td>3.4</td>
</tr>
<tr>
<td>1914/15</td>
<td>9.7</td>
</tr>
<tr>
<td>1915/16</td>
<td>26.7</td>
</tr>
<tr>
<td>1916/17</td>
<td>28.8</td>
</tr>
<tr>
<td>1917/18</td>
<td>53.2</td>
</tr>
<tr>
<td>1918/19</td>
<td>79.1</td>
</tr>
</tbody>
</table>

In order for this huge outlay to be technically possible, the normal peace-time restrictions on government credit had to be relaxed. A law of 4 August 1914 empowered the Reichsbank to make short-term loans to the government by discounting three months' Treasury Bills and placing the proceeds at the government's disposal in the form of either Reichsbank notes or credit balances.\(^2\). This form of credit creation was supplemented by the activities of several new institutions which were set up at the outbreak of war to cater for the needs of non-government organisations and of individuals. The most important of these institutions were subsidiaries of the Reichsbank known as War Credit Offices (Kriegsdarlehnskassen), which were empowered to issue Credit Vouchers (Darlehnskassenscheine) against certain types of security.\(^3\). The needs of those who could offer only personal security or such security as could not be accepted by the War Credit Offices were met by institutions such as the War Credit Banks (Kriegskreditbanken).

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2. Gesetz vom 4 August betreffend Änderung des Bankgesetzes, Reichsgesetzblatt, 1914, p. 327.
which were established in various forms by municipalities, trade associations and insurance companies. However, the amount of credit granted during the course of the war by these institutions was insignificant compared with the sums released in the economy by the huge volume of government expenditure which, in the words of an eminent German financier, kept the business community "permanently swimming in money".

This violent expansion of credit inevitably caused a considerable increase in the volume of circulating media. The Reichsbank's obligation to discount Treasury Bills and Credit Vouchers caused the number of Reichsbank notes in circulation to rise from about two billion at the outbreak of war to 17 billion in November 1918. Credit Vouchers themselves also came to be widely used as currency because, although they were not legal tender, they were accepted by government institutions and could be converted into notes at the Reichsbank. By the end of the war, 9.6 billion of the 12.9 billion marks of Credit Vouchers which had been issued were in circulation.

Of other temporary war-time forms of currency, the most

2. H. Schacht, The Stabilisation of the Mark, pp.31-2. The easiness of the short-term money market in Germany throughout the war was due largely to the credit-creating activities of private banks, which enjoyed a considerable influx of deposits as a result of increased government expenditure. R. Stucken, Deutsche Geld-und Kreditpolitik 1914 bis 1953, pp. 25-6.
3. ibid., pp.16-7.
4. ibid., pp. 16, 32.
important were Treasury Notes (Reichskassenscheine) which had originally been bonds issued on the security of the Imperial War Treasure. These notes, which possessed a face value of 240 million marks, were made legal tender on 4 August 1914 and were treated as ordinary currency throughout the war.¹

These increased note issues entailed the "dethronement" of gold from its position as guarantor of the value of the currency. The first step in this direction was taken when the Reichsbank, alarmed at the rapid depletion of its gold reserves during the panic of the last week of July 1914, ceased to redeem its notes in gold.² The importance of gold in the monetary system was further diminished by the abolition of the tax which had previously been imposed on the Reichsbank when its note issues exceeded the amount of specie in its reserves by more than 550 million marks.³ Since the German currency was no longer guaranteed by gold, the German monetary authorities were at pains to stress that the value of money would continue to be safeguarded by the maintenance of a one-third ratio between the Reichsbank's gold reserves and the note circulation. However, the great increase in circulation which occurred during the war would have made even this ratio impossible to maintain if, in accordance with previous practice, only specie, bullion and commercial bills had been counted as

¹. Gesetz vom 4 August betreffend die Reichskassenscheine und die Banknoten, Reichsgesetzblatt, 1914, p. 347.
³. Gesetz vom 4 August betreffend die Reichskassenscheine und die Banknoten, Reichsgesetzblatt, 1914, p. 347.
part of the reserve. With a view to avoiding this difficulty it was provided, in the various monetary laws already referred to which were passed at the outbreak of war, that Treasury Bills, War Credit Vouchers and Treasury Notes should be reckoned as cover for note issues. As the war progressed the Reichsbank's reserves came to consist predominantly of these new forms of cover, which were themselves backed solely by the credit of the state. On 31 December 1918, the assets of the Reichsbank consisted of:

<table>
<thead>
<tr>
<th></th>
<th>million marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metallic Reserves (of which gold)</td>
<td>2,282 (2,262)</td>
</tr>
<tr>
<td>Treasury Notes and Credit Vouchers</td>
<td>5,267</td>
</tr>
<tr>
<td>Treasury Bills, Bills of Exchange and Cheques</td>
<td>27,416</td>
</tr>
<tr>
<td>Notes of other banks</td>
<td>3</td>
</tr>
</tbody>
</table>

The credit of the state had in effect replaced gold as guarantor of the currency. The vigorous efforts of the Reichsbank to collect gold during the war years seem to indicate that the German monetary authorities were reluctant to admit this fact. But, as the Reichsbank's holdings of precious metal dwindled during the course of the war in comparison with other forms of cover, the gold reserve came to be regarded officially less as a means of securing the note

1. The Imperial War Treasure had been transferred to the Reichsbank reserve at the outbreak of war. W. Lotz, op. cit., p. 25.
2. ibid., p. 94.
issue and more as a war treasure which could be used by the government to finance essential imports.  

Although the expansion of credit, the increase in circulation and the "dethronement" of gold were all potentially inflationary developments, it was by no means inevitable, and it was certainly not intended, that they should undermine the stability of the German monetary system. The technical financial measures resorted to at the outbreak of war were neither hastily conceived nor ill-considered. On the contrary, they followed closely the lines laid down in the numerous war-finance plans which had been formulated by the Prussian Finance Ministry and by private individuals in the pre-war period.  

A plan for financing a future war which was submitted to William II in 1910 by Wermuth, a Secretary of State to the Prussian Finance Ministry, included recommendations for the suspension of convertibility, increased note issues on the security of Treasury Bills and the establishment of special credit offices.  

In 1912 the director of the Bavarian Bank of Issue (Strüll) published in the influential German banking journal Bank-Archiv a plan for financial mobilisation which was almost identical with the steps actually taken in 1914. Finally,  

2. For the more important writings on this subject: A. Mendelssohn-Bartholdy, The War and German Society, p.63. Note.  
3. ibid., p. 67.  
Dr. Jakob Riesser, both in his books and in his capacity as head of a government department devoted to the problem of war finance, had proposed a plan for the first six weeks of the war which specifically recommended increased note-issues by the Reichsbank and the setting up of War Credit Offices.

It is true that the financial planners were misled by the experience of Germany in previous wars and by the strategical views held at the time by the German General Staff. War Credit Offices had been set up to meet the abnormal demand for credit in the previous comparatively short-lived national emergencies of 1848, 1866 and 1870-1; but they were certainly not envisaged in August 1914 as the semi-permanent credit institutions which they subsequently became. Memories of the short, victorious and remunerative war of 1870-1 encouraged a general approach to war finance which emphasised liberal credit expansion and which was comparatively little concerned with long-term problems. In the opinion of Karl Helfferich, who was Germany's Minister of Finance between February 1915 and June 1916, the now well-known predictions of Schlieffen about the course of the war were particularly influential in this respect. However, strategic miscalculations do not explain

the steps taken to expand credit, for these would have been necessary no matter how long the war was expected to last. In the eyes of post-war critics, the main mistake which this strategic error of judgment had encouraged was not the expansion of credit but the failure to provide adequately for the absorption of the purchasing power which had been released in the community.

Even the "dethronement" of gold which occurred during the war should not have caused undue trepidation about the stability of the mark in German financial circles. There had for some years been a trend away from traditional "metallism" towards what was vaguely called "nominalistic" financial practice. The term "nominalism" was in its narrowest sense the name given to the theories about the value of money put forward in 1905 by G.F.Knapp in his Staatliche Theorie des Geldes. Knapp's "nominalism" or Chartalism, as it was usually called, consisted mainly of an anti-metallist assertion that the value of money was dependent not upon gold but upon the guarantee of the state. "Nominalism" was, however, also the name given to subsequent developments of Knappian Chartalism which stressed that the deciding factor in credit creation should be not the level of a country's gold reserves but the "legitimate" credit needs of the community. This type of "nominalism" was in fact a compound of Chartal theory with the "banking school" theory of credit, which emphasised the
passivity of the process of credit creation. It was to this body of thought that Schiffer, a post-war Finance Minister, referred when he reminded the Constituent National Assembly of the monetary developments which had occurred in the first year of the war:

"Heavens, we were all at that time convinced that what was needed for fighting the war was money, money, money.... The so-called nominalist theory had triumphed over metallism".

Despite their official adherence to the gold standard in the pre-war period, the German monetary authorities appear in practice to have accepted "nominalistic" ideas on credit. This was due largely to the nature of the German banking system which, unlike its English counterpart, placed less emphasis upon providing security for depositors than it did upon satisfying the credit needs of industry and trade.

The proceedings of the German Bank Inquiry of 1908-9, which was instituted in order to discuss ways of preventing a recurrence of the financial crisis of 1907, reveal a bias amongst German financiers in favour of cheap and liberal credit. Among the questions discussed was the feasibility of cushioning future crises by building up the Reichsbank's reserves with gold attracted from abroad by high discount rates. Such a scheme was consistently opposed on the grounds

1. H.S. Ellis, German Monetary Theory, 1905-33, p. 180.
that a high rate of discount might injure German trade and industry.\textsuperscript{1}\textsuperscript{1} Proposals for the legislative regulation of the credit-creating activities of deposit institutions came to nothing for the same reason.\textsuperscript{2}\textsuperscript{1} One of the foremost opponents of any government interference with existing German credit machinery was Dr. Jakob Riesser\textsuperscript{3}\textsuperscript{1}, whose influence on the shape of German war finance has already been noticed. Riesser considered that in a financial crisis or in a time of monetary tension preceding a war it was generally "a serious mistake" to resort to restrictive credit policies which might "give rise to the disastrous notion that money and credit (were) not merely dear, but (were) not to be had at all".\textsuperscript{4}\textsuperscript{1} The Reichsbank, prevented by the prevalence of views of this type from either increasing its gold reserves or restraining credit institutions, had no alternative but to divorce the German monetary system as unobtrusively as possible from the gold standard. With this end in view, Havenstein, the President of the Reichsbank, proposed that Reichsbank notes should become legal tender. The aim of this suggestion, which was incorporated in the Bank Act of June 1909, was to increase the Reichsbank's reserves by discouraging the use of gold in individual payments. Although both Havenstein and the wording

\textsuperscript{1} National Monetary Commission, op. cit., Vol. 1, pp. 241 (Strüll), 256 (Gontard), 226 (Wachler), 303 (Riesser), 335-6 (Kaempf).
\textsuperscript{2} ibid., Vol. 2, passim.
\textsuperscript{3} ibid., Vol. 2, pp. 803-71.
\textsuperscript{4} J. Riesser, The German Great Banks and Their Concentration, pp. 19-20, 23-4.
of the Act stressed that the gold standard was being maintained — since notes could still be converted into gold — this action was an admission that it was impossible to reconcile an unrestricted credit policy with the gold standard.\(^1\) Such an admission was also implicit in a further provision of the Bank Act affecting the untaxed limit on note-issues which were uncovered by specie reserves. This limit was raised from 470 million to 550 million marks; and the issue of a further 200 million marks was authorised for the purpose of meeting the abnormal demand for credit at the end of every quarter.\(^2\) These reforms prepared the way for the measure of 4 August 1914 which, by discontinuing the convertibility of Reichsbank notes and by removing all limitations on note-issues uncovered by specie, swept away all pretence that the gold standard was being maintained.\(^3\)

The technical measures to which the German government resorted in order to expand credit, to increase circulation and to by-pass traditional monetary safeguards were, therefore, carefully planned and financially defensible adaptations of current financial practice to meet the abnormal conditions of war. Although these measures necessarily increased the risk of inflation, they did not make it unavoidable. The determining factor in this respect was the success of the

2. ibid., p. 213.
government in absorbing, by means of either taxes or public
loans, the increased purchasing power which had been released
in the community by the government's war expenditure.

There was no intrinsic financial reason for preferring
taxation as a source of revenue to borrowing. It was therefore
not in itself important that a lower proportion (between 13 and
16 per cent)\textsuperscript{1} of German war expenditure was covered by taxation
than was the case in England, where 23 to 27 per cent of the
budgetary cost of the war was met out of current revenue.\textsuperscript{2}
However, it was important that the heavy dependence of the
German government on borrowing was due in part to the
fundamental weakness of the German federal fiscal system.
For this weakness, apart from causing unduly rapid growth in
the German public debt during the war, would be likely to
hinder the efforts of post-war governments to set the national
financial system in order.

Witnesses to the German Bank Inquiry of 1908-9 had
expressed concern at the growing indebtedness of the federal
government.\textsuperscript{3} In order to curb the government's increasing
demands on the Reichsbank for credit they had advocated
financial and, in some cases, fiscal reforms.\textsuperscript{4} The latter

\begin{enumerate}
\item W. Lotz, op. cit., pp.1, 100ff.
\item Sir Josiah Stamp, Taxation During the War, p. 123.
\item National Monetary Commission, op. cit., Vol. 1, pp.85-6
  (Wagner), 246 (Gontard), 639 (Roland Lücke).
\item ibid., Vol. 1, pp. 85-6 (Wagner), 1017(August Weber),
  1021 (Strüll), 1067-8 (Riesser).
\end{enumerate}
were however difficult to achieve because direct taxation was the traditional preserve of the states and because indirect taxation, upon which the federal government depended for its revenue, could not be increased substantially without arousing the opposition of the Left.

In 1909 Bälow had attempted unsuccessfully to solve the fiscal problem by introducing a proposal for a federal Inheritance Tax. He enjoyed the support of the National Liberals and Progressives, who approved of federal direct taxation which would fall as much upon the agrarian class as upon industrial and commercial groups, but was violently opposed and defeated by the Conservative and Centre parties.\(^1\) The opposition of these groups sprang largely from their desire to preserve the states as financially independent units within the German federal structure. The Conservatives in particular were aware that the political hegemony of Prussia, which they were anxious to maintain, depended on its continued financial viability.\(^2\) The opposition of the Conservatives to Bülow's proposal was also caused by their desire to protect private property from spoliation at the hands of the federal legislature. Because it was elected by the vote of all males over 25 years of age, the Reichstag was far more radical in its composition than the Prussian legislature, whose members were elected under a highly conservative three-class franchise. The Conservatives were therefore understandably reluctant for social reasons to

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transfer the right of direct taxation to the Reichstag. The Catholic Centre party also had social grounds for opposing the Inheritance Tax, which it regarded as an attack on the family.

The opposition of the Conservative and Centre parties to federal direct taxation was so evenly matched by the determination of the other parties to resist further indirect taxes that Bülow was prompted to resign in July 1909 after the defeat of his proposal. It was only after the Social Democratic gains at the 1912 elections that the government was able, in the teeth of fierce opposition from the Conservatives, to carry through a measure of direct federal taxation. However, despite the jubilation of the SPD, the so-called Defence Contribution (Wehrbeitrag) of 1913, which was an extraordinary property levy designed to raise the limited sum of 900 million marks, was of such a special nature as to diminish its significance as a precedent. The general right of the federal government to levy direct taxes was by no means established.

The existence of such strong party feeling over the fiscal question helps to explain the failure of the German government to resort to any means other than borrowing to cover its expenditures in the early stages of the war. As the war progressed, it inevitably became more difficult to maintain a party truce in fiscal matters. Even in March 1915, during the

1. ibid., pp. 71-2.
debate on the budget for 1915-16, the Social Democrats proposed a tax on war profits. The suggestion was smothered by a majority which, still hopeful of a short war and an indemnity, and unwilling to broach the troublesome fiscal question, supported Finance Minister Helfferich's programme of "No new taxes". The forces favouring fiscal inertia were also far too strong for further SPD direct taxation proposals which were made in the course of 1915.

From the beginning of 1916 the realisation dawned that the war would be long, that its cost would be immense, and that, if an indemnity were obtained, it would not be sufficient to relieve the German people of their entire post-war fiscal burden. One of the disadvantages of financing the war by loans was emphasised by the budget for 1916-17, in which 2.3 billion of a total "ordinary" expenditure of four billion marks was earmarked for servicing the public debt. In addition, the undesirability of the government's almost exclusive dependence upon voluntary war loans became clear when, at the end of 1916, the yield from this source became insufficient to cover the rapidly increasing floating debt.

Those developments had a belated and muffled impact on German budgetary policy. During 1916 articles advocating

4. ibid., pp. 90-1.
radical financial reforms such as the imposition of a capital levy began to appear in influential journals and newspapers.¹ But, although the Social Democrat Keil prophesied that the cost of the war would eventually have to be covered by an extraordinary capital levy,² no such proposal was incorporated in the budget for 1916-17. The only permanent additions to revenue in 1916 were derived, in spite of the opposition of the SPD, from more severe indirect taxes on tobacco, cigarettes, receipts and bills of lading and from increased postal charges.³ To the 480 million marks anticipated from this source should perhaps be added two billions which it was hoped to collect from the War Tax, a capital gains levy on companies and private individuals designed to cover the deficit in the "ordinary" budget for 1916-17 and succeeding years. But because of unavoidable delays in assessment there was no worthwhile yield from this source for well over a year.⁴

In 1917 growing public uneasiness about federal finances was reflected in the increasing number of learned articles written on the problem of covering the costs of the war.⁵ Although some writers persisted in the hope of an indemnity as at least a partial solution to the problem, the

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¹ V.V. Badulesco, op. cit., p. 33.
³ W. Lotz, op. cit., p. 59 ff.
idea of a large extraordinary capital levy became more and more popular.¹ Such a measure now began to appeal to businessmen, financiers and industrialists who, because of their extensive holdings of government securities, were ready to support radical reforms in order to preserve government credit. For this reason, even National Liberals such as Stresemann and Gothein spoke out in favour of a drastic capital levy.²

Despite the rising demand for radical reform, the budget for 1917-18 contained no striking innovations and, like its predecessors, leaned heavily on indirect taxes. Increases in the latter - notably a 20% Coal Tax - aroused lively opposition from both the Socialist parties, who complained of "unjust and one-sided oppression of the economically weak sections of the community".³ Apart from a 20% surcharge on the War Tax of 1916, the only significant move towards direct taxation was a directive to business firms to keep in reserve 60 per cent of their excess profits during the coming year.⁴ The comparatively small increase in revenue (1.25 billion marks), which resulted from the government's fiscal measure in 1917, does not seem to indicate any radical change in financial

1. e.g. E. Jaffe, "Kriegskostendeckung und Reichsfinanzreform", Archiv für Sozialwissenschaft und Sozialpolitik, May 1917, Vol. 43, p. 711 ff.
2. V.V. Badulesco, op. cit., p. 36.
policy. The German monetary authorities remained in 1917 less concerned to check the rise in public indebtedness by increasing current revenue than they were to reassure German investors that government war bonds would not lose their value after the war.¹

By 1918 public interest in radical financial reform had become sufficiently intense to provoke general discussion of the subject in the Reichstag. Early in 1918 a deep impression was made by a symposium on the subject of a capital levy published by the Verein für Sozialpolitik.² It was almost certainly this which prompted the Conservative Posadowsky-Wehner to ask the government whether it supported the ideas put forward in recent publications on the question of fiscal reform.³ The reassuringly non-committal reply given to this enquiry by the Finance Minister, Roedern, typified the attitude towards fiscal reform which the government maintained throughout succeeding months.⁴

The government's continued inactivity in 1918 sprang partly from doubts as to the shape which reforms should take and as to the moment at which they should be carried through. Opinion in the Reichstag was divided on these issues between those who favoured an immediate and radical reform (Independent

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¹ C. Rist, op. cit., p. 93.
² Verein für Sozialpolitik, Vol. 156; V.V. Badulesco, op. cit., p. 39.
³ Reichstag, 1 March 1918, Vol. 311, pp. 4278f.
⁴ ibid., p. 4283.
Social Democrats); those who wanted a radical reform after the war (Social Democrats, Progressives and some National Liberals); and those who desired either a limited post-war reform or no reform at all (Centre and Conservatives). The government appears to have aligned itself with the second group. 1.

A weighty consideration which helped to persuade the government to postpone financial reform was the fear that heavy taxation would militate against the success of the War Loans. On 23 April Roedern, after admitting the inadequacy of German taxation, expressed doubts as to whether an effective fiscal policy and a successful programme of government borrowing could be carried on simultaneously. 2. In view of the faith which the Finance Minister still placed in the War Loan campaigns, such doubts were probably a good reason for fiscal restraint.

Another factor which probably encouraged the postponement of tax reform was uncertainty about the size of the indemnity which Germany hoped to extract from her defeated enemies. National Liberals such as Stresemann, 3. and Conservatives such as Dietrich, Roesicke and Posadowsky-Wehner, 4. although under no illusion that an indemnity would cover the whole cost of the war, emphasised that Allied reparations would assist Germany.

2. ibid., p. 4735.
3. ibid., 27 February 1918, Vol. 311, p. 4192.
4. ibid., Vol. 312, 24 April 1918, p. 4776; 25 April 1918, p. 4809; 23 April 1918, p. 4757.
materially in balancing her post-war budgets. The prospect of such assistance was advanced - insincerely, in the opinion of the extreme Left¹ - as a good reason for delaying fiscal reform.

By far the most important reason for the inability of the government to agree to any radical reforms was the opposition of the Conservative and Centre parties to any disturbance of the decentralised German fiscal structure. The determination of these groups to preserve the powerful financial position of the states had not been diminished by the war; and they insisted that, if there was to be any reform, it should not increase the financial power of the federal government at the expense of the states.² As a result of pressure from this direction, Roedern's only reform proposal was that the states should, on their own initiative, reform their direct taxes in order to increase their ability to share the post-war financial burden with the federal government.³

The reforming groups in the Reichstag were clearly of the opinion that the financial particularism of the states was the main obstacle in the way of fiscal reform; and they specifically attributed Roedern's timidity to pressure exerted by the state finance ministers.⁴ Although this interpretation

¹. ibid., Vogtherr (USPD), 1 March 1918, Vol. 311, p. 4289.
². ibid., Mayer (Zentrum), 23 April 1918, Vol. 312, p. 4742; Dietrich (K), 24 April 1918, Vol. 312, p. 4778.
³. ibid., 23 April 1918, Vol. 312, p. 4736.
was justified, it should not be forgotten that the majority of those who advocated reform or criticised the inactivity of the government were themselves not prepared to support the immediate introduction of schemes for radical reform. The detailed proposals for a capital levy which were put forward by the Independent Socialist Bernstein were not even supported by the Majority Socialists. The Social Democrats did support the proposals of the Independents for an Inheritance Tax and for a general levy on property which were laid before the Reichstag in July 1918. But this support was conditional on postponement of the introduction of the latter measure until after the war.

The achievement of any substantial fiscal reform had been prevented during the war period largely by the intransigence of the states and of the propertied classes in defending their financial interests. It had also been made more difficult by the fact that the majority of German politicians, who in theory supported fiscal reform, were in practice willing to tolerate a financial system based on borrowing for the duration of the war. This acquiescence was due partly to the faith which had come to be placed in the system of war loans, partly to hopes of an indemnity and

partly also, no doubt, to the difficulty of executing major administrative reforms in war-time.

Although the low level of German war taxation had not caused any irreparable financial damage by November 1918, it increased the vulnerability of the German financial system to inflation. Throughout the war the lowness of the tax yield meant that the continued stability of German currency depended almost entirely on the willingness of the public to subscribe to government loans. When, shortly after the war, the German public in fact ceased to lend to the government the federal fiscal machinery proved, in its unreformed state, a pathetically inadequate instrument for absorbing the excess purchasing power of the community. Post-war German governments were unable to command any sizeable revenue until, in conditions which were psychologically far less favourable than during the war, they had constructed a system of direct federal taxation. In the years which intervened before this task was accomplished, the impoverishment of the federal government was an important factor in the general deterioration of German finances.

Other factors besides the weakness of the German federal fiscal system help to explain the dependence of German war-time governments on borrowing, above all in the early stages of the war. One important influence was the expectation of a short and victorious war in which there would be neither the time nor, it was hoped, the need for increased taxation.¹ Another factor

¹. See above, pp.11-12.
was the opinion of certain German economists that loans would cause less disturbance to economic activity than increased taxes.¹ Considerations such as these encouraged the emphasis on public borrowing in pre-war plans for financial mobilisation.² They would also have been influential at the outbreak of war, when the imposition of new taxes appeared unduly time-consuming, and when it was feared that there might be an economic recession.³

Apart from being explicable and, on certain assumptions, financially defensible, the German government's programme of public borrowing was, in the first two years of the war, remarkably successful. This was due largely to the fact that loan campaigns took on the character of patriotic subscriptions, and were unlike orthodox financial ventures. The aid of financial institutions such as banks, savings banks and credit co-operatives was enlisted. Encouraged by a war-induced influx of deposits,⁴ and by the ease with which they could obtain credits at the War Credit Offices, these institutions assisted potential loan subscribers in various ways.⁵ Socially influential groups such as employers, the armed services, and the professions were also called upon to assist.⁶ Financial patriotism, apart from being made technically easy and socially

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⁵ ibid., pp. 99-103.
⁶ W. Lotz, op. cit., p. 32.
obligatory, also became a matter of self-interest both for businessmen who did not want the source of their war contracts to dry up and for financial institutions, whose reserves and portfolios were coming to be composed largely of war bonds. The combined influence of these factors was so great that in the spring of 1916 the yield of War Loans exceeded the government's short term debt to the Reichsbank by 6.6 billion marks. Thereafter, however, although the yield of the Loans kept increasing, the government's rising expenditure caused its floating debt to reach 48 billion marks by the end of October 1918. Although the growth of the floating debt can be attributed partly to the immense outlays occasioned by the Hindenburg programme from 1917 onwards, it was also due to the diminishing enthusiasm of the German lending public for government bonds. This was reflected in assurances of Havenstein in the autumn of 1917 that with the coming of peace war bonds would be absorbed by large combinations of banks and foreign investors.

These developments revealed the fundamental weakness of a system of war finance based on voluntary public lending. The solvency of the German government and the stability of the monetary system depended too heavily on the good or ill will of the lending public. While this would not have been

2. See above, p. 6.
dangerous in a short and victorious conflict, it threatened
to be disastrous in the prolonged and fluctuating struggle
into which the war had developed by 1917. The growing
inadequacy of War Loans as absorbents of purchasing power
made it likely that there would be substantial inflation in
Germany in the last two years of the war.

The threat of inflation was increased by factors on
the side of "goods" (as opposed to monetary factors) such as
falling productivity, transport difficulties, and the
increasing demand for war equipment which, from 1917,
encouraged rising prices.¹ To make matters worse, the
government's attempts to impose price control had been largely
unsuccessful. Laws had been passed on 4 August and 17 December
1914 empowering the Bundesrat to fix maximum prices for
strategic commodities such as food, fodder, fuel and raw
materials.² However, the Bundesrat was both tardy and inept
in its imposition of restrictions, and vested interests had
little difficulty in sabotaging attempts to fix maximum prices
in the early years of the war.³ There was a flood of maximum
price legislation in the autumn of 1915,⁴ but its effect was

¹ K. Pribram, "Zur Entwicklung der Lebensmittelpreise in der
Kriegszeit", Archiv für Sozialwissenschaft und Sozial-
² H. Schacht, op. cit., p. 20.
³ Mary Stocks, "The Attempt to Fix Maximum Corn Prices in
Vol. 25, p. 274; eadem, "German Potato Policy", ibid.,
March 1916, Vol. 26, p. 57; eadem, "The Meat Problem in
⁴ ibid., p. 169.
diminished by the sophisticated evasion techniques practised by the German business community. An observer writing in May 1917 noted that the German government's counter-measures had not met with decisive success.¹

In these circumstances it was not surprising that the index of German wholesale prices rose during the war from 100 (1913) to 234 in November 1918.² This rise was no greater than that which had occurred in Britain and America.³ But the weakness of the German monetary system at the end of the war was revealed by an observation made by Karl Helfferich, the monetary theorist and war-time finance minister. Helfferich argued plausibly that, despite the increased quantity of money and credit available, there was no monetarily-induced inflation in Germany during the war period. This was, however, because of "the amounts tied up in the cash reserves of the army and of industry, .... the amounts required in the war areas and ... the increased demand, due to rises in prices and wages, conditioned by the war and independently of currency policy".⁴ If Helfferich's observation was correct, it seems that violent price inflation was only prevented during the war by the temporary and artificial suppression of large amounts of excess purchasing power. Since this suppression was likely to cease abruptly with the coming of peace and with the attempt to

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¹ K. Fribram, op. cit., pp.775-6.
² C. Bresciani-Turroni, op. cit., p. 25 and Appendix, Table V.
³ W. Lotz, op. cit., p. 96.
⁴ K. Helfferich, Money, Eng. Tr. of 6th German Edn., pp.593-5
resume normal patterns of production and consumption, the prospects for the stability of the currency in the post-war period were not good.

In order to complete this survey of the impact of the war on German finances it remains only to summarise the somewhat circumstantial evidence which exists about the state of Germany's external financial relations between 1914 and 1918. It has been seen that the war completely deprived Germany of half her export markets, severely restricted her entry into others, and paralysed her merchant shipping. The resulting decline of German foreign earnings was no doubt matched to some extent by the fall in German spending abroad induced by the blockade. However, the emphasis of the trade which Germany managed to maintain during the war with neutral neighbours was inevitably on imports rather than exports. Thus, even if no figures were available, it could safely be assumed that Germany's balance of trade was decidedly unfavourable. The financial repercussions of this were serious for a country which possessed relatively small reserves of gold and foreign securities, and which experienced difficulty in obtaining foreign credits. It has been estimated by competent authorities that Germany's total trade deficit during

1. See above, pp. 4-5.
the war was in fact 15 billion gold marks; and that of this deficit only 5 billions were covered by exports of gold and by the sale of securities. Since only one-third of the remaining 10 billion marks appears to have been covered by credits, the rest must either have been owed or have been paid for by selling mark notes.\(^1\) This meant that by the end of the war Germany had a sizeable external floating debt which was likely to exert downward pressure on the value of the mark.

Germany's precarious external financial position could not be eased by the belated and ineffective attempts of the German government to impose trade controls and exchange restrictions. A list of forbidden imports was published in February 1916; and in the following January a system of import licensing was formally introduced.\(^2\) Over the same period a system of exchange control was set up which, although originally designed simply to regulate the use of foreign exchange for imports, was extended in February 1917 with a view to countering the flight of capital from Germany.\(^3\) But these measures had little effect on the basic imbalance of German trade or on the psychologically-induced activities of

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1. Dr. von Glasenapp (Vice-President of the Reichsbank), "Germany's Balance of Payments with other Countries", *MGRE*, 20 April 1922, p. 22. Schacht cites figures which are the same as Glasenapp's from a publication of the German Statistical Office entitled *Deutschlands Wirtschaftslage unter den Nachwirkungen des Weltkrieges*; vide H. Schacht, op. cit., p.23.
2. C. Rist, op. cit., p. 190.
3. ibid., p. 192.
In these circumstances it was remarkable that the exchange rate of the gold mark expressed in paper marks declined only from parity in August 1914 to 1.77 in November 1918. The relatively slight fall of the mark during the war was however due to a number of artificial and temporary factors which could not be expected to remain influential in peace-time. One of these was the hope of victory which, by persisting well into 1918, dissuaded both German citizens and foreign mark-holders from speculating against the mark. Another was the Allied blockade of Germany which, by preventing large-scale imports at a time when there was an overwhelming demand for goods within Germany, postponed a violent deterioration of Germany's trade balance. When the war ended in defeat and the Allied blockade was lifted, the stage was set for a considerable depreciation of the mark.

The war of 1914-18 had brought Germany to the brink of complete economic exhaustion and serious financial instability. The exhaustion of the economy was the result of the ruthless mobilisation of domestic resources which culminated in the Hindenburg Programme, and of the severing of Germany's economic ties with the greater part of the world. Financial collapse loomed, not because of the technical measures which were devised to expand credit, but because of the inability of the

1. ibid., p. 195.
2. C. Bresciani-Turroni, op. cit., p. 441.
German government to absorb or to have absorbed the increased mark-holdings and credit balances created both inside and outside Germany by war-induced overspending both at home and abroad.

Financial collapse was made more likely in the post-war years by the heavy war-time dependence of the German government on the good will of both the domestic and the foreign lending public. This dependence was perhaps inevitable in view of the weakness of the German fiscal system and in view of the disruption of German trade caused by the war. But it was to have disastrous effects after the war when domestic lenders ceased to subscribe to government loans and when the only form of foreign lending to Germany was the speculative buying of mark notes. The financial leaders of post-war Germany were forced back on those sources of internal and external revenue - taxation and trade - which had been neglected during the war. In attempting to exploit these they were seriously handicapped not only by the general economic exhaustion and dislocation caused by the war but also by the inadequate federal fiscal machinery and the ineffective system of trade and exchange controls bequeathed to them by war-time governments.
PART II

THE FIRST THIRTY MONTHS OF PEACE
SECTION I

THE GERMAN ECONOMY AND FINANCIAL SYSTEM BEFORE MAY 1921

Germany's reparation obligations in the first thirty months of peace were radically different from those which she assumed after May 1921. Before May 1921 reparation payments took the form either of deliveries of goods or of property surrendered in ceded territories. After May 1921 the London Schedule of Payments transformed the nature of the reparation problem by prescribing annuities which were not only to be discharged in regular instalments but were also to be paid largely in cash. This transformation makes it desirable to break at May 1921 any assessment of the economic and financial significance of reparation in the pre-Dawes Plan period.

Between the end of the war and May 1921, the economic disruption and exhaustion of Germany continued just as it had during the war. Almost all important indices of production in fact slumped below their 1918 level in the first year of peace. Although there was a gradual recovery in 1920 and 1921, the level of production still remained in most cases well below that attained in 1913 within Germany's post-war frontiers, viz, 1.

<table>
<thead>
<tr>
<th></th>
<th>Black Coal</th>
<th>Lignite</th>
<th>Pig Iron</th>
<th>Crude Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>190</td>
<td>87</td>
<td>12.9</td>
<td>15.3</td>
</tr>
<tr>
<td>1913 (post-war frontiers)</td>
<td>173</td>
<td>87</td>
<td>10.9</td>
<td>11.9</td>
</tr>
<tr>
<td>1918</td>
<td>160</td>
<td>101</td>
<td>9.2</td>
<td>12.9</td>
</tr>
<tr>
<td>1919</td>
<td>108</td>
<td>94</td>
<td>6.3</td>
<td>8.5</td>
</tr>
<tr>
<td>1920</td>
<td>131</td>
<td>112</td>
<td>6.4</td>
<td>8.5</td>
</tr>
<tr>
<td>1921</td>
<td>136</td>
<td>123</td>
<td>7.9</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Perhaps the best general indication of the reduced economic activity in the immediate post-war years was that railway traffic fell to 60% of its 1913 level in 1919, and recovered only to 75% of its pre-war intensity in the following year. 1.

There were other signs of continuing economic prostration in the post-war period. Numbers of most forms of livestock, with the exception of sheep and goats, recovered only slowly from the level to which they had plunged during the war. 2.

<table>
<thead>
<tr>
<th>Date</th>
<th>Horses</th>
<th>Cattle</th>
<th>Sheep</th>
<th>Pigs</th>
<th>Goats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/12/13</td>
<td>4,523</td>
<td>20,994</td>
<td>5,521</td>
<td>25,659</td>
<td>3,548</td>
</tr>
<tr>
<td>4/12/18</td>
<td>3,493</td>
<td>18,095</td>
<td>5,382</td>
<td>10,545</td>
<td>4,426</td>
</tr>
<tr>
<td>Post-war</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>frontiers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/12/18</td>
<td>2,978</td>
<td>16,448</td>
<td>4,905</td>
<td>9,227</td>
<td>4,021</td>
</tr>
<tr>
<td>1/12/19</td>
<td>3,468</td>
<td>16,298</td>
<td>5,356</td>
<td>11,469</td>
<td>4,052</td>
</tr>
<tr>
<td>1/12/20</td>
<td>3,588</td>
<td>16,807</td>
<td>6,150</td>
<td>14,179</td>
<td>4,459</td>
</tr>
</tbody>
</table>

The war-time fall in crop yields grew noticeably worse in 1919. There was a slight general improvement in 1920, but the rye harvest, which provided an important part of the German food supply, slumped to an unprecedentedly low level in this year. 3.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rye</th>
<th>Wheat</th>
<th>Barley</th>
<th>Potatoes</th>
<th>Oats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>12,222</td>
<td>4,656</td>
<td>3,673</td>
<td>54,121</td>
<td>9,714</td>
</tr>
<tr>
<td>1918</td>
<td>8,035</td>
<td>2,527</td>
<td>2,038</td>
<td>29,941</td>
<td>4,769</td>
</tr>
<tr>
<td>Post-war</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>frontiers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1918</td>
<td>6,676</td>
<td>2,337</td>
<td>1,850</td>
<td>24,744</td>
<td>4,381</td>
</tr>
<tr>
<td>1919</td>
<td>6,100</td>
<td>2,169</td>
<td>1,670</td>
<td>21,449</td>
<td>4,494</td>
</tr>
<tr>
<td>1920</td>
<td>4,970</td>
<td>2,250</td>
<td>1,800</td>
<td>28,250</td>
<td>4,870</td>
</tr>
</tbody>
</table>

The continuation of war-time dislocation was particularly evident in the figures for the value and volume of German foreign trade before May 1921, viz.,

<table>
<thead>
<tr>
<th>Month</th>
<th>VALUE (million gold marks)</th>
<th>VOLUME (thousand tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Imports</td>
<td>Exports</td>
</tr>
<tr>
<td>1913</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan</td>
<td>204</td>
<td>83</td>
</tr>
<tr>
<td>Feb</td>
<td>188</td>
<td>90</td>
</tr>
<tr>
<td>Mar</td>
<td>178</td>
<td>118</td>
</tr>
<tr>
<td>Apr</td>
<td>209</td>
<td>90</td>
</tr>
<tr>
<td>May</td>
<td>480</td>
<td>82</td>
</tr>
<tr>
<td>June</td>
<td>405</td>
<td>122</td>
</tr>
<tr>
<td>July</td>
<td>1,061</td>
<td>171</td>
</tr>
<tr>
<td>Aug</td>
<td>824</td>
<td>158</td>
</tr>
<tr>
<td>Sep</td>
<td>702</td>
<td>132</td>
</tr>
<tr>
<td>Oct</td>
<td>832</td>
<td>175</td>
</tr>
<tr>
<td>Nov</td>
<td>500</td>
<td>144</td>
</tr>
<tr>
<td>Dec</td>
<td>489</td>
<td>322</td>
</tr>
<tr>
<td></td>
<td>6,472</td>
<td>1,757</td>
</tr>
</tbody>
</table>

| 1920  |         |         |         |         |         |
| Jan   | 459     | 224     | -235    | 1,129   | 1,523   |
| Feb   | 269     | 193     | -76     | 1,475   | 1,923   |
| Mar   | 310     | 230     | -80     | 1,357   | 1,826   |
| Apr   | 328     | 379     | 51      | 1,224   | 2,170   |
| May   | 514     | 616     | 102     | 1,485   | 2,895   |
| June  | 562     | 562     | 102     | 1,737   | 2,680   |
| July  | 544     | 544     | 102     | 1,739   | 2,004   |
| Aug   | 529     | 529     | 102     | 1,512   | 1,910   |
| Sep   | 468     | 468     | 102     | 1,680   | 1,837   |
| Oct   | 401     | 401     | 102     | 1,758   | 1,494   |
| Nov   | 430     | 430     | 102     | 1,757   | 1,768   |
| Dec   | 449     | 449     | 102     | 2,007   | 1,758   |
|       | 7,000   | 5,025   | -2,000  | 18,860  | 23,788  |

| 1921  |         |         |         |         |         |
| Jan   |         |         |         |         |         |
| Feb   |         |         |         |         |         |
| Mar   |         |         |         |         |         |
| Apr   |         |         |         |         |         |
|       | 1,500   | 1,000   | -500    |         |         |

These figures are inaccurate for a number of reasons. Firstly, there was a considerable amount of smuggling, mostly through the so-called "Hole in the West" created by the territories occupied by the Allies. Secondly, the value of imports was underestimated because of the inflexibility of official methods of valuation in a time of fluctuating exchanges. Finally, export figures were inflated by the inclusion of the value of reparation deliveries. However, these inaccuracies cannot invalidate a general conclusion that both the volume and value of German trade were exceedingly low and that the trading deficit was disastrously large in the early post-war years. The value, if not the volume, of imports showed some signs of recovery after the lifting of the Allied blockade in July 1919. On the other hand, exports remained negligible until the violent depreciation of the mark at the end of 1919 made the price of imported raw materials so prohibitive and German domestic prices so attractive to foreigners that it encouraged a grand "clearing sale" of German productive equipment. During 1920 there was a more healthy revival of exports to Great Britain.

Notes: (continued from foot of page 37)
(c) The value of exports and imports has been converted from paper marks to gold marks in accordance with the monthly average rates in: C. Bresciani-Turroni, op. cit., p. 441.
(d) Figures of both the value and volume of trade between January and April 1921 have never been published. Approximate figures for the value of trade in this period and also for the value of imports between June and December 1920 have been derived from the global estimates of trade in 1920 and 1921 made by Dr. von Glasenapp, op. cit., MGCRE, 20 April 1922, p. 22.
3. The Economist, 29 November 1919, pp. 983-4.
France and the United States, and also to the European neutrals with whom Germany had traded in the war years. However, the value of both imports and exports still remained well below its pre-war level. The figures which have been derived for the first four months of 1921 seem, if anything, to indicate that the relative revival of German foreign trade which occurred in 1920 had been short-lived.

The persistence of domestic and external economic dislocation in the early post-war years was paralleled by the continued imbalance of Germany's domestic finances and of her foreign financial relations. With the coming of peace, government expenditure did not return to its 1913 level of 3.8 billion gold marks but remained at the relatively high figure of 8.6 billions (gold) in the budgetary year 1919/20 and 9.3 billion gold marks in 1920/21. Since revenues amounted to only 2.6 billions in 1919/20 and 3.2 billions in 1920/21 and since the deficits were not covered by public loans, the government's floating debt increased from 49 billion paper marks at the end of the war to 173 billion paper marks in April 1921. This enormous expansion of credit in the public sector made possible, as it had during the war, an increased amount of lending by private credit institutions whose deposits had been swollen by the abnormal spending of the government. The supply of credit in the private sector was still supplemented, moreover, by the advances

of the War Credit Offices. The value of these rose from 14 billion marks at the end of the war to a peak of 33 billion marks in November 1920, and was still 23 billion marks in May 1921. A by-product of all of these forms of credit creation was the expansion of the circulation of Reichsbank notes and War Credit Vouchers from 28 to 81 billion marks in the period under review. A further consequence was that the excess purchasing power released in the community, together with the external depreciation of the mark, caused the index of wholesale prices (1913=100) to rise from 234 in November 1918 to 1570 in April 1921.

The imbalance of Germany's external finances was worse than the figures for the trade deficit suggest. This was not only because of the official underestimation of imports and overestimation of exports which has already been noticed. It was also because Germany's negligible invisible earnings in the early post-war years were far outweighed by the 0.75 billion gold marks she spent annually on the interest and amortisation of post-war credits. Since the official visible trading deficit between January 1919 and April 1921 was about 7.2 billion gold marks, Germany's real deficit on both invisible and visible account was probably close to 10 billion gold marks. In the absence of any long-term foreign loan there was an inevitable

1. R. Stucken, Deutsche Geld-und Kreditpolitik 1914-1951, p.35.
2. ibid.
4. See above, p. 38.
5. Dr. von Glasenapp, loc. cit.
increase in the amount of Germany's foreign obligations which
were in the form of either bank or book credits or mark notes
held by foreigners. By August 1920 Germany's external floating
debt had increased from 6 billion paper marks at the end of the
war to about 50 billion marks.¹ Such a development provided
the conditions for substantial external depreciation of the
German currency. Between November 1918 and April 1921 the
exchange rate of the gold mark expressed in paper marks had
risen from 1.77 to 15.1.²

1. League of Nations, International Financial Conference,
2. C. Bresciani-Turroni, op. cit., p. 441.
The loss of many of the items credited to Germany's reparation account before May 1921, such as state property in ceded territories and war material abandoned in battle areas, could have exerted no economic effect at all on post-war Germany. However, internal and external economic dislocation may have been aggravated by the temporary cession of the Saar coal fields to France, the delivery of capital equipment such as railway rolling stock, merchant shipping and rivercraft, and the delivery of other economically important goods such as coal and its derivatives, livestock, agricultural equipment, dyestuffs and pharmaceutical products.

The Saar Coal Mines

Articles 45-50 of the Versailles Treaty directed that, in order to compensate for the destruction of the coal mines of Northern France, the ownership of the Saar coal mines should be transferred to France; and that the government of the Saar district should be placed in the hands of a Commission appointed by the League of Nations for 15 years. Such a change, both in the ownership of the Saar's main industry and in the government of the area, might, in certain circumstances, have had quite a serious economic effect on the rest of Germany. In 1913 37% of the Saar's total coal output of 12.2 million tons was consumed within Germany (excluding Alsace-Lorraine and the Saar itself); and there were considerable economic ties between the Saar and
neighbouring regions of Germany. In practice, since the
treaty provided that there should be free trade between the
Saar and Germany for five years, economic dislocation could
be caused solely by the diversion of the Saar's coal output
to France. But, because much of the area of Germany which had
been dependent on Saar coal was occupied by Allied troops in
the post-war years, even this diversion was accomplished
gradually and without overmuch economic dislocation. The
Luxemburg Protocol of 28 February 1919 directed that the Saar
coalfields should continue to deliver coal to those portions
of occupied Germany which they had supplied before the
Armistice. It was only after this arrangement had been super­
seded by the Versailles Protocol of 29 August 1919 that a coal
shortage began to be felt in the occupied territories. The
Versailles Protocol had stipulated, as one of the conditions
of the commencement of reparation coal deliveries from the Ruhr
to France, that 100,000 tons of coal should be delivered monthly
from the Saar to Moselle and Palatinate regions which were under
Allied occupation. However, because of the low level of
reparation deliveries from the Ruhr between September and
December 1919, the French authorities limited deliveries from

2. Clause 31 of the Annex to Para. 50.
3. The following account is drawn from: "Report of the Coal
Situation in Occupied German Territories by the British
Department of the Inter-Allied Rhineland High Commission,
February 1920", in Stuart to Curzon, February 14, 1920,
Documents on British Foreign Policy 1919-1939, Series I,
the Saar to 2,000-2,500 tons a day; and on 6 January 1920 they announced that all Saar coal deliveries to Germany would cease from 1 February. These measures certainly contributed to the serious coal shortage which was felt in the occupied territories at this time.¹ But the main cause of both the shortage in the occupied territories and the low level of deliveries to France which had prompted French reprisals, was the severe flooding of the Rhine in December 1919 and a railway strike in the following month. These events had caused a transport bottleneck which temporarily reduced Ruhr coal shipments both to France and to the south of Germany.² After this bottleneck had been relieved in April, the shortage of coal in the areas bordering the Saar was no worse than in the rest of Germany.³ Moreover, as the French coal situation improved, more Saar coal gradually became available for shipment to Germany.⁴ The transfer of the Saar coal mines to French hands was therefore only of economic importance at a time when the coal shortage in Germany was already aggravated by abnormal seasonal factors and by industrial unrest.

3. For an examination of the general German coal shortage, see below, pp. 53-68.
4. By 1922 20% of the Saar output was shipped to Germany: F. Delaisi, "French Coal Policy and the Versailles Treaty", MSORE, 7 September 1922, p. 421.
Deliveries of Railway Rolling Stock

Article VII of the Armistice of 11 November 1918 directed that Germany should deliver to the Allies 5,000 locomotives and 150,000 goods wagons with spare parts and in working order. The fulfilment of this provision was likely to have serious economic effects. German holdings of rolling stock had increased from 27,214 locomotives and 617,748 goods wagons in 1913 to 34,208 locomotives and 778,912 goods wagons in 1918. But this increase did not make the German railway system any better fitted to withstand the reduction of equipment which occurred in 1919 as a result of the Armistice deliveries. For although in 1919 Germany retained 29,945 locomotives and 597,978 goods wagons, the efficiency of the German railways was determined not by the amount of rolling stock theoretically available but by the proportion of it which was in working order. This proportion had, by the end of the war, become abnormally small because of the serious disrepair into which German railway equipment had been allowed to fall during the war years, and it became smaller still in the economic dislocation and industrial unrest of the aftermath.

In 1913, 19% of all locomotives were undergoing repairs. By 1918 the number had grown to 34% of the machines at the disposal

2. These and other figures drawn from: A. Sarter, Die Deutschen Eisenbahnen im Kriege, pp. 163-5, 287.
of the German civil authorities. In August 1919 it was asserted in the National Assembly that between 40% and 50% of Germany's locomotives were not in running order. It was also claimed that 1600 disabled locomotives were receiving no attention at all.  

Although the deterioration of German railway equipment in the war and during 1919 made the Armistice deliveries all the more undesirable, it reduced their relative significance as a cause of the economically disastrous reduction of railway traffic which occurred in the post-war years. Speakers in the National Assembly either ascribed the shortage of railway equipment directly to "the human and material wear and tear caused by the war" or divided the blame for the railway crisis between the Armistice deliveries and the decreased efficiency of equipment and personnel in the post-war period. Factors commonly blamed for the latter phenomenon, apart from poor maintenance, were industrial unrest, the eight-hour day, seasonal bottlenecks and the lack of coal.

7. J.S. Davis, loc. cit.
The Armistice deliveries of railway equipment cannot be blamed at all for railway bottlenecks after 1919. By August 1920 Germany possessed, within her reduced boundaries, some 30,000 locomotives and 546,800 goods wagons, and the efficiency of the railway system had increased noticeably. It is true that a German railway expert attributed the adequacy of the railways in the summer of 1920 entirely to the depressed state of German industry. It is true also that there was a severe shortage of trucks towards the end of 1920. However, this shortage was, significantly, referred to at the time as a recurring seasonal phenomenon caused by frosts and by low water, which, by preventing waterways from being fully utilised, subjected the railways to abnormal strain.

Deliveries of railway rolling stock to the Allies appear therefore to have exerted no appreciable economic effect after the winter of 1919-20. Moreover, even in 1919, when they did influence the level of industrial activity, they were only one of several factors such as the lag in maintenance, social unrest and seasonal bottlenecks which caused the shortage of railway transport to be so acute.

1. C. Bresciani-Turroni, op. cit., p. 196. This figure compares favourably with an estimated 26,369 locomotives and 579,561 goods wagons in a comparable area in 1913: A. Sarter, op. cit., p. 293.
3. Dr Weirauch, op. cit., p. 90.
4. e.g. Klöckner (Zentrum), 17 March 1921, Reichstag, Vol. 348, p. 3129. Klöckner urged the Minister for Transport "to come to grips" with a waggon shortage which had "recurred for 15 years".
Deliveries of Merchant Shipping and Rivercraft

The Trèves Convention of 16 January 1919 and Annex III of the Reparation Chapter of the Treaty of Versailles stipulated that Germany should deliver (1) all her merchant ships of over 1600 tons, (2) half of those weighing between 1000 and 1600 tons and (3) a quarter of her steam trawlers and other fishing boats. In fulfilment of these provisions, Germany surrendered a total of 2.6 million tons of merchant shipping. A large part of this (1.8 million tons) was delivered in the Armistice period which ended on 10 January 1920, and most of the remainder (up to 2.2 million tons) was handed over in the period before May 1921. These deliveries were responsible, together with the loss of about 2.7 million tons during the war, for the reduction of the German merchant fleet from its pre-war size of over 5 million tons to about 500,000 tons at the end of 1919. Despite the allegations of the German government to the contrary, the economic, as opposed to the financial, damage done to Germany by ship deliveries was by no means overwhelming except, perhaps, immediately after the bulk of the ships were handed over in 1919. The dislocation of German foreign trade in 1919/20 was due much less to lack of German-owned

shipping than to the isolation and exhaustion of Germany caused by the Allied blockade. Despite the transfer of ownership of the German merchant fleet, trade was inevitably resumed, within the limits imposed by this isolation and dislocation, in its old paths and with the old means of transport.

The first indication of this was the stipulation of the Treves Convention that the surrendered vessels should be used during the Armistice period for the purpose of transporting food and raw materials to Germany. The second indication was that by the end of 1919 the larger German shipping companies such as HAPAG and Norddeutscher Lloyd had begun to undertake agencies for lines running their former fleets. By the end of 1920 the major German lines had, with the aid of arrangements such as these and by means of chartering, resumed most of their pre-war services. It does not seem therefore that the surrender of the German merchant fleet added substantially to Germany's post-war economic difficulties. The financial effects of the transfer of ownership were in a different category, and will be treated separately.

The surrender of rivercraft in accordance with paragraph 6 of Annex III of the Reparation Chapter and Articles 339 and 357 of the Treaty proper was of even less economic significance than the delivery of the merchant fleet in the period before

1. W. Cuno, loc. cit.
2. "Report on...Conditions in Germany...1919", p. 22.
3. The Economist, 18 December 1920, p. 1081.
4. See Appendix I.
May 1921. There were no deliveries under this heading until a series of awards was made by an American arbitrator in the course of 1921. The first of these, which was announced on 8 January 1921, directed that Germany should "deliver to France 254,150 tons in barges and 23,760 registered H.P. in tugs". The resulting deliveries, which were completed by the middle of May 1921, were the only ones executed in the period under review. The disturbance which they caused to German inland water navigation was sufficient, together with the desire of the recipients to obtain craft suited to their particular requirements, to prompt an agreement that the bulk of boats to be delivered in the future should be specially built by Germany. But the economic dislocation caused by these deliveries had been comparatively slight and short-lived.

Deliveries of Agricultural Equipment and Livestock

Deliveries of agricultural equipment and of livestock do not appear to have contributed much to the dislocation of German agriculture after the war. The persistent lowness of crop yields in the early post-war years was for the most part due to the continuance of such war-time phenomena as the shortage of phosphates. According to a contemporary German agricultural expert, only 139,000 tons of an estimated need of 500,000 tons of phosphate was satisfied in the year 1919-20.

1. R.C.C., V, Appendix XXXVII, p. 266.
2. Ibid., p. 146.
The low price of agricultural produce was also an important influence, since it discouraged farmers from purchasing comparatively expensive fertilisers and agricultural machinery for the purpose of improving their land.\(^1\) Other inhibiting factors were the shortage of labour\(^2\) and the dearth of coal, which was vital to numerous phases of agricultural activity.\(^3\). Compared with factors such as these, the deliveries of agricultural equipment which were made under Article 3 of the Trèves Convention of 16 January 1919 and under Article 238 of the Versailles Treaty were insignificant.\(^4\),

The loss of the 2500 machines, 2000 wagons and 200,000 tools which were delivered\(^5\) may have had a temporarily dislocating effect on agricultural activity when, early in 1919, deliveries consisted of the actual articles which had been removed from occupied territories during the war. But this dislocation was substantially reduced by the action of the French government in "speedily compounding for the restitution of identified material by the delivery of new material".\(^6\).

Paragraph 6 of Annex IV of the Reparation Chapter demanded the delivery, within three months of the coming into force of the Treaty, of the following animals:\(^7\).

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2. ibid.
4. See Appendix I.
5. R.C., V, Appendix X, p. 204.
6. ibid., p. 68.
7. See Appendix I.
700 stallions
40,000 mares and fillies
4,000 bulls
180,000 cows
120,000 sheep
10,000 goats
15,000 sows.

Because of the delay in the ratification of the Treaty and because of subsequent hesitations on the part of the Reparation Commission, these deliveries did not begin until March 1920. Nor even then did they proceed at the speed prescribed by the Treaty, especially in the case of cattle. By May 1921 deliveries of all kinds under this paragraph and under paragraph 2 of Annex IV amounted to some 340,000 head. Since the number of animals delivered amounted to as much as two per cent of total German holdings only in the case of cattle, the economic impact of deliveries cannot have been very great before May 1921. The numbers of German livestock were far more heavily influenced by such factors as the availability of fodder and, in the case of cattle, the length of the breeding process.

Deliveries of Timber, Dyestuffs, Pharmaceutical Products and Derivatives of Coal

Little or no economic dislocation was caused before May 1921 by deliveries of timber, dyestuffs, pharmaceutical products and coal derivatives. Because of the delaying tactics employed by the German government, deliveries of timber under Annex IV of

1. R.C., V, p. 133.
2. R.C., I, p. 8
the Reparation Chapter did not begin until 15 May 1921.1 Although there were shipments of dyestuffs from November 1919 and of pharmaceutical products from August 1920, these aroused no adverse comment within Germany. Bergmann, a German reparation expert who was critical of the manner in which other deliveries were extracted from Germany, considered that they were made "quietly in a mutually satisfactory manner". This was due partly to the relatively small quantities involved, but more to the ability of the highly organised German chemical industry to negotiate effectively and to adjust its production to the demands made upon it.3 The same was true of deliveries of coal derivatives - sulphate of ammonia, benzol and coal tar - under paragraph 8 of Annex V of the Reparation Chapter.4 These, in the words of a Reparation Commission report, gave rise to "no special comment".5

Deliveries of Coal

Coal deliveries were, after those of merchant shipping and railway rolling stock, by far the most valuable form of reparation payment in the period before May 1921.6 They were, moreover, made continuously and at an increasing tempo from

1. R.C., V, p. 138. For text of Annex IV; see Appendix I.
3. C. Bergmann, The History of Reparations, p. 86.
4. See Appendix I.
5. R.C., V, p. 106. C. Bergmann, loc. cit.
6. Under Annex V of the Reparation Chapter (see Appendix I).
September 1919. Since the supply of coal affected the efficiency of German industry, communications and agriculture, reparation coal deliveries, which reduced the amount of coal available in Germany, were likely to affect the level of German economic activity.

In order to throw into relief the impact of reparation coal deliveries on German domestic coal distribution, it is necessary to distinguish between three periods in which the level of these deliveries was noticeably different. Between September 1919, when substantial shipments began, and December 1919 the average rate was 600,000 tons a month. This average rose to 850,000 tons between January and July 1920; and, in the ensuing nine months (August 1920 to April 1921), it reached 1,750,000 tons. After exports had been deducted, the amount of coal available in these periods for all purposes (including reparation) was:

<table>
<thead>
<tr>
<th>Period</th>
<th>Net Black Coal Production (million tons)</th>
<th>Brown Coal Production (in terms of black coal)</th>
<th>Total</th>
<th>Exports</th>
<th>Remainder</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep-Dec</td>
<td>35.7</td>
<td>7.5</td>
<td>43.2</td>
<td>1.8</td>
<td>41.4</td>
</tr>
<tr>
<td>1920</td>
<td>63.9</td>
<td>13.7</td>
<td>77.6</td>
<td>4.5</td>
<td>73.1</td>
</tr>
<tr>
<td>Jan-Jul</td>
<td>89.1</td>
<td>20.1</td>
<td>109.2</td>
<td>4.5</td>
<td>104.7</td>
</tr>
<tr>
<td>1920-21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. For figures of monthly deliveries from January 1920: R.C. V, Appendix XXI, p. 229. For deliveries between September 1919 and 10 January 1920: ibid., p. 95.
2. For figures of monthly gross production of black coal and monthly production of brown coal (lignite): Supreme Economic Council, Monthly Bulletin of Statistics. In the case of black coal "net production" = gross production less pithead consumption. In the pre-war period, pithead consumption was (continued foot of page 55)
The effect of reparation deliveries on coal distribution in each of these periods was as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount available before Reparation</th>
<th>Reparation Deliveries</th>
<th>Amount available after Reparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919 Sep-Dec</td>
<td>41.4</td>
<td>2.5</td>
<td>38.9</td>
</tr>
<tr>
<td>1920 Jan-Jul</td>
<td>73.1</td>
<td>6.0</td>
<td>67.1</td>
</tr>
<tr>
<td>1920-21 Aug-Apr</td>
<td>104.7</td>
<td>15.8</td>
<td>88.9</td>
</tr>
</tbody>
</table>

In order to judge the significance of reparation deliveries as a cause of the coal shortage in post-war Germany, these figures must be compared with those for coal distribution in Germany about 10% of gross production: J.M. Keynes, *The Economic Consequences of the Peace*, p. 81. Because of the larger number of miners employed after the war this figure rose to about 13%. See figures for pithead consumption in August-September 1920 in J.W.F. Thelwall, "General Report on... Germany in December, 1920", *H. of C. Papers*, 1921, Cd. 1114, pp. 73-6. Cf. G. Lübken, "The German Coal Situation and the Reparation Deliveries", *MGCRE*, 7 September 1922, pp. 427-9.

3. 9 tons of brown coal was the calorific equivalent of 2 tons of black coal: C. Bresciani-Turroni, op. cit., pp. 192-3 Note. There was little or no pithead consumption of brown coal.

4. No complete monthly figures for German coal exports in 1919-21 are available. The figures here given have been deduced from (1) monthly export figures for July 1919 to May 1920 in "Die Konferenz in Spa vom 5 bis 16 Juli 1920", Reichstag, Vol. 363, Anl. 187, p.65; (2) figures for average monthly exports in 1920 and 1921 in J.W.F. Thelwall, *Report on ... Germany to March, 1923*, (Great Britain. Department of Overseas Trade), p.44; and (3) figures for August and September 1920 in J.W.F. Thelwall, "General Report on... Germany in December, 1920", pp. 73-6.
in 1913, viz,

<table>
<thead>
<tr>
<th>Net</th>
<th>Brown Coal</th>
<th>Total</th>
<th>Net</th>
<th>Remainder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black Coal Production</td>
<td>(in terms of black coal)</td>
<td></td>
<td>Exports</td>
<td></td>
</tr>
<tr>
<td>171</td>
<td>23.6</td>
<td>194.6</td>
<td>34</td>
<td>160.6</td>
</tr>
</tbody>
</table>

For the purposes of comparison with the consumption of post-war Germany this figure must be reduced by 25.5 million tons, the amount of black coal consumed in 1913 in territories ceded after the war, viz,

<table>
<thead>
<tr>
<th>(million tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alsace-Lorraine 11.1</td>
</tr>
<tr>
<td>Saar Basin 5.8</td>
</tr>
<tr>
<td>Schleswig-Holstein and Eupen Malmedy 0.6</td>
</tr>
<tr>
<td>Poznania 2.6</td>
</tr>
<tr>
<td>East Prussia (Polish) and Danzig 1.5</td>
</tr>
<tr>
<td>Luxemburg 3.9</td>
</tr>
<tr>
<td><strong>25.5</strong></td>
</tr>
</tbody>
</table>

Further deductions must be made in respect of the 3 million tons of black coal consumed in 1913 by the navy, the merchant marine and the war industries; and in respect of the 0.3 million tons of brown coal (in terms of black coal) consumed in territories subsequently ceded. Thus the 1913 consumption

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2. This figure includes imports of Bohemian brown coal: see, J.W.F. Thelwall, "General Report on...Germany in December, 1920", pp. 73-6.  
3. Figure for net exports in 1913: G. Løbøsen, op. cit., p. 427.  
4. For figures of consumption in ceded territories: *Economic Review*, 1 April 1921, p. 373. These deductions are almost certainly too large, especially in respect of the latter part of 1919, when the cessions of territory had not been formalised by the ratification of the treaty. See below, p.58 Note 1.  
of all types of coal in post-war Germany would have been:

\[ 160.6 - 28.8 = 131.8 \text{ million tons a year} \]
\[ \text{or} \]
\[ 11 \text{ million tons a month.} \]

The following table compares the amount of coal available in 1913 with that available in early post-war Germany, and shows the extent to which the discrepancy was due to reparation deliveries. The columns show:

1. the amount of reparation coal deliveries;
2. the amount of coal which was available in Germany after reparation deliveries had been made;
3. the amount of coal which would probably have been available if no reparation deliveries had been made;
4. the amount of coal which was available in the same area and over the same period in 1913;
5. the percentage relationship between (2) and (4);
6. the percentage relationship between (3) and (4).

In calculating (3) it has been assumed (a) that one-third of the coal delivered as reparation would otherwise have been exported, and (b) that German coal production would have been the same if there had been no reparation deliveries. 1.

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1. Both of these assumptions are hard to justify. Because of the coal shortage in Germany there was strong opposition to increased coal exports, despite the fact that they were one of the few means by which Germany could earn foreign exchange: see below, p.77 for fuller discussion. The assumption that the level of German coal production would have remained the same is also unreal in view of the fillip given to output by the Spa Coal Agreement of July 1920: see below, p.168. However, since the first assumption encourages an under-estimate, and the second assumption an over-estimate, of the amount of coal which would have been available, it can reasonably be hoped that any error will be cancelled out.
It can be seen that in the first two periods, that is, between September 1919 and July 1920, the severity of the coal shortage in Germany was due far more to the low level of production than to the size of reparation deliveries. The latter were responsible for only 4-5 parts of a total lag of 12-13% behind the 1913 level of coal distribution. Reparation deliveries only became a major factor in the coal shortage between August 1920 and April 1921 when, although not increasing the overall deficiency, they were responsible for all of a 10% lag behind the 1913 distribution level.

Although a high degree of accuracy cannot be claimed for these figures and although they conceal month-to-month variations, they illustrate sufficiently well that it was not until the latter half of 1920 that reparation coal deliveries

1. It is, in particular, difficult to estimate accurately the coal needs of post-war Germany by 1913 standards. The figure cited (132 million tons) is in danger of being an under-estimate rather than the reverse. See above, p. 56, Note 4. Such an under-estimate would make the post-war coal shortage appear less serious than it really was; and would therefore exaggerate the relative significance of reparation deliveries as a cause of this shortage. If, for example, in the period September-December 1919, the coal needs of Germany were, by 1913 standards, 12 million tons a month rather than 11 million tons a month (132 million tons p.a.) then reparation deliveries (2.5 million tons) would have been responsible for only 4 parts of a total lag of 19% behind the 1913 distribution level.
could have had a noticeable effect on the level of German economic activity. The impression conveyed by the figures is strengthened by the nature of contemporary complaints about the coal shortage. In the winter of 1919-20 many petitions were directed to the National Assembly by representatives of industries or regions suffering from the dearth of coal. 1 Although reparation deliveries were sometimes mentioned in these petitions and in the government's replies, the main emphasis was invariably on the low level of production, transport bottlenecks and the difficulty of achieving an equitable distribution of coal. An answer given in December 1919 by a government spokesman to a petition which deplored the threat to employment caused by the inadequacy of the supply of coal to industry revealed the general attitude to coal deliveries at this time. Reparation shipments were referred to as merely one of a number of high priority demands on German coal production, such as supplies to railways, gasworks, waterworks and power stations, which had to take precedence over the needs of German industry. 2


complaints in January and February 1920 from the Palatinate and South Germany, which had previously been heavily dependent on the Saar for their coal supplies, provoked a similar government reaction. The shortage of coal in South Germany, although aggravated by deliveries to the Entente, was attributed largely to the flooding of the Rhine; and a railway strike in February was advanced as the major reason for the scarcity of fuel in the Palatinate. Schmidt, the Minister for Economic Affairs, also stressed the administrative problems involved in gauging and satisfying the fuel needs of private industry during the period of transition from a wartime to a peace economy.

The impression that is gained from protests about the coal shortage in the second half of 1920 is entirely different. It was generally complained that the increased coal deliveries which were made under the Spa Agreement between August 1920 and January 1921 noticeably reduced the amount of coal available within Germany. In August, although supplies to essential services were maintained, the amount of coal distributed for general industrial purposes fell by 400,000 tons from its July level of 4,768,000 tons. Only part of this deficiency could be made up with supplies of brown coal.


2. 13 February 1920, ibid., Vol. 341, Anl. 2135.

In October there were protests from the iron and steel industry that, as a result of coal deliveries, certain plants were being forced to slow down or even to cease production altogether. In mid-October an American observer reported that the Spa coal deliveries were having "an exceedingly upsetting effect on the iron trade" in Germany. Several blast furnaces had been blown out and important iron working concerns in Bremen, Hamburg, Cassel and Hanover which had in May been receiving 82% of their requirements were now receiving less than 48%. In October and November there were reports that some of the larger firms were paying six times the ruling domestic price for imported American coal. Finally, when the Reichstag had reassembled after its summer recess, the representatives of the government joined in the chorus of protest.

All this evidence seems to indicate that in the period between August 1920 and April 1921 reparation deliveries had an inhibiting effect on German industrial activity. It has however been seen that, although reparation deliveries were a relatively more important cause of the coal shortage in these months, the total amount of coal which was available was exactly the same as in the preceding period. The only month

1. The most authoritative of these complaints are summarised in J.W.F. Thelwall, "General Report on...Germany in December, 1920", pp. 14-16. For text of telegram addressed to the German government on 15 October by Stinnes, Vögler, and Kirdorf: Die Entwicklung der Reparationsfrage, p.15.
2. Iron Age, 4 November 1920, p. 1234.
3. ibid., 2 December 1920, p. 1483.
for which this was not true was August 1920, when coal
distribution was 82% of its pre-war level. This was due
largely to the fact that coal production had not then risen
to the high level it was to attain in succeeding months.

For the rest of the period the protests of German industry
must be attributed to the larger size of reparation shipments
rather than to a diminution of the total amount of coal
available.

It is possible that, despite the maintenance of the

1. Detailed figures of coal distribution in August and Sept-
ember 1920 are supplied in J. W. F. Thelwall, op. cit., supra, pp.
73-6. Thelwall calculated that internal distribution was
73% in August and 78% in September of its 1913 level.
However, his figure of 12.4 million tons for the average
monthly 1913 coal distribution seems much too high. (See
above, pp. 76f.) Thelwall's percentages are less misleading
than those of the German coal authorities, who maintained
that distribution in August was 64% and in September was
70% of the level in 1913. These figures not only neglected
the reduction of German consumption occasioned by cessions
of territory, they also referred only to coal distributed
to private industry, domestic consumers and agriculturists;
and did not take into account the consumption of
railways, gasworks and power stations which was at this
time higher than the 1913 monthly average. Since these
public utilities were an integral part of the German
economy there is no reason for showing the level of German
coal distribution in this manner.

2. Monthly production of black coal and lignite, according to
the Monthly Bulletin of Statistics, was:

<table>
<thead>
<tr>
<th>Year</th>
<th>Black Coal</th>
<th>Lignite</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>Jan-July Av.</td>
<td>10.5</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>10.8</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>11.6</td>
</tr>
<tr>
<td></td>
<td>October</td>
<td>11.9</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>11.8</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>11.9</td>
</tr>
<tr>
<td>1921</td>
<td>January</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>11.5</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>9.0</td>
</tr>
</tbody>
</table>
general level of coal distribution in this period, either the quality or the regularity of the coal supply was unsatisfactory. In November 1920 there were complaints that there was a scarcity of high grade coal because of the quantities which were absorbed by reparation deliveries.\(^1\) However, it seems that the proportion of high grade coal demanded by the Allies under the Spa Agreement was well below the proportion of such coal to the total German coal production.\(^2\) This indicates that any shortage of high grade coal within Germany was probably due to distribution difficulties. These certainly existed, above all in October and November 1920, when the lowness of the Rhine reduced river transport and so placed an inordinate strain upon the German railway system.\(^3\) Any industrial dislocation occasioned by this factor obviously cannot be blamed upon reparation coal deliveries.

Whatever the exact state of German coal distribution in these months, it seems that increased coal deliveries were not the major factor determining the level of German production. One indication of this was that the average monthly production of steel, which was highly sensitive to the supply of coal, increased considerably during the period of the Spa Agreement,

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A second pointer is provided by the figures for unemployment. The number of persons receiving unemployment relief was 271,698 on 1 June 1920 (its lowest point for the year). This figure rose by 20\% to 322,452 during June; by a further 25\% to 403,815 during July and by 2.5\% to 414,672 in August. But between 1 September and the end of November it declined steadily by about 15\% to 350,087. This trend was reversed from December 1920 onwards until, on 1 March 1921, a month after the end of the Spa Agreement, a new peak was reached with a figure of 426,600. These figures indicate that the most dramatic increase in unemployment in 1920 occurred before the Spa Agreement, and that for most of the period August 1920-January 1921 the employment situation was improving. Because of the influence of extraneous factors on the level of employment, these figures are dangerous to use as a guide to the impact of coal deliveries. But it seems that there was, at any rate, no decline in economic activity in the period of the Spa Agreement.

The level of German industrial activity in fact depended largely on the behaviour of the mark exchange. Any violent exchange depreciation was likely to increase production both by stimulating foreign demand for German exports and by inducing an unhealthy domestic "catastrophe boom", which resulted from panic purchases of goods by persons who expected the buying-power of the mark to decline still further. On the other hand any rapid improvement of the mark could bring about industrial stagnation by discouraging foreign buyers and by dampening the domestic demand for goods amongst consumers who anticipated that the value of the mark would rise still further.

There is evidence that exchange fluctuations influenced the level of economic activity during the period of the Spa Agreement, when coal deliveries were at their heaviest. Between April and June 1920 there had been something of an export boom and a quickening of industrial activity (reflected in the figures for employment) in response to the low, but gradually rising, value of the mark. The violent improvement of the exchange in May had been largely responsible for a time-lagged reversal of this trend and for the increase in unemployment between June and August. The gradual decline of the mark which began late

1. See above, p. 37.
in Auguststimulated exports; and the more violent depreciation which occurred in the first half of September awakened fears of a "catastrophe boom". In the opinion of the Berlin correspondent of The Economist, the industrial revival in ensuing months had "no better foundation than the increasing depreciation of the currency both at home and abroad". Similarly, the relative stagnation which set in again after December 1920 was connected with the disappearance of the stimulus of a falling exchange at a time when the worldwide industrial reaction was beginning to make itself felt in Germany.

The fluctuation of the mark was particularly influential on the level of industrial activity in August 1920 when, because of the abnormally low level of coal distribution, reparation coal deliveries might have exerted their most serious economic effect. At the end of August it was observed that, because of the current industrial stagnation, the coal shortage caused by deliveries under the Spa Agreement was affecting the highly sensitive iron and steel industries less than had been feared. The only area in which iron and steel production was hampered by lack of coal was Upper Silesia, where the shortage was caused not by reparation deliveries but by the German-Polish

1. The Economist, 18 September 1920, p. 437; Iron Age, 7 October 1920, p. 916.
3. The Economist, 13 November 1920, p. 866; ibid., 1 January 1921, p. 15.
4. ibid., 23 April 1921, p. 825; J.S. Davis, op. cit., p. 144.
rioting. It was not until a month later, when the fall of the mark had stimulated industrial activity, that the same observer described the lack of coal as "a distinctly limiting factor". Although the coal shortage continued to be complained of in the next few months, this was due as much to seasonal transport bottlenecks as to any dearth induced by reparation deliveries. Moreover, when the international economic recession struck Germany in the early months of 1921 the inhibiting influence exerted by coal deliveries became relatively unimportant as a cause of industrial stagnation.

The contribution of the reparation provisions of the Armistice agreements and of the Versailles Treaty to the economic dislocation of Germany before May 1921 was relatively insignificant in the case of many deliveries and, in the case of deliveries of railway rolling stock, merchant shipping and coal, extremely difficult to isolate. When deliveries of railway material exerted their strongest effect in 1919 there were many other powerful factors, such as the poor condition of the equipment which remained in Germany, the industrial unrest of the aftermath and seasonally-induced bottlenecks which helped to make the German railways inefficient. The surrender of the German merchant fleet was by no means the major reason for the post-war dislocation of German foreign trade; and its economic

3. ibid., 16 December 1920, p. 1624; 27 January 1921, p.265; see above, p. 63.
4. The Economist, 23 April 1921, p. 825.
impact was softened firstly by the use of the surrendered vessels in 1919 to transport merchandise to Germany, and secondly by the speedy organisational recovery of the German shipping lines. Finally, reparation coal deliveries were not the main cause of the German coal shortage except during the period of the Spa Agreement; and, even then, they were never the most important determinant of the level of economic activity.
SECTION III

THE DIRECT FINANCIAL IMPACT OF REPARATION PAYMENTS BEFORE MAY 1921

(a) Reparation Payments and Government Expenditure

Reparation payments increased the outlay of the German government in several different ways. The owners of property and goods delivered to the Allies had to be compensated out of public funds. The financial difficulties of the railways, which came under federal control in March 1920, were increased as a result of the Armistice deliveries of rolling stock. And the expenditure of the government on such items as unemployment relief and food subsidies was increased by economic dislocation to which reparation deliveries may have contributed.

The official estimates of the value of reparation deliveries which were made by both the Reparation Commission and the German government are of little use in estimating the extent to which reparations increased the German budgetary burden. The loss of state property in ceded territories, the value of which was credited to Germany's reparation account, had no effect on government expenditure. Moreover, the official figures for the value of those deliveries which did give rise to increased government expenditure bore little relation to the size of actual disbursements and did not indicate when these disbursements were made.

The uselessness of Allied and German valuations becomes clear when the internal burden of reparation deliveries made before May 1921 is examined. The Germans claimed in
January 1921 that they had already paid reparation to the value of 21 billion gold marks in fulfilment of their obligation under Article 235 of the Treaty. The Reparation Commission later estimated that payments and deliveries made in accordance with Article 235 were worth only 5.1 billion gold marks. However, the figures for Treasury disbursements, which are the main evidence for the internal financial impact of reparation deliveries, reveal that the expenditure of the German government arising out of the entire Treaty was only 232 million gold marks in 1919-20 and 1.8 billion gold marks in 1920-21. If deductions are made for the sums disbursed in compliance with the Treaty for "purposes other than reparation" and for payments on account of clearing agreements under Article 296 of the Treaty, these figures are reduced to 143 million gold marks in 1919-20 and 888 million gold marks in 1920-21. These amounts, although by no means negligible, are not a dominating item in annual expenditures of 8.6 billions and 9.3 billions or in the deficits of 6.0 and 6.1 billions which occurred in these years.

In the budgetary year 1920-21, during which the German railways first became the responsibility of the federal government, the railway deficit amounted to the enormous sum of 16.38 billion paper marks. Although the Armistice deliveries of

1. R.C., V, p. 16. See Appendix I.
2. R.C., I, p. 9.
rolling stock must have contributed to this, their financial impact was by no means a dominating one. The estimated capital value of the deliveries - 1,151 million gold marks - was, for instance, only a quarter of the size of the capital loss inflicted on the German railway system by post-war territorial readjustments. It is true that in the budgetary year 1920-21 some 9 billion paper marks of a total expenditure of 34.4 billion paper marks was spent on the repair and replacement of rolling stock. But much of this expenditure was attributed by contemporaries to the depreciation of equipment which had been allowed to occur during the war and the aftermath. In any case, expenditure on working capital was by no means the only cause of the size of the deficit. Other influential factors frequently cited were labour stoppages; the shortening of working hours resulting from the introduction of the eight-hour day; the use of the railways as a means of absorbing unemployed workers; and, above all, the failure to raise fares and freight rates sufficiently to cover rapidly rising costs.

3. Wirth, 26 April 1920, Nationalversammlung, Vol. 333, p. 5445; idem, 27 October 1920, Reichstag, Vol. 345, p.796; Reichert (DNVP), 17 March 1921, ibid., Vol. 348, pp.3130-1; Wieland (DDF), ibid, p. 3143.
Thus it seems safe to assume that although the Armistice deliveries of rolling stock increased the financial embarrassment of the railways, they were not a major cause of the enormity of the deficit.

The burden of unemployment relief upon the Reich was about 700 million paper marks between November 1918 and 31 March 1920,¹ and 1,039 billion paper marks in the budgetary year 1920/1.² In addition to direct aid the government provided indirect relief by increasing the pay-roll of the public utilities. In 1919/20 the railways employed over one million persons compared with 740,000 in 1913,³ and the number of postal employees was 120,000 higher than before the war.⁴ A commission of enquiry estimated in 1920 that the annual cost of this practice to the railways was 1.5 billion marks.⁵ Thus the total cost of both direct and indirect unemployment relief would have been between two and three billion paper marks a year. The extent to which deliveries of railway equipment and coal were responsible for this and other expenditures occasioned by economic dislocation cannot be exactly calculated. But when the deliveries of rolling stock were made in 1919 there were, as we have seen, other factors affecting the efficiency of the railways and other factors besides the efficiency of the railways, such as

4. C. Bresciani-Turroni, op. cit., p. 188.
5. The Economist, 4 December 1920, p. 987.
demobilisation, political upheaval and general post-war readjustment which influenced the level of employment. The same sort of observation may be made about the effects of coal deliveries when they began towards the end of 1919. In the winter of 1919/20 the shortage of rolling stock and the dearth of coal were directly blamed for increasing unemployment in specific areas such as Dusseldorf. But it seems clear that at this time reparation deliveries were not the main cause of the transport or coal shortages which were complained of. Moreover, when late in 1920 reparation deliveries became relatively more important as a cause of the dearth of coal, the level of employment seems to have been determined as much by the behaviour of the mark exchange as by the state of the German coal supply. These general considerations seem to indicate that, just as they were not the main cause of the deficit of the railways, so reparation deliveries cannot be blamed to any large extent for the increased expenditure of the German government on unemployment relief.

The high level of government expenditure in the early post-war years was in fact a product of the general domestic financial strain, economic dislocation and political reorganisation of the war and the aftermath. In the budgetary

2. See above, pp. 59-60.
year 1919-20, when all expenditures occasioned by the Versailles Treaty amounted to 2 billion paper marks, interest payments on the public debt amounted to some 9 billion paper marks; and expenditure on demobilisation, the winding-up of the old army, pensions, food subsidies, unemployment relief and on the swollen corps of public servants accounted for most of the rest of the government's outlay of 90 billion paper marks.¹ In 1920-21 the falling value of money made interest payments of some 13 billions paper less significant in a total expenditure of 160 billion paper marks. However, expenditure on subsidies to reduce the cost of living remained high at 11 billions; and the burden of all expenditure occasioned by the Treaty - some 26 billions, out of which only 12 billions arose out of reparation payments proper - was no more than the increased outlay caused by the deficit of the newly nationalised railways and by the subsidies paid to states and communes in compensation for the fiscal revenues which had in theory been transferred to the federal government by reforms in 1919-20.²

The increased expenditure of the federal government in the two years under consideration was therefore due largely to the war-induced growth of the national debt, to the assumption by the federal government of responsibility for social and economic welfare during the aftermath, and to the centralisation

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of nominal financial power which occurred in the post-war period.

(b) Reparations and the Balance of Payments

Reparation payments could have added directly to Germany's external financial burden in the period before May 1921 insofar as they consisted of cash or deliveries of goods or capital equipment which would have been earners or savers of foreign exchange. They could also have added to Germany's external burdens indirectly if they caused economic dislocation which occasioned reduced exports and increased imports. In calculating the financial significance of payments made in this period, it will again be necessary either to ignore or to use with caution the valuations of the Reparation Commission and the German government. Whatever their intrinsic justification these figures provide no trustworthy indication of the financial impact of the deliveries in question.

Cash payments before 1 May 1921 were relatively unimportant. According to the Reparation Commission they amounted to less than 90 million gold marks, of which part accrued from the sale of war material and the rest represented credits extended by France and Denmark for the value of property ceded under the Treaty.\(^1\)

\(^1\) \textit{ReC.}, I, p. 9
Deliveries from current output were, in order of importance, coal and coke, animals, dyes and chemicals, and miscellaneous reconstruction materials. All of these goods, except coal and coke, can safely be classified as potential exports or import substitutes. Deliveries of this type (that is, excluding coal and coke) were valued by one of the Secretaries of State in the German Finance Ministry at 181 million gold marks and by the Reparation Commission at about 140 million gold marks. Since Germany was usually credited with these deliveries at her own domestic prices, which were often lower than world market prices, the adverse effect upon the German balance of payments could reasonably be estimated at the higher German figure or even at a round sum of 200 million marks.

The deliveries of 24.3 million tons of coal and coke which made up the bulk of reparation payments out of current output before May 1921 had surprisingly little direct effect upon the German balance of payments. Since Germany was unable to import a significant amount of coal in this period, the coal delivered could not be reckoned as a potential import substitute. Nor would the major part of it have been used directly for export. It is true that the amount of coal exported by Germany in 1913 - 34 million tons - was far higher than the 6 million tons exported in 1919 and the 6 or 7 million tons

2. R.C., IV, p. 6.
sold abroad in 1920 and 1921. It is true also that coal was one of the few articles with which Germany could earn the foreign exchange she needed to finance her essential imports. But it is still unlikely that there would have been a substantial increase in German coal exports if there had been no reparation deliveries. Post-war Germany's supply of coal for all purposes (including reparation) remained, after actual exports had been deducted, below the amount which had been consumed domestically in the same area in 1913. There was for this reason strong domestic opposition to increased coal exports. 2 As coal production improved in 1920 and 1921, the pressure against exports might have eased. But the considerable increase in coal output which occurred in the second half of 1920 would not have been as great if there had been no reparation scheme. The threats and the financial inducements embodied in the Spa Protocol of July 1920 prompted the German miners to prolong an overtime agreement which they had made early in 1920. 3 If this spur to German production had been absent, the amount of coal available for either internal distribution or for export would have been lower than it was in fact. For these reasons it seems safe to assume that no more than one-third of the amount of coal delivered as reparation

1. See above, p. 55 Note 4.
3. See below, p. 168.
would otherwise have been exported. The maximum direct loss to the German balance of trade occasioned by coal deliveries before May 1921 was therefore no more than one-third of the total export value of the coal in question, or 570 million gold marks, viz,

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount Delivered (million tons)</th>
<th>Av. British Export Price per ton</th>
<th>Value (million gold marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919 Jan-Dec</td>
<td>2.5</td>
<td>60/-</td>
<td>150</td>
</tr>
<tr>
<td>1920 Jan-Dec</td>
<td>15.4</td>
<td>80/-</td>
<td>1,232</td>
</tr>
<tr>
<td>1921 Jan-Apr</td>
<td>6.4</td>
<td>50/-</td>
<td>320</td>
</tr>
<tr>
<td>Total</td>
<td>24.3</td>
<td></td>
<td>1,702</td>
</tr>
</tbody>
</table>

However, since under the Spa Protocol reparation deliveries of coal between August 1920 and January 1921 earned Germany some 390 million gold marks, the net directly unfavourable effect of these deliveries upon the German balance of trade before May 1921 was 180 million gold marks. Thus the total loss occasioned before May 1921 by deliveries of all goods which were either potential exports or import substitutes was, at the most, 380 million marks, viz,

<table>
<thead>
<tr>
<th>Category</th>
<th>Value (million gold marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous deliveries</td>
<td>200</td>
</tr>
<tr>
<td>Coal</td>
<td>180</td>
</tr>
<tr>
<td>Total</td>
<td>380</td>
</tr>
</tbody>
</table>

2. Export prices for German coal in this period are unavailable. British export prices are a close enough guide in this rough calculation. They are drawn from: The Statist, 24 January 1920, p.159; 29 January 1921, p.159; 18 February 1922, Supplement p.44.
3. These figures are higher than those of the Reparation Commission (R.C., IV, p.6) and those of F.Schroeder (loc.cit.), since under the Treaty Germany was credited with the bulk of her coal deliveries at artificially low internal prices. See below, p. 144.
4. R.C., IV, p.20.
Calculation of the impact on Germany's external finances of deliveries of capital equipment depends to an even greater extent upon surmise. The annual foreign earnings of the German merchant fleet before the war were estimated at 400 million marks by a committee of experts appointed by the German government early in 1921. In calculating the unfavourable effect on the post-war balance of payments of the surrender of the German merchant fleet it should be remembered that a considerable amount of German merchant shipping was either destroyed or captured during the war. Profits would, moreover, have been reduced considerably by the post-war dislocation of trade and low freight rates. Finally, from 1920 onwards there must have been a gradual increase in the earnings of ships which were either retained, chartered or constructed by the German shipping lines. For these reasons the net balance-of-payments effect of reparation deliveries of merchant shipping could not, on the most generous estimate, have amounted to more than 300 million gold marks a year.

Deliveries of railway rolling stock and of river shipping may have affected the German balance of payments by reducing the income from transit traffic on German railways and

2. See above p. 48.
4. See above p. 49. For tonnage launched in Germany in 1920 and 1921: see below, p. 296.
and waterways. Earnings from this source in 1913 have been estimated at 100 million gold marks.\(^1\) The figures for 1919-21 are unknown, but any reduction of railway transit traffic should be attributed less to the loss of capital equipment than to general trade dislocation and to the alteration of trade routes caused by the re-drawing of the Polish frontiers. Moreover, inland water transport was not affected by cessions of rivercraft until the beginning of 1921; and even then any falling off in returns from this source was also due to the "competition of abnormally low railway rates, and extremely low water on the rivers".\(^3\) The loss of foreign exchange which occurred in this sector of the German economy as a result of reparation deliveries could hardly have been as much as 50 million marks a year.

If the annual income from foreign securities surrendered to the Allies - say 40 million gold marks - is included in the reckoning, the total loss of invisible income occasioned by reparation deliveries and payments would have been, at the most, between 350 and 400 million gold marks a year, or, during the thirty months before May 1921, a total of between 875 and 1,000 million gold marks. If the net losses caused by cash payments (90 million gold marks) and by

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2. See above, pp. 49-50.
deliveries of goods from current output (380 million gold marks) are added, the entire burden placed upon the German balance of payments by the reparation scheme in this period was between 1,345 and 1,470 million gold marks. This means that reparations could possibly have worsened Germany's external payments position by as much as 540 to 590 million gold marks a year. This is a considerable sum, but its significance is diminished by the fact that Germany's visible trade deficits amounted to about 4.7 billion gold marks in 1919, 2.0 billion gold marks in 1920 and approximately 0.5 billion in the first four months of 1921.¹

There can be no doubt that the German external trade deficit was, like the domestic budgetary deficit, aggravated by any economic dislocation which was caused by the various types of reparation deliveries. But sufficient evidence has already been adduced² to prove that the contribution of reparations to Germany's general post-war economic malaise was, apart from being almost impossible to isolate, relatively unimportant compared with the exhaustion and dislocation which was produced both by the war and by the general unrest of the aftermath. It must therefore be concluded that the indirect effect of reparation payments on Germany's external finances via the level of economic activity was by no means of decisive importance in the period before May 1921.

¹. See above, pp. 37-8.
Since German export figures include the value of goods delivered as reparation, the real size of the trade gap was greater, and the financial significance of reparations proportionately smaller.
². See above, pp. 72-3.
It has been seen that the internal and external economic dislocation of Germany before May 1921 would have been serious if no reparation payments had been made. It has also been seen that the high level of government expenditure and the large size of the foreign trade deficit in this period cannot be attributed to any large extent to reparation deliveries. However, the financial instability of the post-war period was due to other factors besides the extent of government spending and the width of the trade gap. Domestic inflation could have been checked if the excess purchasing power of the German community had been absorbed either by taxation or by public borrowing; and the serious external depreciation which occurred would have been impossible if Germany's floating debt abroad could have been absorbed by means of a large-scale foreign loan. In fact it was largely the inability of the German government to achieve such internal absorption and external consolidation which caused the deterioration of Germany's financial position in the period before May 1921.

The reparation question almost certainly made it psychologically and politically more difficult for the German government to increase its fiscal revenues and to float domestic or foreign loans. Deliveries made under the Armistice and under Article 235 of the Versailles Treaty aroused domestic ill-feeling because they occurred at a time when Germany's economic problems
were acute and because they ran counter to the interests of vocal and powerful groups within German society. Any resentment thus generated would have increased the reluctance of the Germans either to vote or to pay taxes or to lend to the government, especially if government revenues appeared likely to be devoted to reparation payments. A similarly undesirable psychological impact would have been exerted both inside and outside Germany by the negotiations over Germany's total reparation obligation which began at the Paris Peace Conference in 1919 and continued in 1920 and 1921. The persistent delusions of prominent groups in Allied countries concerning the basis, amount and mode of collection of the German debt and the calculated vagueness of both Allied and German negotiators on this subject did not improve the German government's chances of raising loans either at home or abroad. On the contrary, the course of reparation negotiations before May 1921 was more likely to encourage disinvestment in Germany in the form of both capital export by Germans and the sale of marks by foreigners.

An account of the various aspects of the reparation question before May 1921 must be given before any estimate can be made of their internal and external political and psychological impact. Once this impact has been ascertained it will be possible to compare the reparation problem with the other powerful factors which contributed to the ineffectiveness of the German government's efforts to increase its internal and
external financial strength before May 1921.

(a) Deliveries under the Armistice before the Signature of the Versailles Treaty

The reparation problem excited unfavourable comment within Germany soon after the end of the war. Considerable ill-feeling was aroused by the provisions of the Armistice of 11 November 1918 and of the subsequent conventions which prolonged it for the delivery by Germany of various kinds of property. The demand for railway equipment contained in the original Armistice was particularly objectionable at a time when, after four years of war, the German railway system was on the verge of exhaustion.\(^1\) The same could be said of the provisions of the Trèves Convention of 16 January 1919,\(^2\) which made the renewal of the Armistice conditional upon the delivery of quantities of agricultural equipment (Article 3) and, more important, of the greater part of the German merchant fleet (Article 5). Although it was stated that the delivery of ships was intended to facilitate the supplying of food to Germany and that the final disposal of the vessels was not affected, the ultimate fate of the ships was obvious. This consideration and the fact that additional deliveries had not been foreshadowed in the original Armistice were enough to arouse opposition to these demands in Germany. But to make matters worse the delivery of the ships became linked during the course of negotiations between January and March 1919 with

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1. See above, pp. 45-6.
the question of the commencement of food imports into Germany. The Germans insisted that no ships were to be handed over unless the Allies either agreed to finance German food imports through credits or allowed the use of foreign securities, gold and other liquid assets which the German government had been ordered to retain as a pledge for reparation payments. However, the United States government was reluctant to provide credit and the French government unwilling to permit Germany to spend her reparation pledges. As a result, there was a deadlock which caused both the surrender of the ships and the commencement of food deliveries to be delayed until 15 March 1919.

These events did not increase German good-will towards the Allies; nor did they create the right atmosphere for speedy financial reform. However, the discussion of the Armistice deliveries which occurred in the National Assembly revealed that the reparation demands of the Allies would not be by any means the only obstacle to the implementation of a programme of increased taxation and government borrowing. A few days after the Assembly had met for the first time, the right-wing opposition groups moved an interpellation which

1. Article XIX of the Armistice of 11 November 1918, ibid., p. 276. Keynes refers in this connection to "a supplementary Armistice of December 1918, which was negotiated by French and Belgian representatives, without the knowledge of England or America". J.M. Keynes, Two Memoirs, p. 22.
censured the government for its conduct of the Armistice negotiations. The protest of Vögler (People's Party), who spoke first to the interpellation, that influential groups in Allied countries were conspiring to ruin the German economy was incidental to a biting attack upon the government parties and above all upon Erzberger, the leader of the German Armistice Commission. The government, Vögler complained, had neither fulfilled its promise that it would negotiate with the Entente on an equal footing nor had it shown any spirit in resisting unfair Armistice terms. The peace had been lost and German industry had been crippled largely, in Vögler's opinion, because Erzberger had, for partisan reasons, excluded the representatives of German industry from the Armistice negotiations. In his reply to these charges, Erzberger either construed the Armistice terms in an optimistic manner or pleaded force majeure as the reason for their harshness. Vögler, he remarked wryly, had "insisted on forgetting the not unimportant fact that (Germany) had unfortunately lost the war". But the most telling part of Erzberger's speech came when he characterised the efforts of heavy industry to participate in the Armistice negotiations as a form of terrorism by the erstwhile governing classes which would be tolerated neither by Republican Germany nor

by the Allies. The partisan and not strictly accurate charge that the interpellation was merely an attack on the government by heavy industry was elaborated by other government speakers and soon gained wide currency in the democratic press.

That so much of the debate concerning the Armistice deliveries should have been absorbed in recrimination and counter-recrimination of this sort shows that the reaction of the National Assembly was to a large extent determined by purely domestic social and political tensions. It is undeniable that there was from this time onwards considerable distrust of Allied intentions; but this was only one of several factors which would determine the attitude of the Assembly to financial policy.

(b) The Reparation Chapter of the Versailles Treaty

The Reparation Chapter as it was presented to the German government in May 1919 contained much that could have made both Germans and foreigners either hesitant or unwilling to support the financial restoration of Germany. The "war guilt" clause (Article 231) appeared to base the Allied claim to reparation on an assertion which was widely regarded in Germany as untrue and which had not been accepted by Germany in the pre-Armistice negotiations. The German Peace Delegation

1. ibid., p. 142.
2. E.g. Grüber (Zentrum), ibid., p. 148.
5. Vide Appendix I.
claimed with justice that the insistence of this Article that the war had been imposed upon the Entente "by the aggression of Germany and her allies" was inconsistent with the Lansing Note of 5 November 1918, which established the Allied right to reparation for damage done by "the aggression of Germany by land, by sea and from the air".¹ In the latter the word "aggression" had the limited sense of "attack" or "invasion" whereas in Article 231 it was used to connote German responsibility for the war.² This apparent linkage of Germany's reparation obligation with her alleged "war guilt" inevitably increased the reluctance of many Germans to support financial measures which would directly or indirectly facilitate the payment of reparation.

A second feature of the Reparation Chapter which encouraged doubt about the future financial and economic viability of Germany was its menacing vagueness as to the extent of Germany's liability. Article 232 defined the damage for which reparation was payable by quoting the words of the Lansing Note already referred to and adding the phrase, "and in general all damage, as defined in Annex II hereto". This addition, which was made necessary by the inclusion of pensions and separation allowances among the categories of damage, created an impression of arbitrariness. Article 233 delegated

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¹ Note of President Wilson to the German Government, 5 November 1918; in A. Luckau, The German Delegation at the Paris Peace Conference, p. 147.
² German Notes of 13 May and 24 May 1919 on Reparations and Responsibility; German Counterproposals of 29 May 1919; ibid., pp. 241-2, 268-72, 348-9.
to the Reparation Commission the final responsibility for fixing the amount, form and mode of payment of Germany's liability. But the only direction given to the Commission was that it should consider the resources and capacity of Germany and give German representatives an opportunity to be heard. The probable size of Germany's total obligation was hinted at in a depressing manner by the stipulation of para. 12(c) of Annex II that bonds to the value of 100 billion gold marks (the majority of them carrying interest) should be issued by the German government at intervals to be determined by the Reparation Commission. The inclusion of pensions and separation allowances in the bill and the absence of any time limit on payments also encouraged the conclusion that Germany's obligation would be immense. The dissatisfaction of the German Peace Delegation with all these features of the Reparation Chapter can be gauged from the fact that in its counterproposals it offered to assume a fixed total liability of only 100 billion marks on the condition that this sum would not bear interest and that payments would not begin until 1927. 1. If Germany's financial liability were calculated in accordance with the principles laid down in the Reparation Chapter she "would be confronted with a simply fantastic sum, an indebtedness which (she) could not hope to discharge even with generations of the hardest labour". The result of this would be that "the German people would feel themselves condemned to slavery" and that "any ability and inclination to pay taxes would disappear".

1. ibid., p. 353.
Furthermore, it would be impossible "to float new loans at home or abroad... when the service of such a loan would be jeopardised by the previous charge, of an actually unlimited sum, upon all possible means of payment".¹

The fears of the German representatives about the financial implications of the Reparation Chapter ran parallel to their conviction that the detailed economic provisions of the Reparation Chapter together with the other economic clauses of the treaty would deprive Germany of the internal and external economic strength which was necessary if she was to survive as a modern industrial state or at any rate to be capable of paying reparation.² The surrender of "such important means of production" as the merchant fleet which was prescribed in Annex III would "unavoidably lead to a break-down, and in consequence, to the absolute impotence of the German economic apparatus".³ The delivery of machinery, agricultural equipment and livestock demanded by Annex IV could easily lead to the "disorganisation of Germany's industrial life".⁴

In the matter of coal deliveries (Annex V) Germany was willing to deliver a maximum of 20 million tons a year to France, but the substantial options projected for southern and eastern European countries were "materially impossible".⁵ In view of

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¹ ibid., pp. 382-3.
² German Note of 13 May 1919, on Economic Questions, ibid., p. 243; German Counterproposals of 29 May 1919, ibid., p. 351.
³ ibid., p. 354.
⁴ ibid., p. 346.
⁵ ibid., p. 358.
all these considerations the German government made its offer to pay reparation conditional upon the retention of the German merchant fleet, the preservation of the industrial system and the maintenance of Germany's territorial integrity. 1.

A further major source of anxiety to the German representatives was the arbitrary power which the Reparation Chapter appeared to give to the Reparation Commission. Grave fears were expressed in the first place about the alleged combined effect of Article 241 (a general provision that Germany should agree to any legislation necessary to facilitate reparation payments) and para. 12(b) of Annex II, which gave the Reparation Commission powers to examine and approve the German system of taxation. These stipulations, the Germans considered, "would mean the absolute financial control of Germany by the Allies, and the complete mastery on their part over the budget of the Empire". 2. If the Reparation Commission was empowered both to order the imposition of new taxes and to determine how the revenues of the German state were to be spent "then indeed (was) German democracy destroyed at the very moment when the German people, after mighty efforts, was on the point of establishing it". 3.

It was also feared that the Reparation Commission would become economic as well as financial dictator of Germany. Paragraph 4 of Annex IV directed the Reparation Commission to

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1. ibid., pp. 351-2.
2. ibid., p. 383.
3. ibid., p. 385.
decide how much machinery, agricultural equipment and livestock could be demanded from Germany. Although it was stated that the Commission should "take into account such domestic requirements of Germany as it (deemed) essential for the maintenance of Germany's social and economic life", the German representatives objected to "the one-sidedness of the decisions and power of the Commission". They therefore suggested that a German commission should be set up to consider in parallel to the Reparation Commission "the question of the rehabilitation of economic production".\(^1\) A further fear was expressed that the power given to the Reparation Commission under paragraph 2 of Article 240 to elicit information as to the productive resources of Germany would enable it to pry into German trade secrets, above all those of the chemical industry.\(^2\) Finally, it was alleged that the ability of the Reparation Commission under Article 251 to decide how much food and raw material were needed by Germany was "the negation of economic self-determination and initiative".\(^3\) From all these observations the German representatives concluded that "the Reparation Commission and the extraordinary plenitude of power which the draft of the peace treaty provided for it" was the instrument by which Germany was to be subjected to 'pressure and surveillance financially, economically and politically in a manner unexampled in the history of the

1. ibid., p. 356.
2. ibid., p. 361.
3. ibid., p. 584.
The dissatisfaction of the German representatives with the stipulations of the Reparation Chapter about the basis and amount of Germany's reparation obligation and about the powers of the Reparation Commission was not diminished by the exchange of notes which took place in May and June 1919. In a sense this continued German discontent was unrealistic in view of the many specific reassurances and general protestations of good intentions which were contained in the Allied Reply of 16 June. But both the origin and the continuance of German fears can be understood if it is realised that both the draft Reparation Chapter and the Allied Reply were shaped less by the idea of producing a reparation scheme which was politically acceptable to Germany or financially and economically practicable than by a concern to make assertions and to establish claims which would not disappoint the expectations of Allied public opinion. It was the ambiguities and defects caused by this preoccupation which originally caused the German representatives to "read into the conditions of peace, in clear defiance of their express terms, an intention which was not there". And it was this same factor which ultimately caused the German financial and economic experts to report on 19 June to their government that:

1. ibid., p. 382.
2. ibid., pp. 411-72.
the Allied reply of 16 June expressed "even more pointedly than the Conditions of Peace presented to us on May 7 the desire of the Allies to ruin Germany economically and to force her to provide the Allies with all the means to this end."

It was on the question of "war guilt" that the Allies proved least able to reassure the German government. Characteristically, Article 231 had originally been inserted in the treaty on the understanding that it was merely an affirmation of Germany's theoretical liability for the entire cost of the war which did not affect the limitations, recognised in Article 232, which the pre-Armistice agreements imposed on the Allied right to reparations. The "war guilt" clause was therefore, in its origins, merely a sop to Anglo-French public opinion which was irrelevant to the Reparation Chapter. It was only when German notes and counterproposals challenged the validity of Article 231 and when the Allies, both out of genuine conviction and for political reasons, defended it that a clear connection came to be affirmed between Germany's reparation obligation and her alleged moral responsibility for the war. It is not surprising that the German Peace Delegation complained that in the Allied Note of 16 June "the foundations upon which the

whole treaty, deviating from the agreed Wilson programme, 
(had) been based, viz., the assertion of Germany's sole guilt 
for the World War, (had) been intensified in a way that (was) 
both hateful and dishonorable". 1

The Allies had little more success in calming German 
fears on the subject of the total reparation liability. Here 
again the features of the Reparation Chapter which were a 
source of concern to the German government were largely the 
product of compromise designed to avoid giving offence to 
Allied public opinion. British and French reluctance to name 
definite figures which might disappoint domestic hopes had led 
to the adoption of a proposal submitted to the Council of Four 
on 28 March 1919 that Germany's total liability should not be 
named in the treaty but should be settled at a later date by a 
"central interallied commission". 2 Similar reasons lay behind 
the inclusion of pensions among the categories of damage. The 
French and British representatives had been unwilling for fear 
of domestic criticism to agree upon a definite mathematical ratio 
to govern the distribution of reparation receipts between the 
various beneficiaries. They had therefore favoured the idea 
of leaving disagreeable discussions over the question of 
apportionment, like those over Germany's total liability, to a 
commission which would, in Lloyd George's words, "examine the 
facts". 3 It became obvious, however, that the projected

1. Report of the German Peace Delegation to the German 
2. F. Mantoux, Les Délibérations du Conseil des Quatre, Vol. 1, 
p. 58. Text of the Klotz proposal in F.M. Burnett, op. cit., 
Vol. 1, pp. 726-54.
commission which was to allot payments among the Allies would be influenced by the ruling of the treaty on what categories of damage were admissible. The British delegation was, moreover, fully aware that if only material damage was admitted the share of reparation accruing to the British Empire would be relatively small. Accordingly, Lloyd George inserted a provision for the inclusion of pensions and separation allowances in a draft of the Klotz proposal which he submitted to the Council of Four on 29 March. The French representatives did not oppose the suggestion, probably because of its strong electoral appeal. Finally, Wilson, under pressure from Lloyd George, who "insisted unqualifiedly for the inclusion" of pensions, disregarded the advice of his legal advisers and supported the scheme.

One of the considerations which led Wilson to agree to the inclusion of pensions was his assumption that because of the existence of a time limit on reparation payments the extra category of damage would not affect the total sum paid by Germany but only the manner of distribution. However, within four days of the decision on pensions, the time limit - and with it the last vestige of financial precision in the Reparation

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1. About 20%. Cf. P.M. Burnett, op. cit., Vol. 1, p. 61. For Lloyd George's awareness of this point: Extract from Cable from House to Wilson regarding a conference with Lloyd George and Clemenceau, 7 March 1919, ibid., p. 661.
2. ibid., pp. 754-6.
3. ibid., pp. 61-2.
5. Minutes of the Council of Four, 5 April 1919, ibid., p. 829, (Davis).
Chapter - had been discarded. The British and French representatives on the Council of Four, uncertain as to Germany's capacity to pay within any prescribed period, had been unwilling to run the risk of reducing her obligations unduly by setting a date at which payments should cease. ¹

This unwillingness, together with American readiness to compromise, had led to the waiving of the time limit and had caused Germany's total reparation obligation, which now included pensions, to be doubled.

The deep domestic and foreign pessimism about Germany's financial future caused by the determination of the European Allies to resist any limitation of her reparation obligations could only have been allayed by the successful flotation of a large-scale long-term German international loan. Such a loan had in fact been proposed at Paris in April 1919 by J. M. Keynes as a part of his general "Scheme for the Rehabilitation of European Credit and for Financing Relief and Reconstruction". ² Keynes had suggested that Germany should issue bonds with a present value of 20 billion gold marks which were to bear interest at 4%. These bonds were to be guaranteed in the first instance by the German government, and also, in case of Germany's inability to meet her obligations, by "the principal Allied and Associated Governments, by the three Scandinavian Governments and by the Governments of Holland and Switzerland". ³ Of the

¹ ibid., pp. 828-9.
³ ibid., p. 1012.
20 billion marks of bonds issued 14.48 billions were to be "paid over to the Allied and Associated Governments on account of the sum due for Reparation", 1.52 billions were to be devoted to discharging Germany's debts to neutrals, and the remaining 4 billions were to be used by the German government to purchase food and raw materials.¹

Keynes' scheme was designed firstly to assist Germany to pay the 20 billion gold marks demanded of her before 1 May 1921 by Article 235 of the Treaty and secondly to enable her to resume normal economic life. There can be no doubt that its implementation would have done much to speed the financial and economic recovery of Germany and also of the other European ex-belligerents for which it provided.² However, in order to become a reality it needed the guarantee of the United States government, which would encourage the international lending public, and above all American investors, to take up the German government's bonds. The scheme was recommended enthusiastically to Wilson by Lloyd George, who stressed that the financial restoration of Europe involved so many risks and such large amounts that it could not be left to private enterprise.³ But Wilson, although admitting the need for measures to "clear and improve" the confused economic conditions of Europe, considered that it would be impossible "to secure from the Congress of the United States authority to place a federal guarantee on bonds

¹. ibid., p. 1013.
². See paragraphs 1(ii), 1(iii), 9; ibid., pp. 1012-3.
³. Lloyd George to Wilson, 23 April 1919, ibid., pp.1014-9.
of European origin". The first reason he gave for this was the doctrinaire belief of the United States Treasury that "such credits as it (might) be wise to grant should be extended through the medium of the usual private channels rather than through the several governments". It was, as he put it, the desire of the Treasury "to retire at the earliest possible moment from 'the banking business'". There were also considerations of domestic financial politics behind Wilson's rejection of the scheme. In the opinion of his advisers the American public, from whom 40 billion dollars of loans and taxes had been extracted in the past two years, had "reached, and perhaps passed, the point of complete saturation in respect of investments".

Apart from his doctrinaire and domestic political objections to the Keynes scheme, Wilson emphasised the prima facie absurdity of America providing Germany with working capital in order to replace that which had been delivered as reparation to the Allies. "How," he asked, "can your experts or ours be expected to work out a new plan to furnish working capital to Germany when we deliberately start out by taking away all Germany's present capital?" This was a financially justifiable attack on the basic idea of reparation and was an indication that the Reparation Chapter of the treaty increased the difficulties of the German government in obtaining foreign financial assistance. Wilson's dislike of reparation was

2. ibid., p. 1128.
3. ibid., p. 1129.
4. ibid.
however by no means a valid financial reason for rejecting Keynes' scheme, which sought to provide increased capital both to the Allies and to Germany in the best manner possible in the existing political circumstances. There was, moreover, little diplomatic justification for Wilson's attitude since the American delegation had, however reluctantly, given its assent to the reparation scheme envisaged in the treaty. Wilson may perhaps have withheld the financial backing of the United States government partly in the hope of persuading the Allies to soften the terms of the Reparation Chapter. But the underlying reason for his refusal is revealed by his statement that the American delegation had "finally (given) assent to the reparation clauses as drawn, only because the reparation problem was one that chiefly concerned France, Great Britain, Belgium, and the other European countries, and not America".¹ In other words, Wilson considered that he could both consent to the Reparation Chapter and disavow any financial responsibility for it in the same way as, six months later, the United States Senate was to acquiesce in the post-war world settlement without assuming any diplomatic responsibility for its preservation. Wilson's refusal to endorse Keynes' scheme was no doubt encouraged by the size and the imprecision of Allied reparation demands, just as the eventual refusal of the Senate to ratify the Versailles Treaty was due partly to a belief in the injustice of many of its provisions. But in both

¹ ibid., p. 1128.
cases the decision to withdraw from Europe was determined to a very large extent by either financial or partisan considerations of a purely domestic nature.

The pressures which caused the omission of any fixed German liability, the inclusion of pensions, the waiving of the time limit and the absence of any external financial assistance to Germany made it unlikely that the Allied reply to the German counterproposals would allay the financial fears which had been aroused by the Reparation Chapter. Early in June 1919 Wilson re-opened the American campaign in favour of a fixed sum. When the issue was debated by the Council of Four on 9 June he stressed that, in the absence of any financial intervention by the United States government, a definite total liability was necessary in order to encourage American bankers to advance money independently to Europe. Lloyd George was however convinced that "nothing could be more dangerous than to fix a total sum", since it would inevitably be unacceptable to either Germany or to the Allies. The Franco-British viewpoint carried the day and the tentative and highly conditional German offer of 100 billion marks was summarily rejected. The only financial concession made to Germany was what Keynes referred to on 8 June as "the silly notion of promising Germany to fix the indemnity three months hence (when the French elections will be

over! In more official language Germany was to be entitled "from the
signature of the Treaty and within the ensuing four months... to submit for examination by the Allied and Associated Powers
documents and proposals in order to expedite the work
connected with reparation, and thus to shorten the investigation
and to accelerate the decisions".

If the demand of the German representatives for financial
precision was side-stepped by the Allies, the claim that the
economic provisions of the Reparation Chapter should be modified
fell on completely deaf ears. The Allies did not see fit to
elaborate on their sceptical and unsympathetic observations of
22 May on the subject of deliveries of coal and shipping, but
confined themselves to general reassurances about the economic
future of Germany. "The resumption of German industry (was) an
interest of the Allied and Associated Powers as well as an
interest of Germany. They (the Allies) (were) fully alive to
this fact and therefore declare(d) that they (would) not withhold
from Germany commercial facilities without which this resumption
(could) not take place, but that, subject to conditions and
within limits, which (could) not be laid down in advance, and
subject also to the necessity for having due regard to the
special economic situation created for the Allied and Associated

1. Keynes to Smuts, 8 June 1919; Smuts Papers.
3. Allied Note of 22 May in reply to the German Note of 13 May
countries by German aggression and the war, they (were) prepared to afford to Germany facilities in these directions for the common good. 1.

In their final report to the German government on 19 June the German financial and economic experts were unequivocal in condemning the financial clauses of the Reparation Chapter. Germany was being "burdened with limitless obligations merely to pay the pensions of veterans and their dependents in the enemy states". 2. "Instead of a maximum sum of one hundred billion gold marks...the German government (was) expected to sign a blank check for a suggested amount which (could) never be paid". 3. The economic provisions of the treaty of which the deliveries of shipping, machinery and coal formed an important part, would reduce Germany's domestic capital strength and make her activity abroad impossible. "It is incomprehensible," the German experts concluded, "that a normal development of German economic life is supposed to be possible when this cleverly devised system is economically throttling her....If the attempt is really made to enforce the treaty, it will be impossible to meet the financial demands of the Allies and the result will be an "economic Balkans" in the heart of Europe, which will create endless unrest and constant danger of its spreading to the rest of the world". 4.

The Allies had rather more success in reassuring the

2. ibid., p. 489.
3. ibid., p. 490.
4. ibid., pp. 492-3.
German representatives about the significance of the Reparation Commission. It was inevitable that the powers of this body, which owed its existence largely to the desire of the Allies to postpone decisions on delicate aspects of the reparation problem, should be loosely defined. But the Allied representatives were inhibited by the sympathetic hearing which would be given by world opinion to any German claim that the Reparation Commission was unnecessarily infringing upon German financial sovereignty or restricting Germany's right to economic self-determination. They were therefore quick to reassure the German government in their reply of June 16 that the Reparation Commission was not intended to have despotic power over German financial and economic activity. Article 241 was not to be misunderstood as a fiat to the Commission to dictate the domestic legislation of Germany. Nor did para. 12(b) of Annex II give the Commission power to prescribe or to enforce taxes or to determine the character of the German budget. On the subject of the Commission's economic powers the Allies welcomed the suggestion that a German reconstruction commission should be set up in parallel to the Reparation Commission. Any intention of using the Commission as a means of prying into German trade secrets was vigorously denied, and the denial was formally recorded in a protocol annexed to the treaty.

1. ibid., pp. 443-4.
2. ibid., p. 445.
3. ibid., p. 444.
4. ibid., p. 478.
that the Reparation Commission would violate Germany's economic self-determination through its control of imports of raw material and food under Article 251 was not directly challenged. But the general assurance was given that the Reparation Commission had been instructed "to take into account the true maintenance of the social, economic and financial structure of a Germany earnestly striving to exercise her full power to repair the loss and damage she (had) caused".¹

German fears were by no means completely assuaged by these reassurances. The German Peace Delegation in its final report to the German government admitted "that the powers of the Reparation Commission (had) been defined more clearly and that the Commission (would) not interfere with the details of the German financial administration". "But," it complained, "these definitions are very vague and are not set forth in the treaty itself".² The Peace Delegation was anxious in particular lest the Reparation Commission should have the power to demand that public revenues intended for cultural expenditures should be ear-marked for reparation payments. The German financial and economic experts not only echoed the fears of the Peace Delegation but also reiterated the charges that the Commission had the right to demand forced labour from the German people for an indefinite period and that its control of imports was an intolerable limitation on German freedom of action.³

1. ibid., p. 443.
2. ibid., p. 485.
3. ibid., p. 489.
Reparation Commission, the experts still insisted, was one of the instruments by which Germany was to be "deprived of her economic sovereignty and economic self-determination".¹

The unabated dissatisfaction of the German Peace Delegation with the Reparation Chapter ranked with its disgust at the territorial and economic provisions of the treaty as a major cause of its final recommendation to the German government that the treaty should not be signed. In making its recommendation the Delegation was fully aware of the likely consequences of refusal to sign the treaty. On 1 June 1919 the Commissioner-General of the Delegation, Dr. Simons, warned his wife that the policy being followed by Brockdorff-Rantzau and himself might bring her "hunger and misery, and bring Germany dismemberment and anarchy".²

Yet, both on this occasion and three weeks later when they submitted their final advice to the German government, the German delegates considered that the best course open to Germany was refusal.

The recommendations of the German Peace Delegation on 18 and 19 June were in part the logical consequence of the diplomatic tactics which, with the support of the Scheidesmann government, they had employed at Paris. From the time when the Draft Treaty had been presented to Germany, the aim of the government and of the German negotiators had been to convince

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¹ ibid., p. 492.
² ibid., p. 131.
the Allies by the strength of their protests that Germany
would not sign the treaty unless it was revised, preferably
by oral negotiations, so as to conform with the pre-Armistice
agreements. When the unyielding Allied reply of June 16
signalled the failure of this policy and when feeling at Weimar
was swinging towards Erzberger's policy of bowing to force
maisurre, both the government and the Peace Delegation were in
a false position. Rather than make a tactical volte face
both Scheidemann and the delegates reiterated their views about
the impossibility of the treaty and resigned. Simons summed up
the attitude of those who took this course when in his letter
of resignation he declared that he "would consider it hurtful
to the foreign service if its politically responsible officials
gave the impression that they were not sensitive to the
failure of the policies pursued by them". 1

But the rigidity of the attitude of the German represent­
atives was not caused solely by an empty concern for consistency.
It was also born of a genuine belief, arising out of either the
deeply-held convictions or the vital personal interests of
individual members of the Delegation, that acceptance of the
treaty was unthinkable. The fiercely idealistic international
jurist, Walter Schücking, could hardly agree to accept a treaty of
which, in his own words, "scarcely a single stipulation corres­
ponded with the conditions agreed upon", and in which "expiring

1. Commissioner-General Simons' letter of resignation to
President Ebert, June 22, 1919, ibid., pp. 495-6.
world theories, emanating from imperialistic and capitalistic tendencies, celebrate(d) their...last horrible triumph".1 The attitude of the lawyer-financier, Carl Melchior, another one of the six German delegates, was similar. Melchior was, in Keynes' words, "a precisian, a strict and upright moralist, a worshipper of the Tablets of the Law, a Rabbi. The breach of promise, the breach of discipline, the decay of honourable behaviour, the betrayal of undertakings by the one party and the insincere acceptance by the other of impossible conditions which it was not intended to carry out...it was these offences against the Word which so much wounded him".2 It was hardly surprising that a highly moral tone pervaded the final report of the Peace Delegation. "There is no one in Germany,"it concluded, "who believes that this imposed treaty can be put into practice. As we see it, honesty is the best policy, a principle which does not permit us to accept obligations that could not be met."3

If the Peace Delegation was sensitive to the moral undesirability of accepting the treaty, it had also come to be acutely conscious of the intellectual hurdles in the way of acceptance. The war guilt clause was especially offensive in this respect. "We are made to play a part wholly insincere," complained the Delegation's final report, "when, contrary to the

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1. ibid., pp. 319-20, Schücking drafted the section of the German counterproposals of May 29 entitled "General Remarks", from which these words are extracted.

2. J.M. Keynes, Two Memoirs, p. 70. Melchior drafted the German Note of May 13 on Economic Questions: A Luckau, op. cit., p. 78.

3. ibid., p. 488.
truth, we admit that in us lay the sole guilt for the war". ¹

The scruples of the delegates were almost certainly intensified by the influence of a group of leading German intellectuals known as the Heidelberger Vereinigung which had been formed in February 1919 largely for the purpose of challenging Allied allegations about German war guilt and war atrocities. ² It was significant that four members of this group - Max Weber, the sociologist, Hans Delbrück, the historian, Albrecht Mendelssohn-Bartholdy, a professor of international law, and Count Max Montgelas, a retired Bavarian general - were responsible for drafting the German Note of May 24 on Responsibility and Reparations. ³

The personal interests of the financial and economic experts of the Delegation were a final reason for its adamant refusal to accept the treaty. Ten out of the eleven signatories of the report which the experts' committee submitted on June 19 were leaders of German industry, commerce and banking. The eleventh was the diplomat, Otto Wiedfeldt, who was one of the directors of Friedrich Krupp, Essen. Men such as Wilhelm Cuno, Ballin's successor as managing director of HAPAG, and Ewald Hilger, a leading figure in the Upper Silesian mining industry, could not be expected to sign a treaty which demanded the surrender of the German merchant fleet and threatened to sever

¹ ibid., p. 488.
² ibid., pp. 46-53.
³ ibid., p. 82.
Upper Silesia from Germany. On the contrary they concluded that the peace terms "would cut so deeply into the roots of (Germany's) energy that the obvious consequences of a refusal to accept the treaty, such as the planned occupation of German territory and domestic unrest, (were) of minor importance, however terrible these consequences (might) appear".

It was only on the question of whether to sign the treaty that the reaction of the National Assembly differed noticeably from that of the Peace Delegation in May and June 1919. Although they were inevitably more superficially expressed than those of the Peace Delegation, the protests of the Assembly about the injustice of the assertions and the demands of the Allies were voiced unanimously and continuously from 12 May, when the treaty was first discussed, until 23 June, when the decision in favour of acceptance was reluctantly taken. The failure of the Assembly to reject the treaty in spite of its distaste for Allied terms was a reflection partly of the tactical position and partly of the composition and outlook of the German legislative body.

1. The other signatories were: W. Beukenberg, managing director of Bergbau u. Hütten-A.G. Phoenix, a Rhenish-Westphalian iron combine; Georg Löbsen, a director of the Rhenish-Westphalian Coal Syndicate; Emil Georg von Stauss, a director of the Deutsche Bank; Franz Urbig, managing director of the Diskontogesellschaft; Max Warburg, the Hamburg financier; Louis Hagen, a Cologne banker; P.H. Witthoeft, President of the Hamburg Chamber of Commerce; and Philipp Heincken, a company director. For biographical details: Der Grosse Brockhaus, 1928; Neue Deutsche Biographie, 1952-.

2. A. Luckau, op. cit., p. 490.

3. Nationalversammlung, 12 May 1919, Vol. 327, pp. 1081-1111; 22 June 1919, ibid., pp. 1113-34; 23 June 1919, ibid., pp. 1139-44. The only notable discord in the chorus of protest was caused by the willingness of the USPD to agree with the Allied assertion of German war guilt. E.g. Haase (USPD), 12 May 1919, ibid., pp. 1102-5.
The Assembly, unlike the Peace Delegation, bore the ultimate responsibility for the immediate fate of the German nation. Thus, when the Scheidemann Cabinet resigned after having pursued an unsuccessful policy, it fell to another cabinet, under the leadership of the Social Democrat Bauer, to decide on the best course open to Germany in the existing circumstances. The decisions of the Bauer Cabinet on 22 and 23 June to sign the treaty were not simply a tactical inevitability. They were also a reflection of the outlook and scale of values of the majority of the National Assembly, which, unlike the Peace Delegation, desired peace more than an immediate revision of the treaty. This preference had not been obvious in May when all parties, with the exception of the USPD, had agreed that the treaty was "unacceptable". However the desire for peace quickly manifested itself in the middle of June after it had become clear that continued resistance would not induce the Allies to make substantial concessions, and would lead merely to the resumption of hostilities. The Cabinet, which had with only three dissentients rejected Erzberger's plea for acceptance early in June, was so evenly divided during discussions held on 18 June that President Ebert transferred the responsibility for the decision to the parties. On the following day, although the Democratic Party decided unanimously against accepting the treaty, the SPD voted 75 to 35 in favour of acceptance, as did all but 16 members of the Centre Party. After the resignation of Scheidemann, who had voted in

2. A. Luckau, op. cit., p. 108.
the minority at the SPD meeting on 19 June, the Bauer Cabinet, which included no Democrats, had been formed. On 22 June Bauer obtained from the Assembly a vote of 237 to 138 in favour of accepting the treaty.

The Assembly's acceptance of the treaty was at this stage by no means unconditional. Both the Centrist vote of 19 June and all the affirmative votes cast on 22 June had been for accepting the treaty with reservations as to Articles 227-231. Elements in both the Centre Party and the SPD objected strongly to these "honour clauses" for both personal and partisan reasons, and they were encouraged to insist on these reservations by Erzberger who, perhaps because of his desire to win over wavering Centrists to the policy of acceptance, had given misleading assurances that the Allies were willing to rescind the articles in question. The depth of feeling on this subject was revealed on 23 June when the Centre Party responded to the prompt Allied rejection of the reservations by voting 64 to 14 against accepting the treaty. The partisan aspect of the Centre's concern about the reservations became clear when, later in the same day, it supported unconditional acceptance, but demanded that the opposition parties should declare publicly that they did not doubt the patriotism of those who signed the treaty.

2. A. Luckau, op. cit., p. 110.
3. ibid., p. 111. The Centre's Cabinet Ministers Erzberger, Giesberts, Bell, and Mayer voted with the majority. Articles 227-30 concerned the trial of the Kaiser and of German war criminals.
The Allied rejection of the German reservations also caused members of the government to hesitate about signing the treaty on other than partisan and patriotic grounds. It appeared possible on 23 June that unconditional acceptance might cause the army, which objected strongly to the provisions in Articles 227-230 for the trial of the Kaiser and of German war criminals, to cease to support the government. Noske, the Social Democratic Defence Minister, was so concerned about the effect of the defection of the army upon public order that he remained opposed to signing the treaty until he obtained a last-minute assurance from Quarter-Master General Groener that the army would remain loyal. 1.

When faced with the threat of the resumption of the war, the majority of the Centre Party and the SFD had regarded only Articles 227-231 as sufficient reason for hesitating to sign the treaty. Moreover, their misgivings about these articles were related to partisan fears and to their concern for the preservation of public order in Germany. The contrast between the attitude of those who supported the Bauer Cabinet and that of the Peace Delegation is clear. The Delegation, the Democratic Party (to which a great number of the delegates' advisers belonged) and the parties further to the right, were prepared to risk the consequences of refusing to accept the treaty. But the majority of the Centre Party

1. A. Luckau, op. cit., p. 111.
and SPD preferred to risk acceptance, provided that public order could be maintained and that they would not be subjected to damaging partisan attacks.

The strong desire for peace of the Zentrum and SPD was a reflection of their historic interests and outlook. The elements in the Centre Party whom Erzberger represented were concerned lest a renewal of the war would lead to the separation of Bavaria from Germany.¹ And both the Centre and SPD were concerned to avert the dislocation and unrest which an Allied invasion of Germany would bring about. The willingness of the Centre and the SPD to sign the treaty was based upon positive considerations too. The appeal which the Bauer Cabinet addressed to the German people on June 24 recommended both acceptance and fulfilment of the treaty on the negative grounds that this would prevent a "defenceless people from having to make further sacrifices and endure added pains of hunger". But it went on to suggest by implication that the policy of "fulfilment" which it was advocating was desirable for positive reasons. "If we do not all help", it argued, "our having signed the treaty will be worthless. We shall then have no ameliorations, no revisions, and no final removal of the gigantic burden."² A few days later the German government expressed its optimism about the possibility of

¹. ibid., p. 105.
². Appeal of the German Government to the German People, 24 June 1919, ibid., pp. 496-7.
treaty revision in a more forthright fashion. "The German people," it declared, "will use every means in their attempt to meet the terms of the Treaty. We believe the Entente will, in their own interests, find it necessary to change some of the terms which they will see are impossible of execution".  

The confidence of the German government that the treaty would be either revised or flexibly interpreted was in part a reflection of its feeling that as the representative of "democratic" Germany it would receive sympathetic treatment from the Allies. The influence of this confidence on the decision of the Bauer Cabinet to sign the treaty was clearly considerable.

It would be wrong to assume that, because they agreed with the Peace Delegation's conclusion that the treaty should not be signed, the opposition parties in the National Assembly were influenced by exactly the same motives as the Delegation. But there was a striking coincidence between the views and interests of the members of the Democratic Party, the DVF and the DNVP and those expressed and represented by the Delegation. The prominence of financiers and industrialists in the DDP, DVF and DNVP ensured that these parties would be highly critical of the financial and economic provisions of the treaty. Moreover, the nationalistic tendencies of the majority of their members made them extremely sensitive to the assertions which

the treaty made and to the infringements of German sovereignty and self-determination which it seemed to threaten. Finally, unlike the Centre Party and the SPD, they experienced no feelings of rapport with the Allies which made them hopeful of prompt revision of the treaty. On the contrary, they agreed with the view of the Delegation that, since Germany could never hope to fulfil the treaty, acceptance would eventually lay the way open for the Allies, "on the basis of the treaty, (to) apply those measures which they threaten(ed)....in the case of non-acceptance". The conviction that acceptance of the treaty would automatically lead to the economic ruin and political subjugation of Germany was clearly expressed in the National Assembly by spokesmen of all three parties in question.

The opposition of the Democrats, the DVP and the DNVP to accepting the treaty was, therefore, based to a large extent on genuine conviction. But there are indications that partisan considerations were also important. When on 23 June the National Assembly empowered the Cabinet to accept the treaty this was achieved, not by a vote but by a resolution moved by a DVP member that the vote of the previous day (for acceptance with reservations) should be allowed to stand. This procedure

indicates that there were elements in the right-wing parties who, despite their protestations to the contrary, considered that acceptance of the treaty was inevitable. The main concern of these groups was simply that the treaty should be accepted without their own affirmative votes. ¹.

The practical reaction of the National Assembly to the Reparation Chapter and to the treaty in general was, therefore, different from that of the German Peace Delegation. Although the supporters of the Bauer Cabinet fully endorsed the criticisms of the treaty which had been voiced by the Delegation, they were still determined, for a variety of reasons, that the treaty should be accepted and that a genuine attempt should be made to carry it out. For these members of the National Assembly, acceptance of the treaty if anything increased rather than decreased awareness of the need for the financial and economic rehabilitation of Germany.

Even for those groups in the Assembly which officially supported the Peace Delegation's recommendation that the treaty should not be signed, opposition to acceptance did not necessarily entail the belief that, once the treaty was accepted, attempts at the financial and economic restoration of Germany were useless and undesirable. On the contrary, in the period which followed the acceptance of the treaty the Democrats supported the government's reforming programme and, on

¹. For Erzberger's views on the behaviour of the opposition groups: K. Epstein, op. cit., p. 322.
2 November, re-entered the Cabinet. Even for the DVP and DNVP dissatisfaction with the treaty and distrust of Allied intentions were only two of several factors which determined attitudes to the government's financial and economic policy.

The provisions of the Reparation Chapter of the Versailles Treaty affecting the moral basis of reparation, the size of Germany's reparation burden and the powers of the Reparation Commission were such as to cause grave discontent and misgiving among members of the German Peace Delegation and also among many non-Germans who attended the Paris Peace Conference. The negotiations at Paris in 1919, first amongst the Allies and then between Allied and German representatives, did little to allay the fears for Germany's financial and economic future which the terms of the treaty had aroused. On the contrary they caused distasteful emphasis on the subject of Germany's "war guilt"; produced neither a reduction nor a clearer definition of her total reparation obligation; punctured hopes of solution of the reparation problem through international financial co-operation; and only slightly reassured the German Government on the subject of the powers of the Reparation Commission.

The expressions of alarm and despair by Germany's representatives at Paris about the implications of the Reparation Chapter give a misleading impression of the practical psychological impact of the terms of the treaty on German financial policy. Because of their tactical position and because of their interests
and outlook the members of the Committee of Economic Experts and of the Peace Delegation reacted sharply to the Reparation Chapter and advised the German government against signing the treaty on the grounds that it would ruin Germany. However, a majority of the members of the National Assembly, although they disapproved of the peace terms as strongly as the German negotiators at Paris, was in the last analysis willing to accept the treaty either because it preferred acceptance to the resumption of hostilities or because it hoped that the treaty would not be rigorously enforced. The desire for peace and normal conditions and the readiness to gamble on the revision of the treaty which had caused the Assembly's acceptance of the treaty also prevented the terms of the Reparation Chapter from plunging German financial policy into a period of despair and passivity. In fact, because of the gradual and flexible manner in which the reparation provisions of the treaty were implemented, it was some time before the reparation problem was to become the most serious psychological and political obstacle to financial reform in Germany.

(c) Deliveries under the Armistice between the Signature and the Ratification of the Versailles Treaty

Since the Versailles Treaty did not come into force until ratifications were exchanged by the signatories, relations between Germany and the Allies continued until January 1920 to be governed by the terms of the Armistice. This meant that, except in the case of coal deliveries and deliveries of other
minor items, which began by special agreement, the provisions of the Reparation Chapter could not be set into operation.\textsuperscript{1}

The reparation question therefore had little direct impact on German politics in this period. The provisions of the treaty which in fact aroused most concern in Germany were those dealing with the trial of German war criminals and the repatriation of German prisoners of war. There were, however, disputes between the Allies and Germany over the execution of certain Armistice provisions affecting future reparation payments. These disputes must be examined because at one stage they provoked ill-feeling which may have influenced attitudes in the National Assembly. The matters which gave most trouble were the export of German aeronautical material, delays in the delivery of merchant shipping and the scuttling of the German fleet at Scapa Flow.

The dispute over aeronautical material had been dragging on for months. German exports of war material of any kind had been prohibited by the Brussels Conference on 13-14 March 1919. On four occasions since then the Supreme Council had reminded the German government that the export of aeronautical material which had been manufactured for war purposes was not allowed.\textsuperscript{2} The German government had in its replies of 8 September and 12 October entered reservations.

\textsuperscript{1} C. Bergmann, The History of Reparations, p. 26.
\textsuperscript{2} 7 August, 26 August, 30 September, 18 October 1919: Documents on British Foreign Policy, 1919-1939, Series I, Vol. II, p. 109, Note 15. (Hereafter cited as DBFP.)
against the ruling of the Supreme Council. These reservations were grounded on the claim that the issue should be submitted to the Aerial Supervision Commission, which would only be set up after the treaty had come into force; and on the impossibility of distinguishing between warlike and peaceful aeronautical material. Meanwhile German aeronautical material had continued to be exported to Denmark, Holland and Sweden—much to the dissatisfaction of the Allies who considered that it ought to have been reserved for delivery to themselves as reparation.

The disagreement over the delivery of shipping originated from another decision of the Brussels Conference of March 1919, which postponed the delivery to the Allies of 14 oil tankers. The reason for the postponement (later disputed) was either that they were not needed by the Allies or that they were intended to be used to transport oil to Germany. On 27 September the Supreme Council revoked this decision and ordered that the ships be delivered to Allied representatives, although it was ruled that they might be used for one more voyage to convey oil to Germany. However, at the end of October the ships were still "retained at Hamburg on the pretence of a sympathetic strike in that port."

The most important dispute was over the Allied claim to

400,000 tons of German docks and other material as compensation for the destruction of the German fleet at Scapa Flow on 21 June 1919. In a note of 28 June the Allies had referred to the scuttling of the fleet as a violation of the Armistice. But the claim to reparation had not been formulated until October when, with the prospect of the termination of the Armistice through the ratification of the treaty, the Allies had become intent on punishing the German government for an act for which they believed it to be responsible.

Allied complaints and claims concerning these and other instances of non-fulfilment or violation of the Armistice terms were summarised in a protocol forwarded to the German government on 1 November 1919. A covering note stipulated that signature of the protocol by Germany was to be a pre-condition of the ratification of the treaty. By this means the Allies sought to achieve a prompt ratification of the treaty without allowing Germany to evade her Armistice obligations which would otherwise have lapsed as soon as the treaty came into force. The Allies appear to have been particularly concerned that, after the signature of the protocol and the ratification of the treaty, they would cease to possess the means of coercing Germany which they enjoyed under the Armistice. The final paragraph of the protocol therefore stated that in case of non-fulfilment of the obligations referred to the Allied and

Associated Powers reserved the right "to have recourse to any coercive measures military or other which they (might) deem appropriate." ¹

There were no official German comments on the protocol until late in November. Both the timing and the tone of the German reply were influenced by the course and the outcome of the first attempts of the United States Senate to ratify the treaty. ². In the speech which he made to the Supreme Council on 1 December the German spokesman von Lersner refused to agree either to the proposed reparation for the Scapa Flow incident or to the provision for the continuance of military sanctions. On the contrary he claimed that the failure of the United States to ratify the treaty and the consequent absence of American representatives from the Allied Control Commissions which would be set up in Germany when the treaty came into force was sufficient cause for compensatory concessions affecting the trial of German war criminals and the repatriation of German prisoners of war still in French custody. ³. Von Lersner's stand made such an impression that on 2 December Sir Eyre Crowe forecast to Curzon that "very grave decisions" might shortly have to be taken in order to obtain German agreement to the protocol and the ratification of the treaty. ⁴. However, the Allies soon became aware that von Lersner had

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¹. ibid., Vol. II, p. 146.
². The Senate rejected a ratification motion on 19 November.
⁴. ibid., Vol. V, p. 879.
exceeded his instructions and that the German government was in fact willing to sign the protocol. They therefore took great pains to formulate their reply in a way which would cause the German Cabinet least embarrassment. Thus the Allied Note of 8 December, while standing firm against von Lersner's claim for compensation on account of the failure of the United States to ratify the treaty, conceded that it was undesirable to retain military sanctions in peace-time. Moreover, although the demand for dock material was not dropped, the note stated that the Allies were ready to examine "in a spirit of equity" any German claims of special hardship caused by the deliveries requested.

The reply of the German government on 14 December acknowledged the Allied concession on the subject of military sanctions and disclaimed any right to bargain with the Allies over the extradition of German war criminals as a result of American non-ratification of the treaty. On the vital question of dock material it showed willingness to compromise. Although it continued to deny its responsibility for what had occurred at Scapa Flow, the government declared itself ready, in the interest of the "prompt re-establishment of peace", to make good the damage caused to the Allies by the incident. But, taking

   The German government's reluctance to delay the ratification of the treaty by protesting against the protocol was doubtless increased by the fact that Article 214 of the treaty provided that the repatriation of prisoners of war should be carried out "with the greatest rapidity".
up the Allied offer to examine cases of hardship, the government declared that it would submit data immediately to demonstrate that the delivery of 400,000 tons of dock material would "compromise in an irreparable way the economic life of Germany and would end by excluding all possibility of fulfilling the other enormous obligations which the Treaty impose(d) on Germany". 1 Since the Allies in their turn agreed to this course of action, detailed negotiations which eventually led to a considerable reduction in the amount of material demanded were begun, and the way was cleared for the signature of the protocol and the exchange of ratifications of the treaty on 10 January 1920. 2

The note exchange occasioned by the question of Armistice deliveries did not at first have much impact on German opinion. At the end of November 1919 General Malcolm, the British Military Representative in Berlin, emphasised the apathy of the majority of the German people about foreign affairs - "there are no foreign politics" - and remarked upon the rarity of discussion about the failure of the United States Senate to ratify the treaty. 3 A week later he reported that there was "absolutely no public interest in the recent exchange of notes". Although one class of the population felt strongly

2. ibid., Vol. II, p. 533. The reduction was sanctioned by the Allies after it was proved by German experts that the estimate of the total tonnage of German dock material upon which the Allied claim for 400,000 tons had been based was exaggerated. ibid., Vol. II, pp. 643-5.
about the surrender of dock material, and another "rather larger class" felt "more strongly" about the extradition of war criminals, the only subject about which there was any universal feeling was the question of the repatriation of German prisoners of war from France. The government "acting under the influence of one class or another" wrote notes and attempted to negotiate but there was no united national feeling behind it. 1.

It was not until the second week in December that the dispute aroused any unfavourable reaction in Germany. On 11 December Malcolm observed that "the feeling of resentment against the Entente (was) becoming more and more bitter". "Latterly," he went on, "the idea has been growing up even among responsible men that it is useless for Germany's representatives to sign the latest protocol, for as soon as they have done so, the Entente will spring upon them some fresh demand with the definite intention of strangling the industrial and economic life of the country." Clearly Malcolm considered that the negotiations over the protocol had caused the growth of a negative attitude towards fulfilment of the treaty similar to that of the German Peace Delegation in June 1919. He even went so far as to report a rumour, in fact false, that the Foreign Relations Committee of the National Assembly had on the previous day decided to refuse to sign the protocol and to offer no resistance to any military action which the Entente might undertake. 2.

The hardening of German opinion commented upon by Malcolm was almost certainly connected with declarations in favour of passive resistance to Allied reparation demands which were made at this time by right-wing speakers during fiscal debates in the National Assembly. These arguments were most forcibly expressed by the Nationalist Hugenberg on 9 December during the debate on the second reading of the Reichsnotopfer ("National Emergency Levy"), the centre-piece of Erzberger's programme of fiscal reform. After stating his objections to the Reichsnotopfer on other grounds, Hugenberg declared it was unpatriotic to support the levy since its yield would be confiscated by the Allies. Rather than place German finances at the mercy of the Entente through such measures it would be preferable, in his opinion, to allow the Allied armies to occupy the Ruhr.¹

Although Hugenberg's speech had no effect on the eventual shape of the measure being debated, it created such an immediate sensation that the sitting of the National Assembly had to be suspended for a quarter of an hour; and it almost certainly had a bad effect on the attitude of the German public towards paying taxes. The warnings of Hugenberg and other right-wing speakers about the confiscatory intentions of the Allies were given added point by current and past disputes on the subject of Armistice deliveries.² However, in assessing

² E.g. Hugenberg's reference to the surrender of the merchant fleet: ibid., p. 3936.
the impact of both the Hugenberg outburst and the note exchange on German attitudes to financial reform it should not be forgotten that in both this and previous debates on the Reichsnotopfer the right-wing parties based their opposition primarily on domestic financial and social considerations. 1 This enabled government speakers to accuse the Right of arousing groundless suspicion of the Allies merely in order to prevent the passage of taxation measures to which it really objected for self-interested reasons. Thus the relative psychological significance of the general reparation question was reduced. Moreover, the immediate unfavourable impact of the note exchange in November and December was soon mitigated by the prompt and amicable settlement of the dispute over dock material.

(d) Coal Deliveries before May 1921

It has already been observed that coal was a vital factor in the German domestic economy and that it was also, if exported, an important source of foreign exchange. Reparation coal deliveries were, after the deliveries of railway rolling stock and shipping made under the Armistice, the most notable form of reparation payment before May 1921. They were therefore likely to have some influence on domestic and foreign attitudes to Germany's financial future.

The provisions of the Coal Annex of the Reparation

1. See below, pp. 249-56.
Chapter of the Versailles Treaty were certainly not such as to encourage German economic or financial optimism. It was stipulated (1) that Germany should deliver 7 million tons of coal to France annually for ten years plus the difference between the current and the pre-war production of the devastated mines of the Nord and the Pas de Calais (this additional amount not to exceed 20 million tons in any year); (2) that Germany should deliver to Belgium 8 million tons of coal annually for ten years; (3) that Germany should make shipments to Italy of 4.5 million tons in 1919-20, rising to 8.5 million tons by 1923-4; and (4) that, if the Reparation Commission directed, Luxemburg should receive from Germany the same amount of German coal as she had consumed before the war. The treaty thus envisaged reparation coal deliveries of over 40 million tons a year. Since this schedule was quite beyond the capacity of the German coal industry in its weakened post-war condition, and since the German government was naturally anxious not to encourage the Allies in their expectations, the reaction of the German Peace Delegation was inevitably highly unfavourable. The German Counterproposals of 29 May 1919 approved in general of the idea of compensating France for her diminished coal production. However, they summarily dismissed

1. Annex V: See Appendix I. The German government had already agreed, in the Luxemburg Protocol of 25 December 1918 to supply "sufficient coal and coke to the metallurgical industries of Lorraine". R.C., V, p. 93. But the quantities delivered in 1919 under this agreement were relatively insignificant. C. Bergmann, op. cit., p. 27.

the notion of deliveries of more than 20 million tons a year. Even this amount could be delivered only, they maintained, if the mines of the Saar and Upper Silesia remained in German hands and if the causes of the low level of German post-war coal production were removed. In the latter connection it was essential that there should be increased imports of food and raw materials into Germany, and that, once the necessary housing had been provided, the number of German miners should be increased so as to balance the shortening of shifts from 8½ to 7 hours. 1

In view of the divergence between the provisions of the Coal Annex and the ideas of the German Peace Delegation it was to be expected that the coal question would cause serious friction between the Allies and Germany. But in practice this friction was avoided for a considerable period because of the powers given to the Reparation Commission to interpret the Coal Annex in a flexible manner. Paragraph 10 of the Coal Annex authorised the Commission to determine whether the deliveries demanded would "interfere unduly with the industrial requirements of Germany" and "to postpone or to cancel deliveries...". The Commission was not slow to use its discretionary powers. On 3 July 1919 the Commission on the Organisation of the Reparation Commission was directed by the Supreme Council to approach the German government on the subjects of (1) reparation in kind

and the provision of labour to replace prisoners of war; (2) supplies in kind mentioned in the treaty; and (3) the supply of raw materials to Germany. 1 In the resulting negotiations about advance deliveries and about the amount of coal which was to be delivered after the treaty had come into force, 2 the CCRC in practice agreed to coal shipments which were far below the level stipulated in the Coal Annex. It also expressed no objection to most of the conditions which the German authorities attached to the commencement of deliveries.

The level of coal deliveries and the terms on which the German representatives insisted in July 1919 were virtually the same as those contained in the German counterproposals of May. The German Coal Commission advised the government that deliveries should not exceed 12 million tons a year while production remained at its estimated existing level of 100 million tons, but that they could rise to 18 million tons when annual output was 112 million tons and to 21 million tons when total production had reached 124 million tons. The Commissioners insisted that they submitted this schedule only under compulsion and that its execution would lead to "serious disturbances in the economic life and the interior political situation of Germany". They stipulated further that all Upper Silesian coal

1. ibid.
2. Para. 10 of Annex V directed that Germany was to be given 30 days notice of deliveries required of her before 1 January 1920 and 120 days notice of deliveries after that date.
should remain at Germany's disposal, that there should be no deliveries to Germany's eastern and south-eastern neighbours, that Germany should continue to receive 100,000 tons of coal a month from the Saar,¹ and that there should be adequate facilities for transporting coal from the east to the west of Germany. Finally, they assumed that the Allies would grant "all facilities for credit for foodstuffs for the mining districts and for the necessary materials for the exploitation of the mines".²

The German government fully endorsed the views of its experts, which it transmitted to the CGRC on 12 July, although it was more hopeful about Germany's future capacity to deliver coal. A covering letter predicted that output would be 9 million tons in July and that this would enable deliveries at a rate of 16 million tons a year. The conviction was also expressed that, if "the present state of affairs in Germany" was maintained and if the Allies encouraged German production through the supply of raw materials and foodstuffs, Germany would be able to deliver at a rate of 20 million tons by autumn.³

The Versailles Protocol of 29 August 1919 which was the outcome of these early negotiations over the coal question appears to have complied with German wishes in almost every respect.¹ In the first place, although the Protocol directed

1. On deliveries to Germany from the Saar in 1919: see above, pp. 42-4.
3. Lersner to Loucheur, 12 July 1919, ibid., p. 62.
that Germany should make advance deliveries, no definite amount was mentioned. On the contrary it was explicitly stated that in order to prevent economic dislocation and consequent political troubles, Germany would "begin coal deliveries only in accordance with the measure of increase of production". The schedule of compulsory deliveries, which would begin after the treaty was ratified, was, it is true, more severe than that suggested by the German Coal Commission. Paragraph 3 of the Protocol declared that the Reparation Commission would be requested to demand coal at the rate of 20 million tons a year in the first six months after the ratification of the treaty. As production rose above its present level deliveries were to increase in the following manner:

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<th>(million tons)</th>
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<tr>
<td>Gross Production</td>
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<td>108</td>
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<td>128</td>
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However, this schedule was largely a piece of French political "window dressing" and was not intended to be enforced. A letter written to Stresemann a few months later by Stutz, the German Commissioner for Coal Distribution, reveals that there was a verbal agreement that the maximum monthly delivery which would be insisted upon would in practice be 1 million tons.  

1. Stutz to Stresemann, 24 January 1920, Nachlass, 6935/140066f.
The effect of this agreement was reflected in a German
delegate's letter to the CORC a few days before the signature
of the Versailles Protocol. The writer stressed the need both
for Allied confidence that Germany would "execute as far as
possible the conditions of peace" and for German confidence that
the CORC would "do everything to maintain public and economic
order in Germany". The negotiations of the past few weeks
had, he stated, satisfied this need. The German delegation
would therefore advise the government, the Coal Syndicate and
the German workers to begin coal deliveries at once.

Three days later Bergmann, another German representative, informed
the CORC that the German government had approved its experts'
recommendations. "We hope," he added, "that the Reparation
Commission will not insist on the quantities laid down at
present if the coal production falls below its present level,
but that it will take into account the changed situation, as you
have already personally assured us."

On most issues which affected the amount of coal which
remained at Germany's disposal the Protocol safeguarded German
interests. It ruled that Germany should not be forced to
deliver coal to her eastern and south-eastern neighbours; and
it directed that Germany should continue to receive 100,000
tons of coal a month from the Saar. It was only on the
question of the distribution of Upper Silesian coal that the

3. Para. 5, Clauses 7, 9.
Protocol ran counter to German wishes by stating that the final decision in this matter was to rest with the International Coal Conference.\textsuperscript{1} But by agreeing to the Protocol the German government certainly had not mortgaged to the Allies any considerable part of Germany's future coal production.

The German government was given added incentive to sign the Protocol by the hope of further Allied concessions. The CORC had made it clear that it would not "take up any question before that of coal had been dealt with".\textsuperscript{2} This implied presumably that the CORC would not broach points (1) and (3) of its terms of reference, which affected the vital issues of the repatriation of German prisoners of war and the supply of raw materials to Germany, until the Protocol was accepted. It was later asserted by the German government that its assent to the Versailles Protocol had been a quid pro quo for the Allied decision on 29 August to begin the repatriation of German prisoners of war.\textsuperscript{3} Whatever the truth of this assertion, which was contradicted by the French,\textsuperscript{4} there was a clear connection between the German government's signature of the Protocol and its hopes concerning the supply of food and raw materials by the Allies. These hopes were based upon Article 235 of the Versailles Treaty which stipulated that there were prior claims upon the fund constituted by reparation deliveries in respect firstly of payments for the cost of the

\begin{itemize}
\item \textsuperscript{1} Para. 5, Clause 6.
\item \textsuperscript{2} Minutes of 7th Meeting of the CORC, 28 August 1919, DBFP, Vol. V, p. 333.
\item \textsuperscript{3} ibid., Vol. V, p. 793.
\item \textsuperscript{4} German Note of 27 November 1919, ibid., Vol. II, pp.458-61.
\end{itemize}
armies of occupation and secondly of payments for supplies of food and raw materials which were considered by Allied powers to be essential to enable Germany to meet her reparation obligations. The Protocol itself merely stipulated that the Allies would provide Germany with facilities for obtaining food supplies and raw materials destined for the coal fields. But on 28 August the German representative Bergmann, after a conversation with Loucheur on the previous day, had forwarded to the CORC a document entitled "Measures for the Increase of the Production of Coal in German Mines". This contained a list of foodstuffs, clothing and working materials needed in the mining districts which "might be delivered by the Entente", and requested an Allied credit of 200 million gold marks in order to finance such a scheme.

The German government had therefore agreed to the Versailles Protocol on the condition that it would be granted credits in order to obtain vital imports and in the hope that the repatriation of prisoners of war would be expedited. It had, in addition, been given to understand that the Allies would insist on the delivery of only a relatively small amount of coal. It was hardly surprising that the reparation coal negotiations of July and August aroused very little adverse comment by the opposition parties in the National Assembly. On 31 July, representatives of the DVP and DNVP had moved an interpellation which enquired what action the government

1. Para. 5, Clause 10.
proposed to take to counter the coal crisis which was looming, firstly, because of the drop in Ruhr coal production; secondly, because of the deliveries envisaged in the Coal Annex of the treaty; and finally, because of the distribution difficulties resulting from the post-war dislocation of the German railway system. When the interpellation was debated on 15 August there was little emphasis upon reparation deliveries as a possible major cause of the coal crisis. On the contrary Hugenberg, the main speaker to the interpellation, referred to Germany's future coal obligations to the Entente as an added incentive to higher production rather than as an intolerable burden. In his opinion the main threat to the German coal industry came from the strikers and agitators on the coal fields and railways. The reply of Schmidt, the Minister for Economic Affairs, to the interpellation showed that the question of reparation deliveries was causing the government little political embarrassment. After dismissing the figure of 45 million tons prescribed by the Coal Annex as quite impracticable, Schmidt reported with evident assurance on the government's current negotiations for deliveries at an annual rate of 20 million tons. Shipments of even this reduced size, he predicted, might not prove to be feasible. Both the lack of concern of the opposition and the confident assurances of the government would not have been possible if the Allies

1. Interpellation of Heinze, Arnstadt and others (63 signatories), 31 July 1919, Nationalversammlung, Vol. 338, Anl. 739.
3. ibid., p. 2471.
had been exerting serious pressure on Germany to deliver large quantities of coal. It was a reflection of the untroubled attitude of the National Assembly to the question of reparation deliveries that it registered no formal protest against them. The only resolution of this body which was submitted to the CORC in the negotiations over the Versailles Protocol was one which suggested practical steps which should be taken to increase coal production.¹

The flexibility of the Versailles Protocol and the hopes entertained by the German government had prevented the question of coal deliveries from becoming an issue in German politics in August 1919. Deliveries continued to arouse comparatively little comment in the National Assembly before the Spa Conference in July 1920.² But this was largely because the Allies refrained from making rigid demands for coal. In the first half of 1920 the French government grew more and more determined to demand deliveries on the scale envisaged in the treaty. Since the Allies had made little progress in this period towards providing what the Germans considered to be the pre-requisites for large coal deliveries, the way was prepared for a deadlock over the coal question which might well have exerted a harmful effect on Germany's internal and external finances.

² See above, pp. 59-60.
to German expectations was the facilitation of the supply of raw materials and foodstuffs to the mining districts. Bergmann's letter of 28 August 1919 requesting credits to finance imports was considered by the CORC on 4 September. A draft reply which was discussed on 11 September contained a proposal that credits should be granted to Germany for 25% of the value of coal deliveries up to 1.6 million tons a month and for 40% of the value of any deliveries above that figure. However, in the reply finally adopted on 17 September there was no reference to such a scheme because, in the words of Loucheur, "France could not agree to pay Germany for deliveries in kind". The French view was that Germany should use any gold and foreign securities which remained to her to finance her essential imports. As a result of the French attitude, the German government had to be content with the permission granted to it on 29 August to sell or pledge securities to the value of £20 million for the purpose of purchasing food. Since it was at this time undesirable for Germany to diminish her reserves any further this meant in practice that her food imports had to be paid for in paper marks. This solution met with the disapproval of Bradbury, the British representative on the CORC, and almost certainly prompted a British memorandum (submitted to the CORC on 25 September) which urged that the

2. ibid., Vol. V, pp. 507, 537.
4. The letter of 29 August granting this permission is referred to in the draft reply discussed on 11 September; ibid., Vol. V, p. 508.
decision as to whether Germany should receive credits should not be left to the Reparation Commission, which was only a liquidating body, but should be made either by the Supreme Economic Council or by the Economic Section of the League of Nations.\(^1\)

However, the upshot of the discussions on this point in ensuing weeks\(^2\) was that decisions affecting the financing of Germany's essential imports remained the preserve of the Reparation Commission.\(^3\) This meant in the first place that consideration of the question was deferred until the Reparation Commission was set up after the ratification of the treaty on 10 January 1920. It meant further that the decision as to whether Germany should receive credits rested with a body which proved to be dominated by the narrow French view that Germany should not in any sense be paid for her reparation deliveries. On 4 March 1920 the Reparation Commission ruled against the financing of German imports out of reparation deliveries unless the German government first took steps to liquidate for this purpose all foreign securities in the possession of its nationals.\(^4\)

There had been some prospect that the question of granting credits to Germany would be taken out of the hands of the Reparation Commission by the Allied heads of government at the First Conference of London, which sat from February to April 1920. During discussion of a French proposal for raising an international loan on the security of reparation payments,

the question of Germany's capacity to pay reparation was
inevitably raised. Lloyd George seized the opportunity to
point out that Germany could not pay reparation unless her
economic activity was restored. This in turn could never
occur while the Germans were short of food and raw materials.
"The immediate step," he concluded, "was to find credits to
enable them to live, and until that had been done it was
neither businesslike nor humane to talk of borrowing on a
starving and bankrupt people." On 1 March Lloyd George's
suggestion was incorporated in a draft declaration by the
Conference which, after directing the Reparation Commission
to proceed immediately with the fixing of Germany's total
liability and the assessment of her capacity, instructed it
"to take steps in accordance with Article 235 of
the Treaty to enable Germany to obtain essential
foodstuffs and raw materials, and, if necessary,
to authorise her to raise a loan abroad for this
purpose with such priority as the commission may
think necessary".

However, on 8 March, because of French insistence, this passage
was deleted and another one substituted which merely
"(took) note of the invitation addressed to Germany
by the (Reparation) Commission on 4 March to take
the necessary steps to enable all securities
representing interests in undertakings in neutral
countries which are in the possession of the German
government, the German states or German nationals,
to be applied to the purchase of foodstuffs and
raw materials, in the spirit of the provision of
Article 235 of the Treaty of Versailles".

1. For the French proposal: ibid., Vol. VII, p. 41; for the
4. Declaration by the Supreme Council of the Peace Conference
on the economic condition of the World. H. of C. Papers,
The decision of the London Conference to relegate all responsibility in this matter to the Reparation Commission in effect meant that no credits would be granted to Germany under Article 235 for several more months. Such patent evasion by the Allies of undertakings entered into in the Versailles Protocol not only directly harmed Germany's finances by increasing her external floating debt but could also have lowered both domestic and foreign confidence in Germany's future financial viability. The latter development was in fact only avoided in the first half of 1920 because the prospect of the Spa Conference kept alive hopes of a general adjustment and settlement of Germany's reparation obligations. ¹

A further source of annoyance, especially to financially influential Germans, was the continual friction between Allied reparation experts and the Rhenish-Westphalian Coal Syndicate over the questions of the transportation and pricing of coal deliveries. The Coal Syndicate had for a number of years controlled the production, pricing, transport and marketing of coal mined in the Ruhr district. ² It was therefore understandable that in the negotiations which had preceded the signature of the Versailles Protocol in August 1919 it had attempted to bargain with the Allies about the quantity and the price of the coal to be delivered. ³ The German government had on this

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1. See below, p. 149.
occasion over-ruled the Coal Syndicate and signed the Protocol. This did not, however, imply its approval of the provision in the Protocol that final responsibility for regulating transportation problems arising out of coal deliveries should rest with an Allied Transport Commission.\textsuperscript{1} On the contrary, one of the German reparation negotiators had stated explicitly that "it would be dangerous to make modifications now in the existing trade, and transport of coal situation, or to make new institutions which would create competition with interested Germans". The voluntary collaboration of the Coal Syndicate was, he insisted, vital. The Syndicate was "ready to undertake to the greatest extent possible, deliveries to the Allies in spite of all difficulties provided that these deliveries (were) carried out in the usual manner". But if new organisations were created "practical difficulties (would) result which (would) put the execution of deliveries in grave danger".\textsuperscript{2}

A dispute over the question of the transportation of coal had arisen as early as October 1919, when the low level of the Rhine made it necessary to reduce the load of coal-carrying barges by half. On 2 October 1919 the CORC received a report from its representative at Essen that Läbsen, the director of the Coal Syndicate, had refused to co-operate when requested to intensify deliveries of coal by rail.\textsuperscript{3}

\begin{itemize}
  \item Para. 5, Clauses 3 and 4; ibid., Vol. V, p. 336.
  \item Bergmann to Loucheur, 26 August 1919, ibid., Vol. V, p. 335.
  \item ibid., Vol. V, p. 602.
\end{itemize}
A few weeks later it was reported that the Coal Syndicate would not allow French, Italian and Belgian barges to load reparation coal at the Rhine port of Ruhrort. On 9 November a sub-committee of the CORC which had been set up at Essen as a result of these developments met the representatives of the German coal industry and government. The Germans justified their action on the general grounds that, because of the non-ratification of the treaty, deliveries under the Versailles Protocol were entirely voluntary; and that the Allies had failed to keep their promises concerning the repatriation of prisoners of war. With particular reference to the transportation question they claimed that para. 6 of the Coal Annex reserved to the German government the supervision of the transport of coal as far as the frontier. The Coal Syndicate's real reason for insisting that deliveries should as far as possible be made by water was the stipulation of paragraph 6(b) of the Coal Annex that coal delivered by sea should be credited to Germany's reparation account at export prices. The latter were well above the internal German price, at which deliveries by land or internal waterway were valued. Thus it was in Germany's interest to ship as much coal as possible in barges by sea to Rotterdam so that it could be credited at export prices. The Syndicate's motive for refusing to allow foreign barges to load at Ruhrort was, according to a Belgian delegate to the CORC, simply to preserve the pre-war

2. ibid., Vol. V, p. 793.
German monopoly in traffic on the Rhine. 1.

The clash between Allied and German views on these points was a source of dissatisfaction to both sides throughout this period. Discussions both about the price to be credited for coal delivered via Rotterdam and about the control of shipping on the Rhine consumed much of the Reparation Commission's time in March and April 1920. But neither of these disputes was settled until they were resolved in a manner favourable to France in the Wiesbaden Agreement of 7 October 1921. 2.

A final controversial issue, which in June 1920 led to a dramatic diminution of German coal deliveries, was the question of the distribution of Upper Silesian coal. The Versailles Protocol had ruled, contrary to German wishes, that decisions in this matter should be left to the International Coal Conference. In November 1919 a sub-committee of the European Coal Commission had recommended that, pending a decision by the Reparation Commission and the Upper Silesian Plebiscite Commission, Upper Silesia's monthly output should be distributed so that (1) Upper Silesia retained whatever quantity the Plebiscite Commission judged necessary; (2) Austria received 200,000 tons; (3) Poland received 250,000 tons; and (4) Germany received the remainder. 3. On 6 February 1920 the Reparation Commission informed the German government

2. R.C., V, pp. 96-8; C. Bergmann, op. cit., p. 30.
3. C. Bergmann, op. cit., p. 31.
that it had approved this recommendation and that, in addition, 20,000 tons of Germany's monthly share were to be delivered to Italy. 1. German dissatisfaction was brought to a pitch when, on 29 May, the Reparation Commission conditionally increased Poland's share of Upper Silesian coal from 250,000 to 450,000 tons a month. 2. The German government's response was to order the arbitrary reduction of reparation deliveries from the Ruhr by 10,000 tons a day. 3. The distribution of Upper Silesian coal was therefore an issue of some importance to the German government which could easily heighten the impact of reparation coal deliveries on German politics.

The pre-Spa period was not only notable for the absence of any agreement between the Allies and Germany on the questions of credits, transportation and pricing, and the distribution of Upper Silesian coal. It was also a time of mounting French dissatisfaction at the amount of coal which Germany was delivering. The low level of voluntary deliveries before the ratification of the treaty and the clash with the Coal Syndicate in November 1919 over the question of transport had provoked Loucheur, the Chairman of the CORC, to announce that "coercive measures of the most severe kind were under consideration". 4. Some agreement appears to have been temporarily achieved at a

1. R.C., V, p. 95. On 27 February deliveries to Italy were raised to 40,000 tons.
2. The Reparation Commission wished to satisfy Poland's increased need for coal during her war with Russia. C. Bergmann, op. cit., p. 29.
3. ibid., p. 30.
conference held at Essen in December 1919. But the persistent smallness of deliveries early in 1920 after the treaty had been ratified soon provoked another French outburst. The Versailles Protocol figure of 1.6 million tons was the official rate in January 1920. But deliveries in this month came to no more than 450,000 tons. On 13 February at the Conference of London, Millerand claimed that the January deliveries had been only 300,000 tons and accused the Germans of deliberate default. He went on to claim that, by virtue of their right under Article 18 of Annex II of the Reparation Chapter to enforce the execution of the treaty, the Allies should occupy the Ruhr. Such an action was, however, effectively postponed by Lloyd George who, after emphasising the bad living conditions in Germany and the acuteness of the transport shortage, managed to get the question of Germany's alleged default referred to the Reparation Commission.

Although it consistently fixed high monthly delivery rates, the Reparation Commission still did not in practice expect shipments of more than a million tons a month. On 19 February 1920 it raised the schedule from 1.6 million tons to 2.3 million tons. Then, after spending February and March hearing the German protests which this decision aroused, the Commission lowered the rate for April to 1.6 million tons.

1. C. Bergmann, op. cit., p. 27.
5. see above, p.
6. R.C., V, p. 95
7. C. Bergmann, op. cit., p.28.
The figures which it named for subsequent months were 2.1 million tons (May), 2.3 million tons (June), and 2.4 million tons (July). However, none of these figures were seriously proposed since, according to Carl Bergmann, the German reparation expert, the Commission expressed deep gratification when, in May 1920, deliveries approached a million tons.

The Allies could not, however, sustain such a double-faced policy indefinitely. Actual coal deliveries in the first seven months of 1920 amounted to about six million tons. This represented a delivery rate which was one-quarter of that envisaged in the treaty, one-half of that demanded by the Reparation Commission and slightly less than the amount unofficially expected. It was not surprising that there was increasing discontent, especially in France, at Germany's performance. On 18 April 1920 at the San Remo Conference, Millerand again advocated the occupation of the Ruhr as a means of forcing Germany to fulfil both the Coal Annex and her other treaty obligations. Lloyd George once more counselled restraint. An occupation of the Ruhr would not, in his opinion, make the Germans carry out their promises. The best plan, he suggested, would be "to invite the Germans to Paris and put to them a regular questionnaire in regard to reparation,

1. R.C., V, p. 229.
3. For amounts delivered and delivery schedules: R.C., V,p.229.
disarmament, coal, etc., and press them on each point as to what they would do and demand explanations." The upshot of this suggestion was, in short, that on 26 April 1920 the Allies invited the German government to send representatives to a conference which was to be held at Spa.

The impact upon German opinion of the Allied invitation to the Spa Conference was, somewhat paradoxically, by no means unfavourable. Although the Allied Note of 26 April rebuked Germany for her various failures to fulfil the treaty and threatened the occupation of an additional part of German territory, it also contained the first admission by the Allies that direct discussion of the treaty between heads of governments was necessary in order to secure its execution. Furthermore, it contained the assurance that the Allies were not ignorant of the difficulties with which the German government was faced and that they "(did) not intend to insist upon a too literal interpretation of the treaty". Because the Allied invitation contained statements such as these, Kilmarnock, the British charge d'affaires in Berlin, was able to report on 1 May that its reception had added something to the German government's prestige.

In the considerable interval which elapsed before

1. ibid., Vol. VIII, p. 8.
the Spa Conference began on 5 July\(^1\) there was a number of disputes between the German government and the Reparation Commission which caused the Spa Conference to open in an atmosphere of inquisition rather than one of friendly discussion. Friction was caused firstly by an interruption in the delivery of horses to Belgium, and secondly by the elusiveness of Dutch-owned, German-built merchant ships which had been claimed as reparation.\(^2\) Finally, on 15 June, the German government arbitrarily reduced reparation coal deliveries from the Ruhr. This action so exasperated the Reparation Commission that on 30 June - five days before the opening of the Spa Conference - it formally notified the Allied governments that Germany had defaulted.\(^3\)

The effect of these events, and of others connected with the disarmament question, was obvious during the early proceedings of the conference. In the disarmament negotiations which occurred between 5 and 9 July, the Allies were intent on admonishing and coercing Germany rather than on discussing possible ways of helping her to execute the treaty. As a result, the German Delegation was not, in the opinion of the German Foreign Minister Simons, given sufficient opportunity to state its case.\(^4\) The same was true of the proceedings when, on the afternoon of 9 July, the conference turned to the question of coal.

1. The conference was postponed because of the Reichstag elections in June. ibid., Vol. VIII, p. 253.
4. Simons on 8 July 1920; ibid., Vol. VIII, p. 484.
After Bergmann, the German coal expert, had attempted briefly to explain the lag in deliveries, Millerand launched a formal attack on Germany for her failure to deliver coal at the rate required by the Reparation Commission which was, he stressed, far lower than that prescribed by the treaty. He concluded his indictment by presenting the German delegation with a protocol which was designed to ensure "the complete execution" by Germany of her coal obligations under the treaty. The document demanded that Germany should recognise "the absolute priority over all other deliveries" of reparation shipments. It went on to direct that a permanent delegation of the Reparation Commission should be set up in Berlin to supervise the distribution of coal by the German authorities. Finally, the Reparation Commission was instructed to "notify to the interested Powers any infraction of the principles adopted (in the protocol), and (to) recommend any further steps necessary to secure the deliveries under the priority stated."

When on the following morning (10 July) the German delegation accepted the Allied invitation to comment upon Millerand's charges and upon the protocol it objected strongly to the admonitory procedure which had been adopted by the Allies. Simons asserted that the conference would be a waste of time if the Allies merely rebuked Germany for her default and did

1. ibid., Vol. VIII, p. 508.
2. ibid., Vol. VIII, pp. 509-11.
3. The protocol had been drafted at the Conference of Brussels on 2 and 3 July; ibid., Vol. VIII, p. 421.
not allow the German experts to discuss means of executing the coal clauses. Hugo Stinnes, the representative of the German coal owners, hinted rather bluntly, before he was brought to order, that the Allies' dictatorial methods indicated that they were "sick beyond recovery with the disease of victory." Finally, Huß, who represented the German miners, entered a plea, in more moderate language, for "a joint consultation of experts."

In the inter-Allied discussions which followed immediately after the German reply had been received, Lloyd George, eager to avoid a rupture in negotiations, supported the German request for discussion. Millerand at first adhered to the idea of simply imposing the protocol on the grounds that the treaty, as interpreted by the Reparation Commission, should be executed rather than discussed. However, he eventually yielded to Lloyd George's viewpoint when he had been assured that the protocol would be applied if the experts' discussion produced no satisfactory result. Millerand's concession appeared to have been more apparent than real when, on the following day, the Allied Coal Experts recommended that the protocol should not be modified and that

1. ibid., Vol. VIII, p. 520.
2. ibid., Vol. VIII, p. 521.
3. ibid., Vol. VIII, p. 523; "Die Konferenz in Spa", loc. cit., p. 64.
5. ibid., Vol. VIII, p. 533.
6. 5.30 p.m. on 11 July.
the Reparation Commission "was alone qualified and competent" to fix a programme for coal deliveries. However, the German delegation stood firm, and refused to submit any general reparation scheme to the Conference unless the coal question, which was "the central problem in the economic life of Germany", was discussed further. On the following morning (12 July) after Lloyd George had once more stressed the undesirability of the conference breaking up "with the mere imposition of terms upon Germany", Millerand agreed that the Reparation Commission should be short-circuited and that a plan for deliveries at a rate of 2 million tons over a six-month period should be submitted to the German delegation.

The Allied decision to submit a coal delivery scheme to the German delegation for its comment ensured that the direct discussions promised in the Note of 26 April 1920 would in fact take place. This important development did not bring about an immediate settlement of the coal question. On the contrary, direct negotiations at first merely brought to the surface the hitherto submerged dispute between Allied and German experts over the question of the size of German deliveries and the conditions under which they could be made. But eventually, after the conference had almost ruptured,

2. Simons, 5.30 p.m. on 11 July; DBFP, Vol. VIII, p.560.
3. ibid., Vol. VIII, p. 565 (Lloyd George); pp.569-70 (Millerand).
A compromise agreement was reached which, on the one hand, removed Allied dissatisfaction about the size of coal deliveries and, on the other hand, partly met German wishes on the subject of credits for procuring food and raw materials and on the subject of the distribution of Upper Silesian coal. The Spa Agreement was in the end accepted by the German government, partly because of the Allied threat of sanctions, but partly also because Allied concessions enabled the government to secure enough domestic support to fulfil it. The fact that the government enjoyed this support indicates that the political impact of the Spa Agreement was by no means as unfortunate as the protests of right-wing spokesmen would make it appear.

When the figure of 2 million tons was suggested to him on the afternoon of 12 July, Simons' response had been to propose a schedule which began at only 1.1 million tons and rose after several months to 1.7 or 1.8 million tons. Deliveries even at this rate would, he insisted, be conditional upon an improvement in the food supply and the housing of the miners.¹ Despite Allied appeals no advance was made on these figures on the following day (13 July) although Simons stated that deliveries could be increased if Upper Silesia remained German.² It seemed on the morning of 14 July that

¹ ibid., Vol. VIII, p. 576.
² ibid., Vol. VIII, pp. 590-6.
the gap between Allied and German views was unbridgeable, and the conference was on the point of breaking up. Even Lloyd George had swung round reluctantly in support of French plans for occupying the Ruhr.¹

On the afternoon of 14 July Lloyd George made a final effort to reach an agreement in a private interview with Simons.² In the early stages of this interview the British Prime Minister stressed repeatedly that the Allies really intended to occupy the Ruhr if a more attractive German offer were not made. Simons replied that such threats would not induce him to sign a coal agreement which was not acceptable to the German miners and employers.³ This may have been partly bluff but it was also based on the realistic consideration that, unless the government enjoyed adequate domestic support, its attempt to fulfil any coal agreement would inevitably end in default and the imposition of sanctions by the Allies. Agreement to the Allied demands as they stood would therefore postpone the occupation of the Ruhr for only a short period. The basic reason for the deadlock was, in Simons' words, that the German government "was not strong enough to overcome internal difficulties unless the Allies would make one more offer to bring over the miners".⁴

It was in response to Simons' appeal for further Allied

¹. ibid., Vol. VIII, pp.602-5.
². ibid., Vol. VIII, pp.617-22.
⁴. ibid.
concessions that Lloyd George proposed, in a rather oblique manner, a scheme for financing Germany's essential imports which changed the whole complexion of the negotiations. "From the point of view of Germany," he hinted, "the wise course would have been to have taken risks and to have undertaken to deliver 2 million tons of coal per month, provided they got credits for the purpose of food for the miners abroad. For instance, supposing the difference between the German internal price for coal and the export price for coal was utilised for this purpose. They might also ask for assistance in the matter of loans and fertilisers. Could not the German government make some proposal of this kind?" ¹.

Lloyd George's proposal was not made on the spur of the moment to keep the conference alive. It sprang from the dissatisfaction which he had for some time shared with the German government both at the failure of the Allies to assist coal deliveries by providing credits and at the fact that Germany was credited for coal deliveries on her reparation account at artificially low domestic prices. When defending his proposals at an inter-Allied conference on the following day, Lloyd George stressed that Germany could only deliver large quantities of coal or foot a huge reparation bill if she was enabled to obtain food and other essential imports. "...M. Millerand knew quite well," he insisted, "that coal was the only article of export which the Germans had to exchange for food for themselves. When we took away 2 million tons of coal from

¹. ibid., Vol. VIII, p. 620.
Germany it was equivalent to the corresponding amount of food which Germany needed....We had promised to supply food to Germany and to help start her industries at San Remo. Our interest was to set Germany on her feet, and we could not get reparation without doing so."¹ Lloyd George's concern on the second subject - the lowness of the price at which Germany was credited for her deliveries - had been revealed when on 14 July the projected occupation of the Ruhr was being discussed. He stated that he would support this operation only if Germany were credited with the full market price of the coal which was to be extracted.² In the first place world opinion had to be considered. "If we use the sword to compel Germany to sell (sic) coal at £2 per ton below the market price, the public opinion of the whole world would be shocked." There was also the question of the distribution of reparation receipts amongst the Allies. It was "equivalent to presenting France with an annual sum of £33,600,000 for which she would be under no obligation to account to the Reparation Commission or to anyone else".³ Finally, it was a matter of fairness to Germany. "...They must not open themselves to the charge that they were depriving Germany of £33,000,000 per annum which would otherwise be used by her in feeding her population." ⁴

¹ ibid., Vol. VIII, p. 631.
² ibid., Vol. VIII, p. 603.
³ ibid., Vol. VIII, p. 607.
⁴ ibid.
A final feature of the scheme which recommended it to Lloyd George was that it tied the size of the credits to be granted to Germany to the amount of coal which she delivered. This would "stimulate not only the miners, but also everyone else to do their best". The scheme in other words ensured that the government would enjoy the domestic support which, according to Simons, it would otherwise have lacked.

Since the Lloyd George proposal was intended by its author to remedy those aspects of coal deliveries which had been most objectionable to the German government in the preceding months, it is not surprising that the German delegation seized upon it almost with alacrity. On the evening of 14 July the Allies received a new German communication in the form of a questionnaire which offered deliveries at a rate of 2 million tons over a six-month period (para. 1), and which incorporated Lloyd George's scheme for credits equal to the difference between the internal and external price of German coal (para. 2). The Germans also suggested that the draft protocol should not be imposed during the period of these deliveries (para. 3); that the responsibility for the distribution of Upper Silesian coal should be restored to Germany or that Germany should be guaranteed at least 1.5 million tons of Silesia's monthly output (para. 4); that the Allies should institute a Mixed Commission at Essen to enquire into conditions in the mining districts (para. 5); and that the Allies should

1. ibid., Vol. VIII, p. 632.
provide credits to facilitate the importation of food and raw materials to the non-mining districts of Germany (para. 6). 1.

But Franco-Italian opposition to the new scheme had still to be reckoned with. On the morning of 15 July Millerand objected that, since the contemplated advances raised the price of reparation coal, Lloyd George had in fact proposed a revision of the treaty. 2. The Italian representative, Count Sforza, whose government was opposed to any substantial increase in the cost of reparation coal, suggested that the advances granted to Germany should not exceed 5 gold marks a ton. 3. The Allied Coal Experts favoured Sforza's proposal and suggested that the raising of further funds for provisioning the mining population should be left to the mixed commission which it was intended to set up at Essen. 4. Bowing to this weight of opinion, Lloyd George suggested as a compromise that outright payments to Germany should be limited to 5 gold marks a ton and that the remainder of the proposed advance (up to about 40 gold marks) should take the form of a loan. But he insisted that the details of the advances to be granted by the latter method should be fixed immediately by the conference rather than by some future commission. 5. As a result, the German offer was redrafted

1. ibid., Vol. VIII, p. 616. A formally drafted proposal was submitted on the following morning. ibid., Vol. VIII, p. 628.
2. ibid., Vol. VIII, p. 623.
3. ibid., Vol. VIII, pp. 624, 627.
4. ibid., Vol. VIII, p. 634.
5. ibid., Vol. VIII, p. 629.
so that the second paragraph, which dealt with the question of prices, did not appear to alter the price provisions of the Coal Annex of the treaty. It merely stipulated that Germany should be credited for her coal deliveries at the internal price; and added that, in order to ensure that the coal should be properly sorted, the recipients should pay a cash premium of 5 gold marks a ton. Lloyd George's scheme for additional advances in the form of a loan, although retained, was relegated to the sixth paragraph.¹

The retention of even this modified credit scheme was dearly bought. In the first place, Great Britain, although she received no German coal, agreed to supply 24% of the money lent to Germany under the new paragraph 6.² Secondly, the proposal in the original sixth paragraph for credits to finance imports needed by the German population outside the mining area was shelved. The Allied Coal Experts had declared that, although they personally welcomed a scheme of this kind, they were not competent to deal with the financial questions which it raised.³ Millerand for his part bluntly insisted that "what he had agreed to was to supply food for the coal miners, and not for the whole of German industry".⁴ In these circumstances, Lloyd George was forced to delete the paragraph and to inform the German delegation that the question would be

¹. For text of Lloyd George's compromise proposal: ibid., Vol. VIII, p. 635.
². ibid., Vol. VIII, pp. 629-32.
³. ibid., Vol. VIII, p. 635.
⁴. ibid., Vol. VIII, p. 631.
dealt with in later discussions about the general reparation problem. Finally, it was agreed that advances under the new paragraph 6 were to be made only in respect of coal which was delivered overland (or by internal waterway) and for which Germany was, in accordance with para. 6(a) of the Coal Annex of the Treaty, credited at the German internal price. This effectively removed the incentive for the German government to increase its deliveries by sea, which, under para. 6(b), were credited on reparation account at the higher external price. Thus, although the credit scheme was to help Germany to surmount her immediate shortage of foreign exchange, it perhaps hindered her efforts to discharge her reparation debt on advantageous terms.

It was not surprising that the German delegation expressed disillusionment at the modifications which had been introduced so quickly into the original Lloyd George proposals. It was keenly disappointed that the bulk of the credits granted under the agreement would take the form of loans rather than outright payments. At the final session of the conference on 16 July, Simons, doubtful as to Germany's ability to repay the advances she was to receive, argued that they should be debited to her reparation account. Although this was in fact done some months later, Simons was forced to defer for the

1. ibid., Vol. VIII, p. 646.
3. For earlier German efforts to increase sea deliveries: see above, pp. 144-5.
4. Agreement of 28 December 1920, R.C., V, p. 100. This meant that the Allied advances became outright cash payments for the coal delivered.
time being to the opinion of Delacroix, the chairman of
the Conference, that "it would be best to leave the settlement
of the rate of interest and the conditions of repayment to the
future". Simons also protested, again without success, at
the omission from the agreement of any scheme for the provision
of credit to parts of Germany other than the mining districts.

The German delegation seems to have been willing to
compromise on most of the other suggestions which it had put
forward in its communications of 14 and 15 July. The Allied
Protocol, to which the Germans had objected so violently, was
retained. However, the first paragraph, which had accorded
absolute priority to Allied coal requirements, was deleted,
and modifications were introduced in other sections so that,
in Millerand's words, it "now represented little more than
an arrangement for the exchange of communications on the sub­
ject of coal distribution between Germany and the Allies".
Thus Simons, although he considered that "it would add to red
tape", made no further formal protest against it.

The German proposal concerning the distribution of
Upper Silesian coal had been countered with an Allied suggestion
that the matter should be referred to an international commission
on which Germany was represented. The German delegation appears
to have approved of this proposal and to have been willing to

2. ibid., Vol. VIII, p. 647.
rely on the declaration of Lloyd George that "it was equally in the interests of the Allies and of Germany that the Commission should work in an equitable and impartial manner". The German Delegation, Lloyd George had added, "might feel sure that these considerations would be before the Commission, and that the Allies would see that in this matter Germany was given fair play".  

Since the Allies fully approved of the idea of a Mixed Commission at Essen to enquire into the state of the mining districts, the only remaining cause of dispute was a seventh clause, which had been added by the Allies to the German proposal of 15 July. This threatened the occupation of the Ruhr if, by November 1920, it was found that the deliveries for the months August to October had not reached 6 million tons. However, an open clash was averted when the Allies, reflecting that their power to occupy the Ruhr was unaffected by German opinion, allowed the German government to enter reservations on this point.  

Clearly the main source of dissatisfaction to the German delegation in the closing stages of the conference was the alteration of the scope of the Lloyd George credit scheme. The seriousness of this discontent can be gauged from the fact that the Delegation's unanimous final recommendation to the German

3. ibid., Vol. VIII, p. 642.
government was against accepting the Spa Agreement. In reacting so decisively to the Franco-Italian amendments to the offer of 14-15 July, the Delegation was influenced by the powerful industrialist group amongst its corps of experts.

This group, which had an obvious personal interest in keeping the level of coal deliveries as low as possible, had been temporarily overruled when the Delegation's hopes about the credit schemes were at their highest. Some of the industrialists themselves may even have swung over in favour of acceptance on the condition of a guaranteed supply of Upper Silesian coal. However, after the original credit proposals had, to all intents and purposes, been emasculated and after the Allies had failed to give a firm guarantee concerning Upper Silesian coal, the negative views of the industrialists reasserted themselves and influenced the final decision of the Delegation.

Despite the recommendation of the Delegation, the Cabinet decided to accept the Spa Coal Agreement. Even Simons swung

1. Statement by Scholz, the Minister for Economic Affairs, on 21 July. Nachlass 6934/139900.

2. The most prominent of these, apart from Stinnes, were Hilger, Løbøen, and Wiedfeldt who had all been members of the Committee of Financial and Economic Experts at Paris in May-June 1919, see above pp.109-10. On the attitude of the industrialist group amongst the experts: Stresemann on 26 July 1920 at DVP meeting, Nachlass 6929/139033. For other members of corps of experts at Spa: Simons, 26 July 1920, Reichstag, Vol. 344, p. 256.

3. Carl Bergmann gives the impression that the Stinnes group consistently opposed deliveries of 2 million tons: C. Bergmann, op. cit., p.41. However, Scholz, the DVP Minister for Economic Affairs, who opposed the Cabinet's final decision to accept the Spa Coal Agreement, claimed that he had been swung temporarily to favour deliveries of 2 million tons by his hopes concerning the original credit proposals and the distribution of Upper Silesian coal. Nachlass 6934/139900.
round at the last moment and voted in favour of acceptance.\(^1\)

The decision appears to have been greatly influenced by Wirth, who, in Scholz's opinion, played "eine ganz unglückliche Rolle". It was also in line with the views of the financier group among the corps of experts, the most prominent of whom were Rathenau, Bonn, Dernburg and Melchior.\(^2\) The immediate consideration which influenced both the financiers and the Cabinet was the desirability of averting an occupation of the Ruhr.\(^3\) But the plea of force majeure, which was stressed by the Chancellor, Fehrenbach, when he defended the government's action in the Reichstag,\(^4\) was used partly as a defence against partisan attack and does not provide a complete explanation for the government's decision. During his crucial interview with Lloyd George on 14 July, Simons had been unimpressed by the threat of a Ruhr occupation because he considered that the consequences of this would not be different from the economic chaos, default and imposition of Allied sanctions which would have followed from acceptance of the Allied coal terms as they then stood.\(^5\) Lloyd George's credit proposals, mauled as they became, transformed the situation by strengthening

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1. Scholz, ibid.
2. On the views of this group at Spa: Stresemann to Warburg 26 July 1920, Nachlass, 6929/139028/9; Stresemann on 26 July 1920, ibid., 6929/139032/3. On the sympathetic relationship between Wirth and the "financier" group: Cremer, 27 July 1920, at DVP meeting, ibid., 6929/139058f.
3. Stresemann on 26 July 1920, ibid., 6929/139033.
5. See above, p. 155.
the position of the German government sufficiently to make it worthwhile to attempt to avert a Ruhr occupation by fulfilling Allied demands. The government's hope that the Spa Coal Agreement could in fact be fulfilled was revealed in a speech by the Chancellor, Fehrenbach, on 26 July. After admitting that a number of experts considered that the Agreement was impossible, Fehrenbach claimed that there were many others who thought that the necessary production could be attained "by dint of the utmost exertion, and by the fullest use of technical ingenuity". In these circumstances, "when faced with the threat that non-acceptance of the Coal Agreement would endanger national unity, every opportunity had to be seized to avert the major catastrophe". On the following day Fehrenbach listed the detailed reasons for the government's optimism. In the first place, Germany could expect to receive a substantial share of Upper Silesia's coal output. In the second place, the provisions in the Agreement for an improved supply of food and clothing to the mining districts would give the miners an increased will and capacity to work. Finally, the domestic German coal supply could be improved by (1) the increased use of lignite; (2) stricter economy; (3) measures against blackmarketing; and (4) improvements in the method of distribution. Clearly the German government's decision to accept the Spa Agreement was not

2. ibid., 27 July 1920, Vol. 344, p. 305.
simply an act of passive obedience to Allied demands unrelieved by any hope that fulfilment was possible.

The concessions contained in the Spa Agreement had a noticeable effect on the reaction of the German parties. The left-wing opposition groups - the USPD and SPD - would almost certainly have supported the signature of the Agreement in any case, on the grounds that it averted an occupation of the Ruhr. But the provisions for raising the standard of living of the miners gave added point to the opposition of these parties to the nationalist-industrialist policy of resistance. Both the Majority and the Independent Socialists even went so far as to pledge the German workers to positive co-operation in the fulfilment of the Agreement. The only dissentient voice on the left was that of the Communist, Clara Zetkin, who stated that the Agreement would benefit only French and German capitalists and would increase the misery of the German proletariat.

The attitudes of the three government parties also reflected in varying degrees the relatively favourable terms of the Agreement. A representative of the Centre Party (Spahn) stressed that the delivery rate stipulated by the Agreement (24 million tons a year) was more favourable than that of 29 million tons which had been fixed by the Reparation Commission in July. This reduction, together with the credits granted

2. Stampfer (SPD), ibid., p. 272; Breitscheid (USPD), ibid., p. 281.
by the Allies and the possibility that domestic coal production and distribution could be improved, justified the government's policy, especially since the alternative would have been an occupation of the Ruhr. Spahn revealed one of the reasons for his optimism when he congratulated the miners' representatives for their recent decision at Bochum to prolong, for the duration of the Spa delivery scheme, the overtime agreement which they had made in the previous February. Because of their connections with industry, representatives of the Democratic Party were less enthusiastic about the outcome of the Spa Conference. Haussman deplored the effect that increased deliveries could have on industry, and placed more emphasis than Spahn on the fact that the government had only capitulated to force majeure. But he reminded the Reichstag, perhaps with some relief, that Stresemann, the spokesman for the DVP, which was on the right-wing of the government coalition, had stated that "the possibility of fulfilment was not an absolute but a relative question". Everything depended, therefore, upon the extent to which German industrial activity could safely be curtailed.

Stresemann's views about the Spa Agreement were those of the moderate section of the DVP. This group was under no illusions to the desperate need of German industry for coal.

3. ibid., p. 325.
It was also critical of the German delegation for having failed to obtain more Allied concessions - above all, a formal agreement as to the distribution of Upper Silesian coal. However, it admitted that Germany, because of her weakness, had no alternative but to attempt to comply with Allied demands; and it was willing to suspend final judgment on the feasibility of fulfilment until it was seen how much Upper Silesian coal Germany, in fact, received. Stresemann, in the course of countering Nationalist criticism of the Spa credit scheme, even asserted that "no government, even a Nationalist one, would have rejected the Allied offer of 5 gold marks". But, for the most part, the DVP moderates, refrained from positive support and voiced only reluctant and conditional approval of the Spa Agreement. The opinion of the moderates prevailed late in July over that of the vocal right-wing group with the party led by Stinnes which firmly maintained that the Agreement should not have been accepted because of its crippling effect on German industry. This section demanded further that the DVP members of the Cabinet should resign from office in protest. The moderates were not swayed from their opinion that the interest of the nation, if not of the party, would be better

1. ibid., p. 313; Stresemann at DVF meeting on 26 July 1920, Nachlass, 6929/139031; Stresemann to Warburg, 26 July 1920, ibid., 6929/139028/9.
2. Heinze and Brüninghaus on 26 July at DVP meeting, ibid., 6929/139044.
4. ibid., p. 314.
5. Stinnes on 21 July 1920, Nachlass, 6934/139893.
6. E.g. Cremer at DVP meeting on 27 July, ibid., 6929/139053.
served by remaining in the government. ¹ But Stresemann felt constrained to inform the Reichstag that Scholz, the DVP Minister for Economic Affairs, had not personally favoured acceptance, but had merely bowed to the opinion of the majority of the Cabinet. ² Stresemann's effort to appease the right-wing of his party provoked a rebuke from the Democratic Party, which resented such an attempt by the DVP to dissociate itself from the policy of the government to which it still belonged. ³

The only parliamentary party of importance which was unequivocally opposed to the Spa Coal Agreement was the DNVP. The Nationalist spokesman, Hoetzsch, asserted bluntly that deliveries at a rate of 2 million tons a month would cause economic chaos in Germany. The opinion of the German experts at Spa had been that Germany could not deliver more than 1.1 million tons. Yet, Hoetzsch complained, the government had unaccountably followed the advice of experts such as Bonn and Rathenau who had, for political reasons, advocated attempting deliveries at the higher rate demanded by the Allies. ⁴ The Nationalists maintained further that the signature of an impossible agreement was inconsistent with German national honour; ⁵ and that national self-determination would be flouted by the new Allied commissions which were to be set up under the terms of the Agreement in Essen, Berlin and Upper Silesia. ⁶ Finally, they expressed doubts about the real

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¹ Kardorff, 26 July 1920, ibid., 6929/139040.
⁵ ibid., p. 294.
⁶ ibid., p. 295.
worth of the Allied financial concessions.¹ The more confident attitude of all the other parties about the possibility of fulfilment, their lack of concern about the projected Allied commissions, and their hopes that the Allied credits would prove to be a useful source of foreign exchange, seem to diminish the force of the Nationalists' objections to the Agreement. The DNVP reaction must in fact be explained largely in terms of its xenophobia and its extreme position in the German political spectrum which made it unlikely that it would have to implement the policies which, either openly or implicitly, it advocated.

Thus the Spa Coal Agreement evoked a violent negative reaction only from the DNVP and the Stinnes group within the DVP, and contained features which made it relatively attractive to the working-class parties. Thus its effect on German public finance through its psychological impact on German politics should not be over-estimated. It is clear from the Reichstag debates that the protocol which was signed at Spa on the subject of disarmament - a topic of deep significance in German domestic politics - aroused far greater passions in all parties than did the question of coal deliveries.

It is true that the Spa Coal Agreement was heavily criticised in the Reichstag in the last quarter of 1920. In his budget speech at the end of October, Fehrenbach referred to coal deliveries as the most severe ordeal to which the German economy had ever been subjected. The Spa Agreement had

¹ ibid.
thus far been fulfilled, but only, he emphasised, at the price of considerable economic dislocation. "One blast furnace after another would be blown out, industry and transport were suffering from a severe fuel shortage, and the number of unemployed was increasing continuously". The coal shortage brought about by reparation deliveries, he concluded, rightly or wrongly, was causing chaos in every part of German economic life.\(^1\) A month later members of the Nationalist and People's parties claimed that the Spa Agreement was part of a deliberate Allied plan to destroy Germany.\(^2\) Even the Majority Socialist Wels joined in the chorus of protest, although his dissatisfaction arose from the somewhat confused idea that the foreign exchange obtained by Germany under the Spa Agreement had been spent not on food and clothing for the miners but on meeting obligations under the Clearing Agreements instituted by Article 296 of the Versailles Treaty.\(^3\)

The prevalence of such complaints seems to indicate that towards the end of 1920 coal deliveries were having an increasingly undesirable psychological impact in Germany.\(^4\)

\(^1\) Fehrenbach, 27 October 1920, ibid., Vol. 345, p. 787. For a less coloured account of the economic effects of the Spa Agreement, see above, pp. 58, 60-7.


\(^3\) As Simons pointed out, Wels' complaint was really not that the miners had been denied the necessaries of life which they had been promised, but that, because of the absorption of foreign exchange by Article 296, essential imports had been financed by the dangerous method of selling paper marks; ibid., 24 November 1920, Vol. 345, p. 1221.

\(^4\) Disputes over deliveries of livestock and the Allied attempt to destroy diesel engines as war-like material also caused ill-feeling at this time; cf. Simons, 29 October 1920, ibid., Vol. 345, p. 858.
This impact would not have been softened much by awareness that the total amount of coal available for German domestic distribution had not been noticeably reduced by the Spa Agreement.¹ Nor would the force of the complaints which were made have been diminished noticeably by the fact that they came mainly from Nationalists and from interested right-wing industrial groups.² Nor, finally, would the agitation at the end of November have lost a great deal of its domestic effect because its tone was designed to persuade the Allies not to renew the Spa Agreement when it expired in January 1921.³ What did in fact deprive coal deliveries of much of their psychological significance in this period was the growing preoccupation of the German public with the question of Germany's total reparation obligation. The criticism of the Spa Agreement in October and November was merely part of a general storm of indignation which had been aroused by the prediction of Wirth, the Finance Minister, that the treaty budget for 1920-1 would amount to 41 billion paper marks. Wirth's figures, and, later, the negotiations which they had been designed to sway, became the dominating influence on domestic and foreign attitudes to Germany's financial future.

Thus it was relatively unimportant that at the end of January

¹ See above, pp. 57-8.
² For the complaints outside the Reichstag at this time, see above, pp. 60-1; p. 61 Note 1.
1921 the German government published a pessimistic memorandum on the size of post-Spa coal deliveries;\(^1\) and that the delivery rate of 2.2 million tons a month which was set - but not in practice enforced\(^2\) - by the Reparation Commission aroused hostile comment from Scholz, the German Minister for Economic Affairs.\(^3\) By the beginning of 1921, the attention of the German public had been absorbed completely by the negotiations which were taking place on the subject of Germany's reparation liability.

Thus, despite the threatening terms of the Coal Annex, the question of reparation coal deliveries did not have any noteworthy impact on German financial politics in the period before May 1921. Before the middle of 1920, German discontent was minimised largely because the Allies, in practice, only insisted on deliveries which were much smaller than those envisaged in the treaty. A crisis did occur over the coal question at the Spa Conference in July 1920 when the Allies, after having failed in previous months to assist Germany either to increase her coal production or to solve her distribution problems, demanded a sharp rise in deliveries. But the break-up of the conference was averted and Allied claims were met after it had been agreed to provide Germany with credits for her essential imports and after a verbal assurance had been given as to the future distribution of

\(^{1}\) The Times, 5 February 1921, p. 8.
\(^{3}\) Scholz, 4 February 1921, Reichstag, Vol. 347, p. 2404.
Upper Silesian coal. Because of these Allied concessions and because of the general preoccupation with the question of disarmament, the initial effect of the Spa Agreement on German opinion does not appear to have been bad. When a powerful agitation against the Agreement developed a few months later, the psychological impact of the coal question was overshadowed by that of negotiations over Germany's total reparation liability.

(e) Negotiations over the General Reparation Question before May 1921

The failure of all attempts to remedy the menacing imprecision of the Reparation Chapter about Germany's total reparation obligation was the most psychologically disturbing aspect of the reparation problem before May 1921. The uncertainty created helped both to generate financial pessimism within Germany and to keep the mechanism of international credit jammed. For until Germany's total obligation was fixed at a reasonable figure there was little to assure either German politicians or international capitalists of Germany's future financial and economic viability.

The responsibility for fixing the amount and the mode of payment of Germany's total reparation liability had in the first instance been delegated by the framers of the Versailles Treaty to the Reparation Commission.1 Article 233 of the treaty had directed that, after examining claims to reparation

and after giving the German government a just opportunity
to be heard, the Commission should before 1 May 1921 inform
Germany of her obligations. However, in June 1919, the
Allied representatives at Paris had, in their reply to the
German counterproposals of 29 May, expressed the view that
it would be advantageous to arrive "as soon as possible at
the fixed and definite sum which (should) be payable by
Germany and accepted by the Allies". ¹ For this reason the
Allied Note of 22 June 1919 and a Protocol attached to the
treaty had invited the German government "to submit documents
and proposals in order to expedite the work connected with
reparation within four months of the signature of the Treaty". ²
This invitation opened the way for the several attempts which
were made in the period before May 1921 to by-pass the
Reparation Commission and to arrive at a "lump sum" reparation
settlement by direct negotiations between the Allied and
German governments. It was only in the early months of
1921, after direct negotiations had ended in rupture, that
the Reparation Commission attended seriously to its duties
under Article 233 and devised the London Schedule of Payments,
which was transmitted to Germany on 5 May 1921.

The delay in the ratification of the treaty until
January 1920 precluded any attempt at a prompt lump sum
settlement. Moreover, in the early months of 1920, neither
the Allied nor the German governments seemed particularly

eager to broach the subject. The French government was however aware that, if its reparation claims against Germany were to be speedily realised, it was necessary that some figure - if only a provisional one - should be named as Germany's total liability. Thus, although he clearly envisaged that any early settlement should be arrived at through the offices of the Reparation Commission, Millerand fell in with Lloyd George's proposal at San Remo in April that the German government should be arraigned at the Spa Conference for its alleged failure to make any proposals within four months of the signature of the treaty. Accordingly the invitation to the Spa Conference addressed to the German government complained that, besides her other violations of the treaty, Germany had "taken no steps, as was provided for under the protocol to the treaty, towards ascertaining her liabilities under the head of reparation or towards making proposals for fixing the total amount she could thus pay". Since the German government would be obliged by this accusation to put forward a proposal of some sort at Spa, it became necessary for the Allies to agree upon a reparation scheme which they could, if they wished, use as a counter to any German suggestions. At the Conference of Hythe on 15 and 16 May, several British schemes involving sums of 100 to 120 billion marks were discussed and referred to a panel of

experts for further examination. On 20 June at a second conference at Hythe the experts submitted a plan for payments at a rate of 3 billion gold marks a year between 1921 and 1926, 6 billions a year between 1926 and 1931 and 7 billions a year between 1931 and 1963 - a total of 269 billion gold marks to be paid over a period of 42 years. It was recommended that Germany should raise foreign loans in order to liquidate her obligations speedily; and that industrial shares and the receipts from customs should be pledged as securities for her payments. These proposals were approved in principle by the heads of governments at a meeting at Boulogne on the following day. It was however agreed that the Allies should make no final decision on any schemes mooted at Spa until the Reparation Commission had been consulted.

Meanwhile, the German government had intimated that it favoured direct negotiations over its reparation obligations. On 26 April 1920 Wirth declared in the National Assembly that a prompt settlement of her reparation debt would be entirely to Germany's advantage. Probably with an eye to the contents of the Allied invitation of the same day to the Spa Conference, he also announced that a German proposal would be submitted before 10 May 1920, and thus implied that the four-month period stipulated in the protocol to the treaty ran not from the date of the signature of the treaty but from that of its ratification.

1. ibid., Vol. VIII, pp.261-78.
2. ibid., Vol. VIII, pp.331-3. The annuities did not include the costs of the armies of occupation.
The Allied Note of 26 April obviously precluded the submission of any German scheme before the Spa Conference. In any case it soon became clear that, because of the difficulty of estimating Germany's future capacity and because of the danger of offending their respective public opinions, both the Allied and the German governments in practice preferred vague and temporary formulae rather than an immediate and precise settlement. This became obvious in June when the Germans, Bergmann and Melchior, discussed with the Reparation Commission the form of the German offer to be made at Spa. The main suggestion which emerged was that, in order to prevent any offer from appearing too low, there should be provision for increasing Germany's payments in accordance with a "prosperity index". Flexibility, if not studied imprecision, was the key-note of the various memoranda which were laid before the Spa Conference by the German government a few weeks later. In a document dealing with Germany's total liability and capacity to pay, the only figures cited referred to the amount which, it was claimed, had already been paid under Article 235; and to the 30-year time limit which, it was insisted, should be imposed upon reparation payments. Only general recommendations were made about a minimum annuity, about Germany's total liability and about the use of a "prosperity index". Other memoranda

2. C. Bergmann, op. cit., p. 36.
which dealt with the organisation of deliveries in kind and
with the problem of reconstructing the devastated areas were
of a similarly general character. 1 When the Allies discussed
the German proposals on 12 July, both Lloyd George and
Millerand were reluctant to mention definite figures, the
former for political reasons and the latter because of his wish
to avoid trespassing on the province of the Reparation
Commission. 2 Nor were the speeches of the German representatives
on the following day any more precise. Bergmann submitted an
incomplete summary of deliveries to the alleged value of 20
billion gold marks which had already been made by Germany.
Wirth, the German Finance Minister, stressed the unlikelihood
of an annuity of 3 billion gold marks which, he pointed out,
was equal to the entire paper-mark expenditure of the German
government on ordinary account. Finally, Melchior stated openly
that it would be undesirable to risk an impasse by naming any
specific figure; and emphasised that the shape of any
reparation agreement would, in any case, depend upon the fate
of Upper Silesia. 3 It was not surprising that there was no
further discussion of the general reparation question at Spa.
But on 16 July, the last day of the conference, Delacroix,
the chairman, opened the way for further negotiations by
proposing that the German memorandum should be referred to a
special commission, composed of Allied and German

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1. ibid., pp.91-3.
representatives, which should meet at Geneva in a few weeks' time.¹

There was comparatively little comment in the Reichstag about the failure of the Spa Conference to grapple with the general question of reparation. This was however due less to any optimism about the result of the projected Geneva conference than to preoccupation with the issues of disarmament and coal deliveries. In his speech on 26 July the German Foreign Minister, Simons, expressed the hope that at Geneva the limits of Germany's capacity to pay would become clear.² But an exchange between Simons and the Socialist, Stampfer, on the following day revealed that the Foreign Minister's confidence was distinctly limited.³ So far as it was expressed, the attitude of the parties to Geneva ranged from scepticism of this type to frank pessimism on the extreme right and left.⁴ But it is clear that at this stage the fixing of Germany's total liability was by no means a major subject of concern.

¹ ibid., p. 641.
² Reichstag, Vol. 344, p. 266.
³ Stampfer (SPD), 27 July 1920, ibid., Vol. 344, p. 273: "Die Vertreter der deutschen Regierung werden dort (at Geneva) mit den Vertretern der bürgerlichen Regierungen der westeuropäischen Staaten zusammentreffen, und ich will hoffen, dass die Zuversicht, die Herr Dr. Simons bezüglich dieser Verhandlungen gefässert hat- (Reichsminister des Auswärtigen Dr. Simons: Die leise Hoffnung!) - die leise Hoffnung, korrigiert Herr Minister Dr. Simons - dass sich diese leise Hoffnung erfüllen wird."
Developments in the next few months ensured that when the Reichstag reassembled after its summer recess much more emphasis would be placed upon the general reparation question. The first reason for this was the repeated postponement of the Geneva conference. During conversations with the Italian Prime Minister, Giolitti, on 22nd August, Lloyd George attributed this procrastination to French pressure. "Germany," he said, "was like a bankrupt who could not pay the whole claim against him. This would become clear at Geneva, and France would then for the first time have to face the position of having to accept something less than the full claim. M. Millerand could not face the Chamber with that." Because of this political timidity and because of French insistence that the reparation question should be settled by the Reparation Commission rather than by a conference of experts, no meeting of the type envisaged at Spa took place until December 1920.

A further cause for German dissatisfaction was that there was no discussion of reparation at the International Financial Conference held at Brussels in September-October 1920 under the auspices of the League of Nations. It had originally been expected that the reparation question would be dealt with at Spa, and in any case there was considerable opposition (above all from France) to any discussion of the treaty by an international body. The result of this artificial limitation of the agenda was that the recommendations of the Conference in

2. ibid., Vol. VIII, pp. 792-4, 806.
favour of retrenchment, balanced budgets and the funding of floating debts were rather unreal when applied to Germany. The words with which Wirth opened his speech on the budget for 1920 revealed that by the end of October the reparation question was having an increased impact upon German financial politics.¹

"The last occasion on which there was discussion in this House on the subject of federal finance was just before the Spa Conference. At that time we expected that an approach would at last be made at Spa to the problem of fixing our treaty obligations within the limits of Germany's capacity to pay. The negotiations did not follow the course which we hoped. The certainty which we need for a far-reaching financial policy has still not been provided. Spa has added to Germany's economic burden without reducing the uncertainty which prevails."

Wirth's speech also contained severe criticism of the Brussels Financial Conference. The principles of public finance which the conference had expounded were, Wirth conceded, unexceptionable; but, because of the effects of war, defeat, revolution, the armistice and the peace treaty, the recommendations which it made, especially in respect of raising internal and external loans, were merely counsels of perfection for Germany. The main reason for this lack of realism was the failure of the Conference to discuss the peace treaty.²

"The fact that there was to be no discussion of the economic and financial implications of the Peace Treaty, which is the principal source of all financial problems and distress, made it immediately obvious that the Brussels Conference could not solve the over-all financial malaise."

². ibid.
During the course of the budget debates of the next few weeks, other speakers also deplored the financial effects of the non-settlement of Germany's reparation obligations. However, the part of Wirth's speech which produced most echo in the Reichstag was not that in which he dealt with the question of Germany's total reparation liability but his comments on the size of the budgetary burden which had already been imposed upon Germany by deliveries under Article 235 of the treaty. He predicted that the cost of executing the treaty in the budgetary year 1920-21 would amount to 41 billion marks, or more than the total ordinary expenditure of the federal government. From this figure he concluded that to continue reparation payments even at their present rate was impossible.

"It must be stated quite categorically: no state could bear burdens such as these. There is no finance minister in the world who could pledge himself to cover these huge sums and domestic expenditure as well out of taxation. It would be completely impossible."

There can be no doubt that Wirth's estimate of the German government's current reparation burden played a great part in inducing the attitude of financial pessimism which most speakers either expressed or commented upon in the ensuing

1. The psychological impact of Wirth's remarks was almost certainly heightened by his efforts to influence the negotiations which were imminent in the subject of the general reparation question. Wirth declared that he had long been aware of the need for propaganda to spread recognition of Germany's financial difficulties, and he openly referred to the budget for the execution of the treaty as a means of meeting this need. The treaty budget was, in his words, "the best propaganda weapon (Agitationsmittel) which the German people had at its disposal". It should therefore be "made known to millions of people all over the world". Wirth's desire to use the budget as an instrument of propaganda may have prompted him to make the distinction between the general budget, the treaty budget and the budget of the public utilities which, by treating the huge deficits of the latter separately, emphasised the importance of expenditures arising out of the treaty as against routine domestic expenditures. Moreover, although it is probably not true that the estimates for the treaty budget were deliberately inflated, Wirth's


2. ibid., 4 November 1920, Vol. 345, p. 962.

3. ibid., 27 October 1920, Vol. 345, p. 793.
eagerness to impress world opinion probably contributed to the large discrepancy between estimated and actual expenditure under this head.\(^1\) Thus, partly because of the continued uncertainty as to Germany's total obligation and partly because of the German government's desire to create a sympathetic atmosphere abroad for future negotiations on this subject, the reparation question was beginning to exert an increasingly unfavourable psychological effect upon German financial politics. The general decline in confidence in Germany's future which occurred at this time was, incidentally, reflected in a temporary slump in the external value of the mark in late October and early November 1920.\(^2\).

From the end of October, Franco-British negotiations at last gave promise of definite progress towards a cabinet-level reparation settlement.\(^3\). It was agreed that a preliminary meeting of Allied and German technical experts should be convened at Brussels in December for the purpose of reporting to the various governments and to the Reparation Commission on the subject of Germany's total liability. After the

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2. Die Entwicklung der Reparationsfrage, p. 15.

Brussels experts had submitted their reports, and after the fate of Upper Silesia had become known, a further conference was to be held at Geneva at which the reparation question would be discussed and settled as had been promised at Spa. The decisions of this conference were to be transmitted to the Reparation Commission which would then proceed, in accordance with the treaty, to announce the amount and manner of German payments.

The Brussels conference of experts took place between 16 and 22 December 1920. The policy of the German government on this occasion was, in the words of Lord D'Abernon, not to offer a lump sum or to propose a scheme of payments, but "to invite (the) delegates to examine (the) whole financial and economic position of Germany together with (the) German delegates in order to arrive at (a) workable and elastic scheme which (would) consolidate German finance, avoid the danger of bankruptcy and provide (the) best result for (her) creditors available in the circumstances". 1.

The conference opened with speeches by Schroeder, a Secretary of State to the Treasury, and Havenstein, the President of the Reichsbank, on the state of the German budget and of the mark exchange. 2. On the following day another German representative (Bergmann) laid down, in a speech which on his own admission contained nothing particularly new, the general principles which should govern any reparation scheme. Germany's liability was to be fixed as soon as possible at a figure which would not drive

1. D'Abernon to Curzon, 9 December 1920, ibid., p. 561.
her to financial despair. Payments should be limited to a period of thirty years and should be made entirely in kind until Germany's external and internal finances had been set in order. If Germany's financial viability was to be maintained several concessions, apart from the facilitation of loans, would have to be made by the Allies. The costs of the armies of occupation would have to be reduced; Germany should retain Upper Silesia; German private property held in Allied countries should be released; the clearing agreements under Article 296 of the Treaty should be executed less rigorously; Germany should be allowed to keep sufficient merchant shipping to enable her to carry on her trade and should enjoy economic equality with other nations. Most of these suggestions had been made to little effect by the German representatives at Spa a few months earlier. However, the fuller discussion which was possible at Brussels appears to have impressed the Allied experts. A month later they reported to the Supreme Council in favour of reducing the costs of the armies of occupation to 240 million gold marks a year, waiving further deliveries of merchant shipping and restricting reparation payments almost entirely to deliveries in kind.

Despite the progress made at Brussels on these side issues, there was still little prospect of an agreement upon the central question of Germany's total liability.

1. ibid., pp. 47-9; Sammlung von Aktenstücken..., pp. 16-17.
2. For the detailed Allied questionnaire on financial topics presented to the German Delegation: ibid., pp. 60-71. For the German delegates' replies: ibid., pp. 72-232.
Largely because of British pressure for an early settlement, several figures were discussed informally by the experts of both sides during meetings at Brussels and Paris before and after Christmas 1920. However, a plan drawn up early in January which envisaged 30 annuities of 3 billion marks (plus additional payments in accordance with any increase in German prosperity) and which provided for the release of sequestrated German private property, was rejected by German, English and French experts in turn.1

The impossibility of bridging the gap between Allied and German views on Germany's present and future capacity prompted that French financial expert, Seydoux, to put forward on 7 January 1921 a scheme for a provisional five-year reparation settlement which, in its original form, involved annuities of 3 billion marks.2 Out of recognition for the opinion of both Allied and German experts that substantial cash payments were temporarily impossible for Germany, the scheme contained detailed suggestions for the organisation of deliveries in kind.3 This proposal was at first rejected by the German government for tactical reasons which were advanced largely by the industrialist group within the DVP. The prevailing German view was that a prompt realistic settlement of Germany's total obligation at a time when she

1. ibid., p. 52.
was in a weakened condition would be less onerous than a settlement which was arrived at five years later when the German economy had recovered. However, prompted by British and French representatives in Berlin, the German Foreign Minister, Simons, obtained on 15 January the general approval of the German Cabinet for a temporary settlement, although there was no agreement on the sums involved or on the general conditions upon which such an arrangement would hinge. But further progress in this direction was halted abruptly by the action of the Allied Supreme Council when, on 24 January, it met unexpectedly in Paris to discuss the questions of reparation and disarmament. Although the Brussels experts took the opportunity to present a report which recommended some of the concessions for which the German government had asked and which incorporated a revised version of the Seydoux payments plan, their suggestions went unheeded. On 28 January the Supreme Council, without reference either to the Brussels experts or to the German government, adopted a reparation scheme which envisaged payments of 226 billion gold marks over a period of 42 years. These payments were to be made in annuities which, after 11 years, rose to the enormous figure of 6 billion marks. The basic annuities for the first five years were the same as those in the amended Seydoux

1. C. Bergmann, op. cit., p. 55.
3. For the Brussels experts’ recommendation in favour of a temporary settlement, R.C., V, p. 27.
proposal; but a provision for an additional levy of 12% of the annual value of German exports ensured that the amount to be demanded would, in practice, be much greater. What was more, the costs of maintaining the Allied armies of occupation and the Allied Control Commissions were not included in these figures.  

The Supreme Council's disregard for the views of the Brussels experts shows that the Paris Resolutions were more a reflection of the internal political embarrassment of the Briand government than they were of any serious intention of reaching an economically viable settlement of the reparation question. For this reason the Resolutions understandably caused a sensation in Germany and provoked a highly unfavourable reaction from the German government. A major cause of complaint, apart from the impossibility of the sum demanded, was the confusing and embarrassing fluctuation of Allied policy on the question of a provisional as opposed to a final settlement of Germany's obligations. "Seldom," Simons declared to the Reichstag on 1 February, "has any political discussion created as much confusion either through its conduct or through its results as has the recent conference in Paris....People had just recovered from their surprise at Germany's preparedness to accept, under certain conditions, the Seydoux proposal as a basis for further negotiations. But at the very outset of the Paris discussions

came the speech of the French Finance Minister, Doumer, which completely abandoned the Seydoux Plan and mentioned an exorbitant figure as Germany's total liability." 1 A further feature of the Paris Resolutions which dissatisfied Simons was that they violated the Treaty of Versailles in several important respects. They had been communicated to Germany before the discussions of the Brussels financial experts had been completed and thus before Germany had been granted the just opportunity to state her case which had been prescribed by Article 233 of the treaty. Other violations of the treaty had been committed, Simons claimed, by the extension of the payment period beyond 30 years, by the direction that the German government should issue bonds to the value of 226 billion marks (as opposed to the 100 billion marks mentioned in the treaty), and by the infringement of German economic sovereignty which was threatened by the proposed 12% export levy and the projected use of customs receipts for reparation purposes. 2 Finally, Simons protested against the verbal threat of sanctions which had been made by Lloyd George at Paris when he declared that failure by Germany to accept the Resolutions or to make suitable counterproposals would precipitate a further occupation of the Rhineland and the creation of a customs barrier between the occupied territory and the rest of Germany. 3

2. ibid., pp.2302-3.
3. ibid., p. 2304.
In view of all these undesirable features, the Paris Resolutions could not, Simons concluded, be accepted as a basis for further negotiations. It was therefore incumbent upon the German government to make simple and clear counterproposals which would be circumscribed strictly by Germany's capacity to pay. If these counterproposals offended Allied public opinion this would be the fault of the Allied statesmen who had painted a false picture of Germany's capacity to pay and who had stunned the German people with their recent proposals.¹

Simons' speech indicated that, as a result of the Paris Resolutions, the short-lived trend of the German policy in favour of a temporary settlement had been reversed. Not only did the German government now desire an immediate agreement upon Germany's total liability; it was also prepared to negotiate on the subject in a manner which could easily lead to a diplomatic rupture.

The indignation expressed in Germany concerning the Paris Resolutions was so vocal that one observer likened it to the outcry which greeted the draft of the Versailles Treaty in May 1919.² In the Reichstag most of the parties appear to have supported the shift of German reparation policy in the direction of a trial of strength with the Allies. On 2 February Schiffer protested on behalf of the three government parties that the Allied demands were contrary to the Versailles

¹ ibid., p. 2305.
Treaty and that they were incompatible with the economic survival and honour of Germany.\(^1\) Of the opposition speakers, the Majority Socialist Müller declared that no German government, whatever its composition, could accept the Allied demands; and Herdt (DNVP) emphasised his party's opposition to any negotiations whatsoever on the basis of the Paris Resolutions.\(^2\) Only on the extreme left was there any real criticism of the government. The Independent Socialist Ledebour attacked Simons for declaring that the only possible basis for discussion would be the German counterproposals and stressed that discussions of any sort would be worthwhile.\(^3\) The Communist, Levi, also criticised the uncompromising attitude of the government. In view of Germany's weakness vis-à-vis the Allies, the only realistic course for her was to seek an alliance with the Soviet Union.\(^4\)

Apart from the strong support it received in the Reichstag, other factors encouraged the government's new policy. The influence of the right-wing of the DVP, which had delayed the Cabinet's approval of the Seydoux Plan, almost certainly reasserted itself.\(^5\) The advisability of a firm stand against the Paris Resolutions was also probably increased in the eyes of the government by indications that the British government was not squarely behind French reparation policy. At the end

2. ibid., p. 2310.
3. ibid., p. 2311.
4. ibid., p. 2312.
5. ibid., pp. 2316-8.
of February, Stresemann received a report of a statement by Kilmarnock, the British Charge d'Affaires in Berlin, to the effect that British support for French policy depended to a large extent upon Lloyd George's egotistical desire to preserve the Anglo-French Alliance. The inference to be drawn was that a resolute German stand would cause Allied policy to be substantially modified.

The reversal of German policy was reflected in the manner in which the German government prepared its counter-proposals to the Paris Resolutions which were to be presented to a conference at London at the end of February. At the close of the Paris Conference the German government refused an invitation by the Allied Experts to renew the detailed discussions at Brussels which had been interrupted by the activities of the Supreme Council. This meant that there was to be no preliminary contact between Allied and German experts before the London Conference assembled.

The German government entrusted preparations for the London Conference to a Committee of Experts whose members included: Stinnes, Lübken, Vogler, Rathenau, Melchior, Wiedfeldt and Cuno. This group promptly presented a report which predicted that in order to pay the maximum annuity of 6 billion marks envisaged in the Paris Resolutions, Germany would have to increase the value of her exports from its

1. Nachlass, 7003/142526-
estimated 1920 level of 5 billion gold marks to the unlikely figure of 40 billion gold marks. But the German Experts found it impossible to agree upon counterproposals which were to be presented to the Allies. As a result, the scheme which was actually proposed at London was drawn up by Simons himself with the aid of a small group of "very experienced and capable men" and was adopted by the Cabinet on 25 February before the Experts had voiced their opinion. The responsibility of the Cabinet and of Simons himself for the form of the counterproposals was increased by the fact that no German financial experts attended the London Conference. The precise effect of this upon the German offer cannot be gauged. But the absence of German experts at London was due to pressure from the DVP, which regarded the exclusion of all advisers as the only means of preventing the conciliatory Bonn and Rathenau from attending the conference. It is therefore certain that the right-wing of the Cabinet was exerting at least a negative influence upon the conduct of the German delegation at London.

A further symptom of the state of German opinion and of the government's changed policy was that in mid-February Simons delivered speeches in South Germany in which he not only repudiated the Paris Resolutions but also re-opened the highly inflammable question of Germany's alleged "war guilt".

3. Stresemann to Wagner, 31 March 1921, Nachlass, 7002/142242/3
In reply to subsequent left-wing criticism, Simons claimed that his speeches had reflected rather than stirred up South German feeling on this subject. He even stated to the British Ambassador that it would have been "fatal not only for the government but also for the success of negotiations if he had not to some extent taken the popular view". Whatever may have been the precise motive underlying them, Simons' speeches are another indication both of the unfavourable popular reaction to the Paris Resolutions and of the government's preparedness to cause the breakdown of the imminent negotiations in London.

The attitude of the German government and the manner in which its counterproposals were framed explains the considerable gap between Allied reparation demands and the German offer which was made by Simons at London on 1 March. The Paris Resolutions had envisaged total payments of 226 billion gold marks over a period of 42 years, in annuities ranging from 2 to 6 billion marks. Simons proposed that the German obligation should be fixed at 50 billion marks. 20 billions, he alleged, had already been paid by means of deliveries under Article 235. Of the remaining 30 billions, a third could be liquidated within five years by means of an international loan; and the residue, which was to bear interest at 5%, could be amortized over the following 25 years.

On the assumption that interest payments on the international loan would be at the rate of 5%, the annual financial burden imposed upon Germany by this scheme would be about 1.5 billion marks.¹.

Apart from the smallness of the German offer, the manner in which it was presented was certain to be offensive to the Allies. The most objectionable feature was Simons' patently fallacious attempt to relate his proposals to the Paris Resolutions. The figure of 50 billions was derived by discounting the Paris annuities at the rate of 8% in order to arrive at their "present value". But since the German government did not intend to make an immediate lump sum settlement of reparation, this scaling-down was indefensible. A further tendentious aspect of the scheme was the deduction of 20 billion marks on account of deliveries under Article 235. Simons produced no evidence to support this figure, even though the Reparation Commission had a few days before estimated the value of these deliveries at only 8 billions.².

Yet another obvious flaw in the German proposal from the Allied point of view was that, whereas in calculating the "present value" of the Paris annuities a discount rate of 8% had been used, the rate of 5% was suggested in connection with Germany's interest payments on her outstanding reparation obligations.

Other unsatisfactory features of the German offer were that it was conditional upon the retention of Upper Silesia by Germany; and that it contained no provision for adjusting German payments in accordance with increased German prosperity.

The form and content of the German counterproposals, together with Simons' denials of German "war guilt" in previous weeks, ensured a violent Allied reaction at London. On 3 March Lloyd George, speaking on behalf of the Allies, dismissed the German offer as unworthy of consideration. After stressing the connection between Germany's obligation to pay reparation and her responsibility for the war, he pointed out that German taxation was lighter than that in Allied countries. He therefore announced that sanctions would be imposed unless a more acceptable German offer was received before 7 March.¹

This adamantine Allied response caused an immediate change in the tactics of the German delegation. In the following days Simons made several proposals which either modified the Allied payments scheme or constituted a fresh approach to the reparation question.² His first suggestion was that the duration of the Paris scheme should be reduced from 42 to 30 years. But this proposal was shelved when the Allies insisted on the impossible condition that the annuities should be 3 billion gold marks and, in addition, an

¹ "Weissbuch...vom 1. bis 7. MArz 1921", loc. cit., pp.152-67.
² The account here given is based on that of Simons: Reichstag, 12 March 1921, Vol. 348, pp.2844-6.
unspecified variable sum. Simons attempted next to obtain agreement upon a definite programme for the reconstruction of the devastated areas in France. However, progress in this direction was blocked by France's opposition to the presence of German labour colonies upon her soil and by the unwillingness of French industry to be deprived of reconstruction contracts by Germany. Finally, Simons revived negotiations on the subject of a provisional settlement. An initial suggestion of a temporary payments plan based on the first five annuities envisaged in the German counterproposals was promptly rejected by the Allies. A more generous offer of five annuities of 3 billion marks on the condition of success in floating an international loan was also rejected because it contained no provision for additional variable payments. Simons therefore reverted to the schedule laid down in the Paris Resolutions - two annuities of 2 billions followed by three annuities of 3 billions - and combined this with a promise of an additional sum equal to the yield of the proposed 12% export levy. However, the Allies were still dissatisfied, even when this offer was gilded with Simons' undertaking - given at the eleventh hour without the knowledge of the German Cabinet - that Germany would guarantee the success of any international loan which was to be raised. The reasons for continued Allied disapproval were Simons' insistence on retaining Upper Silesia and his failure to name a guaranteed
minimum annuity for the last 25 years of any scheme.¹

The failure of these last-minute efforts to achieve a temporary settlement and the consequent break-up of the London Conference on 7 March were obviously not due to any German intransigence in the last few days of the negotiations. The policy of the German Cabinet had in fact softened noticeably after the opening of the conference, and Simons' efforts to obtain a temporary settlement had received its full support. Even his pledge that Germany would guarantee the success of the international loan operation was retrospectively endorsed by the Cabinet.²

The Cabinet's more conciliatory attitude was reflected and perhaps in some degree caused by increased criticism of the government's reparation policy in the Reichstag at the time of the London Conference. During a budget debate on 1 March the Majority Socialist, Keil, had pointed out the misleading gap between Wirth's estimate of government expenditure arising out of the treaty and the disbursements actually made. The discrepancy between the 42 billion paper marks budgeted and the 17 billion paper marks actually spent up to 1 December 1920 would lower the confidence of the Allies in Germany's good faith. Keil also criticised a Secretary of State, Schroeder, for his statement at the Brussels Conference in December that

¹ Cf. Lloyd George on 7 March 1921: "Weissbuch...vom 1. bis 7. März 1921", loc. cit., p. 182.

The right-wing of the DVF, however, disapproved of Simons' offer at a party meeting on 8 March, Nachlass, 7003/142563/5.
German direct taxation had been pushed to its uttermost limit. There was, on the contrary, Keil claimed, widespread popular indignation at what even official circles referred to as "the grand fiasco" of property taxation.¹

More such outspoken criticism, which the Nationalist Helfferich condemned as a "stab in the back" of the German delegation at London (of which Schroeder was a member),² was expressed in the next few days. Apparently because of pressure from the Left, Fehrenbach reluctantly gave the Reichstag a vague assurance on 5 March that, although Simons would not sign any agreements which the German nation could not bear, he would explore within prescribed limits, every available avenue of negotiation.³ In the debate precipitated by this declaration, the Majority Socialist Müller insisted on the need for a compromise settlement at London both in order to avert Allied sanctions and in order to allay the growing distrust of Germany's intentions which had been revealed in Lloyd George's speech on 1 March. The Independent Socialist, Breitscheid, although admitting the absurdity of the Paris Resolutions, condemned more severely than the preceding speaker, the "patriotic" and psychologically inept posture adopted by the German government at the opening

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2. ibid., 1 March 1921, Vol. 347, p. 2571.
of the London Conference. Breitscheid was particularly critical of the huge contrast between the figures of 50 and 226 billion marks; and of the failure of the German counterproposals to mention any substitute for the 12% export levy demanded in the Paris Resolutions. He also deplored the absence of any conciliatory German declaration concerning the reconstruction of the devastated areas in the early stages of the Conference. Greater efforts should now be made to ensure the success of the Conference although, in Breitscheid's opinion, a lasting European settlement could only be achieved through the good offices of the organised working class of each country. Stoecker, the Communist spokesman, agreed with Breitscheid's criticisms of the government's policy but differed by predicting that the final solution of Europe's economic troubles would be achieved not through reconciliation and reconstruction but through the break-down of the system of capitalistic national states.

If the Left opposition groups were increasingly critical of the government's reparation policy, the tone of the representatives of the government parties themselves was far more moderate than it had been a month earlier. Some resentment was expressed at the insistence of the Left on a

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1. ibid., pp.2668-9.
2. ibid., p. 2670.
3. ibid., p. 2681
debate while the negotiations in London were still in progress.\textsuperscript{1} There were also protests against Lloyd George's assertion of German "war guilt".\textsuperscript{2} But even those who felt strongly on these points emphasised the desirability of some sort of compromise agreement at London. Stresemann, for one, expressed the conviction that international reconciliation was inevitable irrespective of the success of the London negotiations. "The day of reconciliation," he declared, "will come, because it must come."\textsuperscript{3}

The DNVP was the only party, apart from the VKP, which remained as unconciliatory as it had been at the beginning of February. Its spokesman, Hergt, attacked the left-wing groups for attempting to undermine the united national feeling of previous weeks, and insisted that the original German counterproposal, which had given so much offence to the Allies, should remain the only basis for negotiation.\textsuperscript{4}

The further growth of this moderate attitude in German politics was interrupted by the rupture of the London Conference on 7 March and the Allied announcement on the following day that sanctions would be applied. The measures which were to be resorted to were: (1) the occupation of

\textsuperscript{1} Stresemann (DVP), ibid., p. 2671; Schiffer (DDP), ibid., p. 2677; Trimborn (Zentrum), ibid., p. 2661.
\textsuperscript{2} Stresemann (DVP), ibid., pp. 2672-5; Schiffer (DDP), p. 2679.
\textsuperscript{3} ibid., p. 2777.
\textsuperscript{4} ibid., pp. 2661-5.
Duisburg, Ruhrort and Dusseldorf; (2) the erection of a customs barrier around the Rhineland; and (3) the levying of a tax on German imports into Allied countries. These were sufficient to cause a resurgence of the nationalist feeling of the previous month. The German delegation was generally acclaimed on its return to Berlin for its refusal to give way to Allied pressure. And when Simons reported on his activities at London to the Reichstag on 12 March his tone was noticeably different from that of the government parties a week earlier. Although he did not close the door on future negotiations, Simons predicted that these would be made more difficult by the impact of Allied sanctions on the political atmosphere and economic capacity of Germany. Simons' firmer stand received strong support from the government parties, whose spokesman, Trimborn, even went so far as to declare that all past German reparation offers were void. It was a good indication of the changed circumstances that Westarp, speaking on behalf of the Nationalist Party, expressed approval of the outcome, although not the conduct, of the London Conference. The rejection of Simons' various conciliatory proposals by the Allies was "a piece of luck - more luck perhaps than we have deserved". As could be expected, Westarp was more forthright than Simons or the

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4. ibid., pp. 2849-50.
government parties on the subject of the future policy to be pursued by Germany. He advocated complete abstention from negotiations until the Allied sanctions had been revoked, and even urged a mild form of passive resistance while they remained in force.¹

The new situation created by the imposition of sanctions affected the position of the Left groups. The Majority Socialist Weis absolved the German delegation of any responsibility for the final rupture at London, which he attributed, with some justice, to French intransigence.² But he considered that negotiations should be resumed as soon as possible and was highly critical of the advocates of passive resistance. However, in view of Germany's limited capacity to pay reparation and the imminence of her financial bankruptcy, the whole question should be referred to the League of Nations.³

The Independent Socialists placed the blame for the breakdown of the London Conference squarely upon the German delegation. Simons' sensitivity to right-wing Nationalist opinion had caused him to approach the London Conference in the spirit of a financial lawyer rather than that of a statesman. He had for this reason been unaware of the political need of the Briand government for a paper reparation settlement of at least 220 billion marks. A

¹. ibid., pp. 2863-4.
². ibid., p. 2851.
³. ibid., p. 2858.
policy of conceding to this demand and of banking upon subsequent revision of her obligations was the only one which was realistic for Germany in her present weakened condition. In five years' time the reparation question would have been transformed by the advent of more liberal governments in England and France. ¹ But, although the Independent Socialists were critical of the government's handling of the London Conference, they recognised that the imposition of sanctions had made the resumption of negotiations more difficult for any German government, whether it was drawn from the Right or the Left. In fact, the only means of achieving a reparation settlement was now, in Breitscheid's opinion, through international arbitration.²

The Communist, Levi, divided the blame for the current rupture in negotiations equally between the Germans who had consistently sabotaged the Versailles Treaty and the French who wanted to obtain a Rhine frontier and to cripple the German economy. He went on to reiterate his opinion that Germany should solve her problems by concluding an alliance with the USSR. ³

The lack of influence of those who did not support the government's policy was revealed in the vote at the end of the debate on 12 March. A Communist resolution advocating the resumption of relations with Russia and an Independent

¹ Breitscheid (USFD), ibid., pp. 2869-70.
² ibid., p. 2874.
³ ibid., pp. 2876-81.
Socialist motion censuring German reparation policy were both rejected; and a motion of confidence in the government was passed by 268 to 49.¹

The imposition of sanctions on 8 March marked the end of direct cabinet-level reparation negotiations arising out of the Allied invitation of 22 June 1919. In the next seven weeks the German government made several attempts to obtain impartial arbitration of the reparation question and also negotiated with the Reparation Commission as that body proceeded with the task allotted to it by the treaty of fixing Germany's total liability before 1 May 1921. Failure to secure an arbitrator and dissatisfaction at its dealings with the Reparation Commission encouraged the German government to attempt, on 24 April, to renew direct reparation negotiations through the good offices of the President of the United States. However, all hopes of fresh negotiations were shattered when, on 28 April, the Reparation Commission communicated to the German government its decision that Germany's reparation debt should be fixed at 132 billion gold marks.

The German quest for an impartial arbitrator began with a protest on 10 March to the Council of the League of Nations against the Allied sanctions.² When this met with no response an appeal was addressed on 23 March to the United States government.³ This appeal was, however, framed only in

¹ ibid., pp. 2882-3.
² A.J. Toynbee, op. cit., p. 17.
³ ibid., p. 132.
general terms and it was not until 20 April, after an attempt to secure Papal mediation had miscarried,\textsuperscript{1} that President Harding was actually invited to arbitrate. In a note of 22 April, Harding declined this invitation but offered to pass on to the Allies any German proposals which he considered a reasonable basis for negotiation. It was in response to this offer that the German government made its gesture of transmitting a new reparation proposal on 24 April. But this proposal was brushed aside first by the decision of the Reparation Commission on 27 April and subsequently by a United States Note of 3 May which declared that the German scheme was not an acceptable basis for negotiations with the Allies.\textsuperscript{2}

The negotiations between the German government and the Reparation Commission in March and April 1921 attracted considerable attention because, with the approach of 1 May 1921, and in the absence of any cabinet-level reparation settlement, the responsibilities of the Commission grew proportionately greater. In the course of its task of assessing Germany's total liability the Commission had to settle the subsidiary question of the value of Germany's preliminary reparation payments under Article 235 of the treaty. The divergence between Allied and German opinion on this subject had become noticeable early in 1921. The

\begin{itemize}
\item \textsuperscript{1} Simons, 26 April 1921, \textit{Reichstag}, Vol. 349, p. 3417.
\item \textsuperscript{2} ibid., 3 May 1921, Vol. 349, p. 3543.
\end{itemize}
incomplete summary of deliveries submitted by Bergmann to the Spa Conference in July 1920 had been supplemented by a German memorandum to the Reparation Commission on 20 January 1921 which claimed that payments already made amounted to 21 billion marks. On 26 February the Reparation Commission replied that the German figure was an overestimate of 13 billion marks, and that an additional payment of 12 billions was therefore necessary before Germany had fulfilled her 20 billion mark obligation under Article 235. Subsequent negotiations did little to close the gap between these estimates. Simons' speech on 1 March at the London Conference made no reference to the Commission's valuation; and a German Note of 14 March disputed it. A peremptory demand by the Reparation Commission on 15 March for payment of the outstanding 12 billions (the first billion by 23 March; the remainder to be raised through an international loan) was ignored by the German government. Accordingly, on 24 March, the Reparation Commission declared Germany to be in default in respect of her obligations under Article 235. However, since both the demand and the declaration were intended largely as a belated justification for the imposition of sanctions on 8 March, they did not lead to any positive action. On 16 April the Reparation Commission made the more realistic demand that the Reichsbank's gold and silver reserves should, on pain of their confiscation,

be transferred to the Reichsbank's branches at Cologne and Coblenz. On 22 April the German government refused this request but offered instead that the Reparation Commission's control over the export of gold from Germany¹ should be prolonged from 1 May to 1 October 1921.² This concession did not satisfy the Reparation Commission, which on 25 April reverted to its earlier demand for a prompt payment of one billion marks - this time before 30 April 1921. The German government was ready in principle to comply with this more limited request and stated that an offer of an immediate payment of one billion marks was part of the scheme which it had transmitted to President Harding on 24 April. However, the Reparation Commission could brook no further delay, and on 3 May it announced that Germany was in default in respect both of the immediate payment which had been demanded of her and of a further sum of 11 billion marks. But this declaration of default, like that of 24 March, was regarded by the Reparation Commission more as a formal justification for disciplinary measures than as a prelude to an attempt to collect the sums outstanding. The ultimatum which was transmitted to Germany on 5 May with the London Schedule of Payments advanced the default under Article 235 as a reason for the threat of further sanctions; but it suggested no way of remedying this default. Moreover, although a demand for the

¹. Under Article 248 of the Versailles Treaty.
². A law to this effect was passed on 28 April: Reichstag, Vol. 349, pp. 3461-2.
payment of one billion gold marks within 25 days was included in the London Schedule, no explicit reference was made in this context to Article 235. Since the matter was never raised subsequently, the practical financial outcome of the dispute over the value of Germany's preliminary payments was negligible. But such friction between the Reparation Commission and the German Cabinet must have had an undesirable effect on German opinion.

More ill-feeling was generated between the German government and the Reparation Commission in March and April by the manner in which the latter consulted the former when it was adjudicating on the claims for reparation which had been submitted to it. The hitherto leisurely work of the Commission in this sphere had been intensified from the end of January 1921 when it had become clear that negotiations over a lump sum settlement were unlikely to succeed. This meant that the responsibility for estimating Germany's total liability before 1 May 1921, in accordance with Article 233 of the treaty, would devolve upon the Commission. Thus a deadline for the submission of claims was set at 12 February, and those which had been received to that date were referred to the German War Burdens Commission (Kriegslastenkommission) for its criticism. Subsequently an opportunity was given to representatives of the German government to present their case to the Reparation Commission. These hearings were completed on 12 April, but,

1. The remainder of this paragraph is based on R.C., V, pp.31-4.
although they had extended over 90 hours, the head of the German delegation (Ruppel) complained that they had been inadequate. Thus, on 22 April 1921, the German government formally denied that it had been accorded the "just opportunity to be heard" which it had been promised in Article 233.

It was against this background of failure to secure impartial arbitration and growing dissatisfaction with the behaviour of the Reparation Commission that the German government's proposal of 24 April should be viewed. It seemed likely that a reparation scheme was about to be imposed upon Germany by a body over which the German government had little influence and which it had little cause to trust. Moreover, since this scheme would almost certainly be beyond Germany's capacity it would lead inevitably to the imposition of sanctions. In these circumstances there seemed to be every justification for a desperate last effort to achieve a reparation settlement through cabinet-level negotiations.

The German proposal was something more than a hasty attempt to stall off a decision by the Reparation Commission. It also expressed a new desire to convince Allied and neutral opinion of the sincerity of Germany's desire to pay as much reparation as she possibly could. "The government," Simons declared to the Reichstag, "is of the opinion that in formulating this proposal it should go the limit of Germany's
capacity to pay reparation. This is necessary because our past estimates of our financial and economic position have unfortunately antagonised almost everybody in the world. As far as we can gather, it is the verdict of world opinion that Germany is underestimating her capacity. Simons' concern about Germany's reputation abroad seems to have been first aroused during his visits to Switzerland and other neutral countries in March and April. It had been sharpened by the apparent imminence of sanctions at the end of April. Germany's moral position would be considerably weakened in the event of punitive measures by the Allies if it was generally believed that she had been seeking to evade her obligations.

The German offer would be worth making if it did anything to remove these convictions even though, as Simons predicted, it might not be accepted by the Allies.

The German desire to appease Allied and neutral opinion was reflected in the form taken by the new offer. In the counterproposals which it had made at London, the German delegation had been concerned only to establish a maximum figure which, in its present state, Germany could be sure of paying. This had accounted for the lowness of the figures mentioned and for the omission of any scheme for adjusting payments to any future improvement of the German economy.

3. ibid., p. 3423.
By contrast, the German proposal of 24 April did not name a fixed sum. Instead it suggested a flexible scheme of annuities which would vary in accordance with the amount which could be raised by an international loan and also in accordance with Germany's prosperity. The contrast with the London proposal was heightened by the optimism implicit in the scheme concerning Germany's capacity to pay, above all in respect of that part of the annuities which would not be covered by loans. Simons even admitted to the Reichstag that the Cabinet did not yet know how this money was to be raised. "It was in fact," he declared, "something of a leap in the dark, and the Cabinet's decision to make this leap was governed more by political than by technical considerations." Another example of this politically-induced optimism was to be found in the assumption that it would be possible to raise foreign loans at 4%. Further evidence of a general desire to placate Allied opinion were the proposal for reconstructing the devastated areas (para. V) and the offer of one billion gold marks in final settlement of Germany's obligations under Article 235 (para. VII).

There are some indications that the new policy embodied in the German offer of 24 April was an insincere response to the tactical demands of the moment. In the debate in the

1. Paras II to IV of the German offer: Simons, 26 April 1921, ibid., Vol. 349, pp. 3415, 3420.
2. ibid., p. 3420.
3. Cf. the criticism of Frölich (VKP), 27 April 1921, ibid., Vol. 349, p. 3452.
Reichstag on 27 April, Riesser (DVP), the spokesman for the government parties, stressed that the offer had been made only because of Germany's hopeless position. It had been solely in order to avert fresh use of force by the Allies that the government parties had "with a heavy heart, but in full consciousness of their responsibility" approved the appeal to President Harding. 1 However, this apologia was probably designed largely to blunt the attacks of the right-wing opposition, which was in no doubt that the German offer was the product of a genuine policy of "excessive self-denial" (Selbstüberbieten); that it involved impossible sums; and that it would bring about intolerable infringements of German economic sovereignty. 2 More impressive evidence of the possible insincerity of the government's offer was the scepticism which was voiced by the Left opposition groups. Coming as they did after weeks of delay in seeking a settlement, the government's proposals were condemned on the grounds that they represented an inconsistent capitulation to the threat of force. The implications of this policy, in particular the necessity for a programme of internal financial reform, had not, it was complained, been realistically thought out. 3 Such an irresponsible policy was tantamount to "a game of chance with the interests of the German people". 4

1. ibid., 27 April 1921, Vol. 349, p. 3425.
3. Breitscheid (USPD), ibid., p.3445; Frülich(VKF), ibid., p. 3452.
But, despite these indications that the belated German offer of 24 April was made largely for short-sighted tactical reasons and that it was impracticable, important members of the government approved of the offer both on long-term political grounds and because they believed that it need not inevitably lead to financial and economic disaster. On 27 April, Stresemann stated in the Reichstag that it was impossible to predict whether or not the German proposals were realistic because so much depended on psychological factors.\footnote{Ibid., p. 3468.} He went on to stress that the proposals were politically desirable not only for the short-term purpose of keeping negotiations alive but also because they represented a step towards the political and economic reconciliation of Europe. After repeating his conviction, which he had previously expressed on 5 March, that such reconciliation was inevitable, Stresemann prophesied that it would be achieved not only through government action but also through the co-operation of the leaders of capital and labour of each country. It was, for instance, thoroughly feasible that economic leaders of France and Germany such as Loucheur, Schneider-Creusot, Stinnes and others should come together to discuss their common economic problems.\footnote{Ibid., pp. 3468-9.}

That Stresemann, who represented the right-wing of the government coalition, should have supported in such a positive manner a German reparation proposal which went much further than any previous German offer indicates that there were influential
elements within Germany which favoured an attempt to close the widening rift between the Allied and German positions on the reparation issue. Despite the fact that the offer of 24 April was ignored by the Allies, this group asserted its influence in Germany in the next few months, and made a striking but unsuccessful bid to resolve the reparation problem.

The emergence of the "fulfilment" group in German politics at the end of April emphasises the uncertainty of the political impact of general reparation negotiations in the period up to 1 May 1921. It has been seen how the reparation question had not become an important issue in German politics until late in 1920, largely because of the reluctance of both sides (evinced at Spa) to enter into formal negotiations which might give offence to their electorates and might lead to diplomatic rupture. Once it had been agreed to begin preliminary fact-finding discussions at Brussels, the impact of the reparation problem had become more marked. There had been considerable pessimism about Germany's existing and future reparation obligations in the budget debates of October and November 1920. The limited terms of reference of the Brussels Conference, when it eventually met in December 1920, had for the time being prevented an open rift between Germany and the Allies on the delicate question of Germany's capacity to pay. There had, in fact, been some agreement on subsidiary issues amongst the Brussels experts; and it had even seemed that subsequent discussions in January 1921 would yield a temporary
settlement, which would enable the politically explosive issue of Germany's total liability to be shelved until the political and economic state of Europe was more settled. But the reluctance of the German government to agree to a temporary settlement and the desperate need of the French Cabinet for a diplomatic triumph had resulted in the Supreme Council's adoption of the disastrous Paris Resolutions on 28 January 1921. This had caused the reparation question to be removed from the hands of financial experts and thrust into the political arena, where it had remained from then on. But although the reparation question now dominated German politics, it did not produce a uniformly unfavourable reaction in the Reichstag. ¹ In fact, in the period before 1 May 1921, the response of the German government to developments had been to alternate between two conflicting forms of policy. Its reply to the Paris Resolutions in January and to the imposition of sanctions in March had been to stand firm against the Allies and to appease outraged domestic opinion. The manifestations of this policy had been the counterproposals which had been presented at the London Conference and the delay in re-opening reparation negotiations with the Allies in March and April. However, these measures had aroused antagonism and suspicion abroad which had seriously weakened Germany's diplomatic position. Thus, on two occasions the German government had,

¹ Nor, to judge from the relative stability of the mark in the early months of 1921, did it cause any noticeable fall in foreign confidence in Germany.
with the approval of the Reichstag, adopted the reverse policy of making conciliatory proposals. Both in the later stages of the London Conference and in the last week of April 1921 the dominant feeling in the Reichstag was that the reparation problem could best be resolved by co-operating with the Allies and by reassuring the world of Germany's good faith. Thus, although reparation negotiations undoubtedly had an unfortunate psychological effect on German financial politics in October-November 1920 and in February 1921, their impact could well have been salutary at various times from March 1921 onwards.
SECTION V

GERMAN DOMESTIC AND FOREIGN FINANCIAL POLICY BEFORE MAY 1921

During the war years the German government had not been successful in absorbing the increased purchasing power released in the community by large public expenditure and by a liberal and cheap private credit policy. It had also been unable to prevent the growth of Germany's external floating debt. Only the artificially restrained war-time domestic demand for goods had prevented severe internal inflation; and temporary psychological factors such as the hope of victory had been the sole bulwark against substantial external depreciation of the mark. In the first thirty months of peace, domestic government expenditures had remained high and the balance of trade had continued to be unfavourable. Moreover, the German government, while maintaining a policy of cheap private credit, proved to be even less capable than during the war of absorbing the excess purchasing power of the German public and of consolidating the mark holdings and balances of foreign creditors. With the removal of war-time restraints on domestic demand and with the spread of the financial pessimism induced by defeat, revolution and the peace terms, violent price inflation and external depreciation were inevitable.

Many contemporaries blamed the high level of government expenditure and the extent of the trade deficit for Germany's post-war financial instability. Although this was in a sense a valid observation, these phenomena were not the result of a
radically mistaken government financial policy. On the contrary, in view of the economic dislocation which prevailed the outlay of the government was either socially or, on certain assumptions, economically justifiable; and the import surplus was to a large extent unavoidable. The inadequacy of the financial policies of post-war German governments lay in either the absence or the failure of the necessary extraordinary measures firstly to increase regular public revenues, secondly to preserve domestic public credit and thirdly to obtain foreign financial assistance. As a result of these omissions, the excess purchasing power of the German community was not absorbed by economically and socially rational government action but by economically distorting and socially ruthless price inflation. A further consequence was that the claims of foreign creditors on Germany were not consolidated on a long-term basis but were rapidly wiped out by indiscriminating exchange depreciation.

In the period before May 1921 the ineffectiveness of German domestic financial policy was due largely to administrative and legislative difficulties which were the legacy of the war and the aftermath. Reparation deliveries and negotiations certainly added to these difficulties by decreasing the willingness of certain Germans to pay taxes and to lend to the government. But the importance of the reparation question in this respect must not be exaggerated, since the majority of the parties in the Reichstag approved
of the idea of "fulfilment" for most of the period before May 1921.\footnote{1} In so far as the success of German domestic financial policy was affected by political and psychological factors it was in fact influenced far less by the impact of the reparation question than by the cleavages of opinion which had been noticeable in the war and pre-war period, over economic, social and political issues of a purely domestic kind.

The failure of Germany's domestic financial policy was also caused by the steady external depreciation of the mark which upset all attempts to increase the real value of public revenues and to float domestic loans in the period before May 1921. This depreciation was caused in the last analysis by the persistent German trade deficit and by the exodus of capital from Germany after the war. The reparation problem aggravated short-term exchange instability by encouraging speculation against the mark. It could also have been partly responsible for long-term depreciation, not only through its contribution to the trade deficit but also by provoking capital flight and by reducing Germany's chances of obtaining the large-scale foreign financial assistance which was necessary for the permanent restoration of her external finances. However, capital flight was caused by a complex set of psychological factors. Moreover, substantial foreign assistance would only have become available if the United

\footnote{1. See above, Section IV, passim.}
government had been prepared to join in guaranteeing a loan of German origin. Although the reparation question helped to discourage the American authorities from taking this course of action, the financial withdrawal of the United States government from Europe was, like its diplomatic counterpart, largely the result of purely domestic developments over which events in Europe had very little influence. It was because of these domestic developments, rather than because of the reparation question, that the level of mark exchange and the success or failure of the efforts of the German government to achieve domestic financial reform came to depend heavily on the buying and selling of the mark by international speculators.

Before the middle of 1919 there was little progress towards increasing the government's current revenue. The programme which was introduced by Scheidemann to the newly convened National Assembly on 13 February 1919 referred in general terms to taxes on income and war profits and also to taxes on property which were intended to reduce the public debt. However, neither in Finance Minister Schiffer's Memorandum of 12 March 1919 which forecast sharply increased ordinary (as opposed to extraordinary) expenditures in the coming year, nor in the National Assembly's debates on

2. ibid., Vol. 335, Anl. 158.
supplements to the budget for 1918-19\textsuperscript{1} and on the budget for 1919-20\textsuperscript{2} did any specific tax proposals emerge. The only fiscal measure which was carried through at this time was an amendment which diverted the yield of the War Tax of 1916 from its original purpose of reducing the German war debt to that of covering the deficits in the ordinary budget in the last three years of the war.\textsuperscript{3}

The German government's inability to introduce new taxes in a prompt manner went hand in hand with its tardiness in creating adequate fiscal machinery and in preventing tax evasion. The obstacle to immediate organisational reforms was that the new constitution, which was to provide the legal basis for an increase in federal fiscal powers, was not adopted until July 1919. It was therefore understandable that, although fundamental changes in fiscal machinery were foreshadowed in the constitutional debates, no actual measures were introduced.\textsuperscript{4}

There was less justification for the fact that the various budget debates, although providing the occasion for criticism of tax evaders, yielded no immediate remedial legislation.\textsuperscript{5}

It was not until June that the law of 26 July 1918 against tax evasion was made more effective through an amendment obliging

\begin{itemize}
\item[1.] 27 March 1919, ibid., Vol. 327, pp. 827-62.
\item[2.] Schiffer, 9 April 1919, ibid., Vol. 327, pp. 904-12.
\item[3.] 11 April 1919, ibid., Vol. 327, p. 988.
\item[4.] On the concentration of fiscal powers in the hands of the federal government envisaged by Articles 8 and 80-5 of the draft constitution: Freuss, 24 February 1919, ibid., Vol. 326, p. 287.
\item[5.] Schiffer, 15 February 1919, ibid., Vol. 326, p. 97; 9 April 1919, ibid., Vol. 327, pp. 909-10.
\end{itemize}
banks to reveal details of all deposits made with them since the outbreak of war. 1.

The main reason, apart from the constitutional factor, for the fiscal inertia of these months was the lack of legislative time. The tax proposals which were eventually introduced by Erzberger in July 1919 had been drafted in the first half of 1919 when Schiffer (November 1918 to April 1919) and Dernburg (April 1919 to June 1919) were Finance Ministers. But both the Provisional Government and the Scheidemann cabinet had been preoccupied in this period with the rudimentary tasks of re-establishing law and order, drafting the Weimar constitution and participating in armistice and peace negotiations. This had made it impossible for them to find time to introduce potentially controversial fiscal legislation. 3.

The delay in the introduction of tax reforms was also encouraged by the persistence of war-time attitudes to financial policy. During the course of the war there had been increasingly widespread acceptance of "nominalist" monetary theory, which emphasised the lack of relation between the quantity and the value of money and stressed the passivity of the process of credit creation. 4. The relative stability of both internal prices and the external value of the mark during a period of huge government expenditures and rapid private

credit expansion had provided apparent justification for the views of extreme inflationists such as Friedrich Bendixen, Karl Elster, and Rudolf Dalberg, whose writings enjoyed great popularity in the war and post-war years. As a result, there was little awareness in the early post-war years of the dangers of the presence of large amounts of excess purchasing power in the community. According to Schacht, who was responsible for stabilising the mark in 1923, this lack of awareness was further encouraged after the war by "a number of leading German economists, especially those concerned with industry, (who) regarded inflation as the best means of escaping from the economic consequences of the war, and considered that, especially in the wages questions, which had become urgent through the reduced productivity of labour and the general increase in costs of production, this expedient offered the simplest solution". The prevalence of views of this sort was to prevent the discount rate of the Reichsbank from being raised above 3% until July 1922. It could also have slackened the initial impetus to fiscal reform in the early post-war period.

Such financial discussion as there was in the National Assembly before the middle of 1919 certainly revealed an

1. H.S. Ellis, German Monetary Theory, 1905-33, pp.40-1, 180.
4. ibid., p. 690. Schacht records that his advocacy of a Foreign Exchange Commission in January 1920 won him "no popularity". ibid.
ignorance of the fiscal needs of the government which was borne either of preoccupations in other directions or else of war-induced inflationary attitudes of the type which have been described. Soon after the National Assembly had met, Schiffer, the Finance Minister, spoke critically of the prevalence of "nominalistic" ideas during the war and complained that the heedless financial optimism of the war years still prevailed amongst broad sections of the German people. His assertion was justified by the fact that no group in the National Assembly except the Independent Socialists protested at the government's delay in bringing down detailed fiscal legislation. \(^1\) Even Schiffer's Memorandum of 12 March received little attention from the Assembly\(^2\) and the speakers in the budget debate on 10 April were surprisingly unaware of the gravity of Germany's financial problems. The Majority Socialist, Hoch, was sufficiently ill-informed to advocate that the budget for 1919-20 should be based on the level of government expenditure and income in 1913\(^4\). The Nationalist, Schultz, also revealed incomprehension by declaring that Schiffer's estimate of 19 billion marks for the expenditure of the federal and state governments in the coming year was like a "fairy tale". \(^5\)

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5. ibid., p. 941.
In view of the inertia of the National Assembly there was little cause for protest by those groups who opposed radical fiscal reform either because of the threat of reparation payments or for domestic reasons. The only occasion for alarm among these groups had been when, in the course of December 1918 and January 1919, Schiffer aired proposals for the immediate imposition of a capital gains levy by the provisional government.\(^1\)

A representative of German industry such as Stresemann had objected to this scheme both because it would deprive industry of vitally needed working capital and because the wealth drained off into the Treasury would be presented to the Entente "on a silver platter".\(^2\) The proposal had also encountered opposition on particularist grounds from the Finance Ministers of Bavaria and Saxony who, it was later alleged, had caused it to be shelved.\(^3\) However, in succeeding months opposition of this type was not really called for. On 14 February a spokesman for the extreme Right criticised the general plans for taxes on income and capital contained in the government's programme on the grounds of the shortage of credit in Germany.\(^4\) A month later the same speaker expressed the fear that a confiscatory fiscal policy would dislocate German economic life by destroying confidence in the security of property. But in the absence of any specific

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1. On 9 December 1918 Schiffer advocated the proclamation of new taxes in a speech to the Berlin Chamber of Commerce, V.V. Badulesco, Le Prélèvement Extraordinaire sur le Capital dans l'Empire Allemand, p. 277.
government proposals, representatives of the less extreme bourgeois parties refrained from making any outright protest. Becker of the People's Party contented himself with a demand that the government's budget proposals should be referred to a committee; and the Democrat Fachnicke reserved final judgment on the government's policy until detailed tax proposals were made. The particularists, moreover, do not appear to have been alarmed unduly by the provisions of the constitution (Articles 8 and 80-5) for the centralisation of taxing power in the hands of the federal government. During the second reading of the constitution in July a member of the Bavarian People's Party did complain at the fiscal centralisation envisaged in Article 8. However, no exception seems to have been taken to the insistence of Preuss that, in the existing financial state of Germany, recognition of the principle of fiscal centralisation was inevitable. This acquiescence was no doubt due to the explicit assurance of Article 8 that the financial viability of the states would be preserved by the federal government.

It cannot be denied that the German government was sensitive to the views of the various groups which opposed radical fiscal reform. On 15 February Schiffer had assured the National Assembly that future tax legislation would take account

1. ibid., p. 855.
2. ibid., p. 840.
3. Heim (Bay. VP), 3 July 1919, ibid., Vol. 327, p. 1241.
4. ibid., p. 1244.
of the needs both of the states and of German industry. He added that Germany's ability to reform her finances depended upon the moderation of the Allies as well as upon her own efforts.¹ But in his budget speech of 9 April, Schiffer indicated that it was not concern for the states or for industry or fear of Allied policy which had caused the fiscal inactivity of the government. He forecast bluntly that both direct and indirect taxes would have to be exploited and that the federal government would be obliged to take fiscal precedence over the states. Moreover, although he emphasised again the need for the Allies to restrain their demands upon Germany, he did not express distrust for the Entente in the same way as Stresemann had done in January.² This indicates that, although the fiscal policy of the German government in the first eight months of peace was acceptable to the propertied classes, to particularists and to individuals who distrusted the intentions of the Allies, this was largely because of legislative and administrative difficulties which arose out of the disordered and transitional state of German society.

The failure of the German government to float domestic loans in the first eight months of peace must also be explained in terms of the general post-war social and political upheaval in Germany. Obvious factors which destroyed the domestic credit of the government were defeat, which removed the patriotic

motive for subscribing to public loans; social and political unrest, which made the propertied classes unwilling to part with their wealth; and the falling value of the mark, which made investment in fixed interest securities a financial risk. The existence of powerful motives such as these and the prevalence of inflationary credit theories is sufficient to explain the complete cessation of long-term lending to the government by the German people in this period. The threat of reparation payments could, at the most, have been only a supplementary reason for the evaporation of the government's credit.

The efforts of the German government to deal with its external financial problems were as ineffectual as its internal financial policy in the first eight months of peace. Little could be done to remedy immediately the basic economic and psychological factors which were responsible for the trade deficit and the export of capital. But, to make matters worse, attempts at imposing controls were half-hearted and unsuccessful. It is true that a system of import licensing had been in operation since January 1917. There were, moreover, several attempts to improve the efficiency of exchange controls. An Order of 21 November 1918 prohibited the consignment of

1. The only action taken by mid-1919 to restore the government's credit was the formation in June of the Reichsanleihe-Aktien-Gesellschaft, a banking combination designed to support the price of government bonds through buying operations: See C. Rist, Les Finances de Gguerre de l'Allemagne, p. 252.
2. J.W.F. Thelwall, "General Report on... Germany in December, 1920", loc. cit., p. 8. No attempt was made to control either the price or the volume of exports until December 1919.
securities abroad except through the medium of banks and in accordance with fixed procedures;\textsuperscript{1} while a Proclamation of 15 January 1919 and an Order of 1 March 1919 increased the war-time powers of the German government to appropriate foreign securities held by German citizens and to prevent the sale of German securities abroad.\textsuperscript{2} However, from the end of 1918 individuals who wished to export capital or to retain foreign bills which they had earned were, in practice, able to find ways and means of doing so.\textsuperscript{3} The government's distaste for controls and its recognition of the impossibility of enforcing them were reflected in the temporary removal of all restrictions upon imports and upon the export of capital when the Allied blockade was lifted in July 1919.\textsuperscript{4}

In view of her payments and trade deficit, which were likely to continue for some time and which could not be remedied by controls, Germany's only means of easing her external financial position was to obtain foreign assistance. Here again, however, the German government was at the mercy of forces which it could not influence. The Allies had been unwilling to finance German food imports during the Armistice negotiations in February and March 1919,\textsuperscript{5} and all hope of an

\begin{enumerate}
\item Reichsgesetzblatt, 1918, p. 1325.
\item For an account of these measures against capital flight: Hampe (DNVP), 16 August 1919, Nationalversammlung, Vol. 329, p. 2507.
\item Hampe (DNVP), 16 August 1919, ibid., Vol. 329, p. 2507.
\item See above, pp. 84-5.
\end{enumerate}
American-backed long-term reconstruction loan had disappeared after Wilson had rejected Keynes' "Scheme for the Rehabilitation of European Credit and for Financing Relief and Reconstruction" early in May. Although the desire for reparation determined the attitude of the Allies on the former occasion, it has been seen that preoccupations of a purely domestic nature were, to a large extent, to blame for Wilson's fatal decision to divest the United States of any official responsibility for German and European finances.

From the middle of 1919 until the dissolution of the National Assembly in May 1920, the German government made a concerted effort to increase public revenue through the imposition of new taxes, through measures to prevent tax evasion and through a fundamental reorganisation of the German fiscal system. It also endeavoured to resume long-term borrowing from the German public by floating a Premium Loan. At the same time serious attention was given to Germany's external financial problems. In an effort to improve the balance of trade, a system of export licensing was introduced and an adjustable export levy was imposed to prevent German goods from being sold abroad at unnecessarily low prices. Measures were also devised in order to counter the flight of capital, and foreign credits and loans continued to be sought.

The visible results of this increased activity were disappointing. In brief, while expenditures remained high,

public revenue declined rather than increased and, as a result of the comparative failure of the Premium Loan, the floating debt of the federal government continued to rise rapidly, viz,

<table>
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<tr>
<th>Year</th>
<th>Income (million gold marks)</th>
<th>Expenditure (million gold marks)</th>
<th>Increase in Floating Debt (million gold marks)</th>
<th>Total Floating Debt (billion paper marks)</th>
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<td>1919</td>
<td></td>
<td></td>
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<td>June</td>
<td>299.7</td>
<td>1,212.6</td>
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<tr>
<td>Jan</td>
<td>116.4</td>
<td>239.2</td>
<td>122.5</td>
<td>88.3</td>
</tr>
<tr>
<td>Feb</td>
<td>73.8</td>
<td>105.9</td>
<td>31.8</td>
<td>89.0</td>
</tr>
<tr>
<td>Mar</td>
<td>128.8</td>
<td>257.8</td>
<td>129.2</td>
<td>91.6</td>
</tr>
<tr>
<td>Apr</td>
<td>52.0</td>
<td>307.9</td>
<td>247.8</td>
<td>95.1</td>
</tr>
<tr>
<td>May</td>
<td>102.2</td>
<td>694.8</td>
<td>584.5</td>
<td>101.6</td>
</tr>
<tr>
<td>June</td>
<td>193.5</td>
<td>1,441.6</td>
<td>1,240.0</td>
<td>113.2</td>
</tr>
</tbody>
</table>

Furthermore, the new federal fiscal organisation took a considerable time to become efficient and fiscal morality became, if anything, more lax.

The inefficacy of the government's internal financial reforms was paralleled by the failure of its attempts to regulate Germany's external finances. The physical control of imports and exports was not attempted at all for several months after the lifting of the Allied blockade in July 1919; and when efforts were made to impose controls these were undermined by a considerable amount of smuggling, especially through the "Hole in the West" which was created by Allied Occupied

Territory. Meanwhile price control of exports, which was instituted late in 1919, was made difficult by the fluctuation of the mark exchange rate. Thus the balance of trade continued to deteriorate in response to prevailing economic pressures. The payments problem thus created was not eased by any effective check on capital flight; nor was Germany able to obtain any foreign financial assistance except for a few limited Dutch, Scandinavian and American credits.

Germany's domestic financial history in this period can, like that of the first half of 1919, be explained largely in terms of factors which were either beyond the control of the German government or were administrative rather than political in character. The most obvious of these factors was the rapid depreciation of the mark in the autumn and winter of 1919-20 which caused a spectacular reduction of real public revenue. This depreciation was not due to any important extent to the reparation question. It was caused primarily by the huge excess of German imports over exports in the second half of 1919 after the lifting of the Allied blockade.\(^1\) A further cause was the export from Germany of substantial amounts of capital. This was made possible at first by the complete absence - and later by the comparative laxity - of exchange controls and it was provoked by a complex of psychological influences, of which the reparation question was only one.\(^2\)

In any case, the importance of the depreciation as an influence

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2. See below, pp. 266-9.
on the size of public revenues was diminished by the fact that between December 1919 and March 1920 real expenditures declined commensurately, and also by the fact that the dollar rate, which had risen from 23 at the end of September 1919 to over 100 at the beginning of February 1920, had declined to 37 by the end of May 1920.¹

More serious than the reduction of real revenues in the months of violent depreciation was the failure of these revenues to rise when the mark recovered in April and May. One obvious reason for this was the disruption caused by the Kapp Putsch and its aftermath in March and April.² A more fundamental explanation is to be found in the administrative difficulties which were encountered both in setting up the new federal fiscal machinery and also in the assessment and collection of new federal taxes on property and income.

Reference had been made to these difficulties in the National Assembly by both government and non-government speakers.³ Their importance was later described by Wirth in a special memorandum which he drew up in October 1920. The work of assessing and levying taxes on business and property had, he concluded, been hampered by the disturbance to existing state finance offices caused by absorption in the new federal organisation. There had, furthermore, been considerable time-lags between declaration, assessment and collection in the case of newly-imposed direct taxes.

taxes. As a result, the receipts from these taxes in the months, April-June 1920, had been only a tiny fraction of the annual estimated yield, viz,

<table>
<thead>
<tr>
<th>Tax</th>
<th>Est. Annual Yield (million paper marks)</th>
<th>Actual Yield (paper marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protect Tax</td>
<td>12,000</td>
<td>31,994</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>900</td>
<td></td>
</tr>
<tr>
<td>Dividend Tax</td>
<td>1,300</td>
<td>3,031,578</td>
</tr>
<tr>
<td>Reichsnotopfer</td>
<td>3,500</td>
<td>719,420</td>
</tr>
<tr>
<td>Property Tax</td>
<td>100</td>
<td>683,124</td>
</tr>
<tr>
<td>Inheritance Tax</td>
<td>620</td>
<td>4,696,797</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>3,700</td>
<td>111,479,367</td>
</tr>
<tr>
<td>War Tax on Capital Gains</td>
<td>4,300</td>
<td>5,265,709</td>
</tr>
<tr>
<td>Extraordinary War Levy 1917</td>
<td>2,000</td>
<td>25,562,101</td>
</tr>
<tr>
<td>Extraordinary War Levy 1918</td>
<td>1,800</td>
<td></td>
</tr>
</tbody>
</table>

These figures make it clear that the imbalance of the German budget in the middle of 1920 was due in large part to the inadequacy of German fiscal machinery.

Although "external" and administrative factors were such an important cause of the low level of German public revenue before the middle of 1920, there were also political reasons for the limited success of the German government's financial policy. Political pressures may have been responsible for reducing the severity of the new taxes which were imposed in

this period; and they certainly produced a popular reaction against the taxes which hampered the government's efforts to counteract tax evasion, to prevent the flight of capital, and to float domestic loans.

The reparation problem was potentially a factor which could exercise an important influence upon the German government's financial policy and upon the reaction of the German public to that policy. But before the National Assembly was dissolved in May 1920, the reparation problem in fact aroused relatively little political comment. The attention of the Assembly was absorbed in resolving the domestic economic dislocation, social turmoil and political upheaval which had been caused by the war and its aftermath. It was therefore to be expected that financial policy should be affected less by differences of opinion over the reparation question than by disputes over the economic, social and political settlement which was to prevail in post-war Germany.

The preoccupations of the National Assembly were clear when Erzberger introduced the first part of his financial reform programme early in July 1919. The most important of the measures submitted to the Assembly at this time were an extraordinary War Levy (Kriegsabgabe) and an extraordinary Levy on War-Time Capital Gains (Kriegsabgabe vom Vermögenszuwachs) the yield from which was originally expected to reduce the national debt by 12 billion marks. Drafts of new permanent taxes on inheritance and on land transfer were
also introduced as well as revisions of existing impositions on entertainment, sugar, fuel and other commodities. It was hoped that these and other measures would help to increase regular federal revenues from their 1918 level of about 9 billions to approximately $17\frac{1}{2}$ billion marks a year. In justifying these proposals, Erzberger emphasised the necessity of avoiding state bankruptcy, the social desirability of an equitable distribution of Germany's financial burden and the administrative advantages to be derived from a centralised fiscal system. He referred to Germany's obligations under the treaty merely as an added incentive for increasing federal financial strength. Although Erzberger was criticised in the ensuing debate by his Centrist colleague, Farwick, for his lack of stress upon the treaty, the concern both of the majority who supported Erzberger's proposals and of the minority who opposed them was with their domestic implications. Significant groups such as the DVP, which supported the government's programme only with reservations, and the DNVP, which flatly opposed it, were influenced almost exclusively by fear for the working capital of industry, by a desire to protect private property, and by qualms about the financial viability of the states. It was only in the discussion of

1. "Gerechte Steuern stellen eine rasche wirkende, vorzügliche Sozialisierung dar."
3. ibid., p. 1378.
4. Farwick (Zentrum), 8 July 1919, ibid., p. 1391.
5. Posadowsky-Wehner (DNVP), 9 July 1919, ibid., pp. 1426-33; Becker (DVP), ibid., p. 1458.
a projected National Emergency Levy that the reparation
demands of the Allies were advanced as a reason for opposing
fiscal reform. On 9 July the Nationalist spokesman, Posadowsky-
Wehner, warned the Assembly that the expected 80 to 90 billion
mark yield of the Reichsnotopfer could be seized by the Entente.\(^2\).
But this view was not advanced by any other speaker and its
impact was diminished by Erzberger's prompt assurance that,
because the levy would be collected over a period of between thirty
and fifty years, it would be beyond the grasp of the Entente.\(^3\).

There were further debates in August when the first
batch of tax proposals had emerged from committee. Most of the
discussion centred on a new group of measures for the imposition
of the National Emergency Levy (Reichsnotopfer) and a Sales Tax
(Umstazsteuer), for floating a Premium Loan, and for defining
the legal powers and administrative structure of the federal
fiscal authority (Reichsabgabenordnung). The preoccupations of
the government and the opposition continued to be much the same
as in July. In a financial memorandum which he presented to
the National Assembly on 5 August, Erzberger stated that the
budget would remain provisional until the requirements of the
Versailles Treaty were more exactly known. But despite this
uncertainty, all parties from the SPD to the DVP continued to
give their general support to the government's financial
programme and the bourgeois parties continued to base their

1. Reichsnotopfer. This measure was not actually introduced
   until August 1919.
2. ibid., pp.1431-2.
3. ibid., p. 1439.
reservations on economic, social and political considerations of a domestic character. In the debate on the second reading of the various war levies there was a symptomatic clash between Left and Right over the question of tariffs and over provisions for delays in payment and exemptions. A Majority Socialist charge that the propertied classes had been protecting their vested interests by means of obstruction in committee was denied by representatives of both the Democratic and People's Parties. The spokesman of the latter group, Riesser, stressed that his colleagues' only concern was that the levies would not prevent the restoration and the maintenance of a healthy Germany economy. ¹

As in July, it was mainly in discussion of the Reichsnotopfer that there was any reference to Allied reparation policy. On 12 August, after expressing reluctance to discuss such a topic, Erzberger gave a careful answer to Nationalist allegations on this subject. It would not, he asserted, be in the interest of the Entente to seize the proceeds of the Reichsnotopfer. Apart from the fact that they would obtain nothing but worthless paper, such an action would hinder Germany's financial recovery, in which the Allies had a stake. Furthermore, such a seizure would violate German sovereignty in a way which was inconsistent with the Versailles Treaty as interpreted by the Allies in their Note of 16 June 1919. ² Finally, Erzberger observed, if fear of

² See above, pp. 103-4.
Allied policy was a good reason for opposing the Reichsnotopfer, it was a good reason for opposing all taxation. Erzberger's assurance that the Entente would be neither interested nor justified in seizing the proceeds of the Reichsnotopfer was supported in the ensuing debate by the Centrist Farwick. Although Becker of the DVP confined himself to denying the legal right of the Allies to take such action, there is no indication that the pessimism of the Nationalists affected either the attitude of the Assembly to the Reichsnotopfer or the form of the measure itself. In any case, both on this and on later occasions, the criticisms directed against the Reichsnotopfer by the Nationalists laid as much emphasis upon the undesirability of socialism and of financial blood-letting as they did upon the intentions of the Allies.

Opposition to the idea of paying reparation may have increased the unwillingness of the German public to lend money to the government at this time. On 18 August the Assembly was asked to approve a credit of 9 billion marks, of which 2 billions were to meet expenditure occasioned by the Versailles Treaty and the rest to cover domestic expenditures. With a view to preventing an increase in the floating debt, it was

proposed to issue a Premium Loan to the value of the credit. In opposing the credit the Nationalists made much of the fact that it had been made necessary by the demands of the Allies which, they claimed, would prove to be limitless. Although Erzberger was quick to point out that the Nationalists had distorted the terms of the treaty and that the government's request for credit had arisen largely because of domestic expenditure, these allegations could well have contributed to the subsequent failure of the Premium Loan.

But the main arguments which were used by the Right against both the credit and the Premium Loan were of a different type. Hugenberg had advocated that the credit should be reduced from 9 to 8 billion marks, not because he opposed the compensation of shipowners and overseas Germans who had been deprived of their property by the Entente, but as a mark of his general disapproval of Erzberger's financial policy. He foresaw the danger that Erzberger "who had lost them the war and bungled the Armistice would now destroy the nation's economy through his policy". The arguments of the Nationalists against the Premium Loan were mostly in the same generalised personal and partisan vein. Apart from expressing a preference on financial grounds, for a forced loan (Zwangsanleihe) carrying a low rate of interest, the Nationalists attacked

2. ibid.,pp. 2679-81.
3. Cf. Haas (DDP), ibid., p. 2684; Wurm (USFD), ibid., p.2686, who stressed the difficulty of carrying out levies, the proceeds of which would go to the Entente.
4. ibid., p. 2675.
5. ibid., p. 2676.
the Premium Loan on the moral grounds that it would stimulate the gambling instincts of the German people. The effect of this sort of charge upon the success of the loan was deplored by Erzberger several months later. Nor did the Nationalists hesitate to link their criticism of the Premium Loan with the campaign of personal vilification which they were waging against Erzberger at this time. Early in December the Democrat, Dernburg, protested at the efforts of the Right to sabotage the Premium Loan by dubbing it the "Erzberger Loan". It is clear that the question of government borrowing had become entangled in domestic party politics.

The remaining measure of importance discussed in August was the Federal Administrative Ordinance (Reichsabgabenordnung), which defined the administrative and legal structure of the new federal fiscal organisation. Because of the bulk of this measure - it consisted of 451 paragraphs - the section concerned with the establishment of new federal tax offices was embodied in a separate measure which became law on 10 September. Neither in the debate over this preliminary bill nor in the discussion of the remaining paragraphs at the end of November 1919 was the subject of Allied reparation policy mentioned. The understandable

preoccupation of the National Assembly was with such questions as the relative advantages of centralisation and decentralisation, the proper distribution of financial powers between the federal and state governments, and the compatibility of various provisions with the newly-adopted constitution. 1. The November debates provide further evidence of deep-seated opposition in German society to the efforts of the government to make its financial policy really effective. There was, in the first place, predictable right-wing opposition to a provision which required next-of-kin to divulge details of the estates of deceased persons (Paragraph 97), and to a direction that banks should be obliged to reveal their clients' balances (Paragraph 189).2. More significant still was the debate over Paragraph 5, which sought to curb tax evasion by placing legal restrictions on the manner of conducting business transactions. What was revealing was not the strong opposition to this provision by all parties with business connections, but Erzberger's defence of it on the grounds that in the absence of detailed legislation the courts tended to favour tax evaders.3. This suggests that financial reform was being hampered not only by entrenched liberal commercial ethics but also by the attitude of the judiciary.

4. ibid., pp. 3690-1.
In October, the National Assembly became absorbed in the long-overdue debates over the budget for 1919-20. The government estimated ordinary expenditure for the year at 15.3 billion marks and extraordinary disbursements at 41.3 billions. This was an improvement on the budget for 1918 in which the figures were 9 and 70 billions respectively. Ordinary revenue for 1919-20 was estimated at 13.2 billions (of which 9 billions were to be derived from new taxes) as compared with a 1918 figure of about 9 billions. In view of the considerable gap which still remained between current revenue and total expenditure, it was predicted that the public debt, which had stood at 156 billion marks on 31 March 1919 would be 212 billion marks on 31 March 1920.

Since 17 of the 41.3 billions of expected extraordinary expenditure were attributed to the Versailles Treaty, it might have been expected that a lively debate would be provoked about the impact of the treaty on Germany's domestic finances. But this did not in fact occur. During the debate on the first reading of the budget, speakers as far apart politically as Scheidemann (SPD) and Stresemann (DVP) expressed the general conviction that Germany could fulfil her treaty obligations only if they were substantially revised. But Scheidemann was content to voice the hope that this revision would be achieved through the offices of the League of Nations, while Stresemann referred to the recently completed

2. ibid., p. 3610.
negotiations over reparation coal deliveries as an example of how modifications would in practice be introduced. A fortnight later, during discussion of the estimates for the Foreign Office, Möller, the Socialist Minister for Foreign Affairs, expressed regret that the Entente had as yet shown no signs of relaxing the treaty, and Heinze (DVP) stressed that Germany's economic recovery could not proceed without revision. But the government was able to avoid any full-scale discussion of the reparation problem, largely because no detailed reparation scheme yet existed. Erzberger argued, to good effect, that it would be a tactical blunder to give detailed estimates of expenditure occasioned by the treaty until the Entente had presented its demands; and he was able to satisfy the Assembly with a general declaration that, although Germany wished sincerely to fulfil the treaty, she could not do so beyond the limit of her capacity.

It was in December 1919 that the debate over the government's financial reform programme became most heated. This month saw the introduction of important measures such as the States Tax Bill (Landessteuergesetz), which settled the distribution of tax receipts between the Reich and the Länder, and the Income and Capital Gains Taxes, which were expected to yield about ten billion marks of new revenue. It was also in December that the controversial proposals for the National

1. ibid., 8 October 1919, Vol. 330, p. 2917. For the political impact of these negotiations: see above, pp. 136-8.
Emergency Levy and the Sales Tax were finally adopted after stormy discussion.

The reparation problem had no visible effect on the details of the legislation which was debated in December. As on previous occasions, the only measure which was opposed explicitly on account of Allied reparation demands was the Reichsnotopfer, the yield of which was alleged to be susceptible to seizure by the Entente. Discussion of the subject appears to have been occasioned by a statement in the French press which probably arose out of the current acrimonious exchange of notes over the fulfilment of the Armistice.

On 5 December, Erzberger felt obliged to quote a legal opinion, which he had originally cited confidentially in committee on 18 October, to the effect that the Entente had no right under the terms of the treaty to interfere with Germany's domestic finances so long as the latter fulfilled her obligations.

But this assurance did not satisfy the right-wing parties. Representatives of the DVP considered the threat of Allied seizure a good reason for opposing the Reichsnotopfer and for preferring a measure involving an allegedly more secure forced loan (Zwangsanleihe). The reaction of the Nationalists was more violent. Besides expressing a preference for a

2. ibid., pp. 3876-7.
forced loan they demanded an assurance from the Allies as to their intentions.\textsuperscript{1} Hugenberg even went so far as to state that, rather than risk the interests of the German people by accepting the Reichsnotopfer, he would prefer the Allies to occupy the Ruhr.\textsuperscript{2}

The right-wing arguments for amendment of the Reichsnotopfer because of the probable policy of the Entente appear to have carried little weight with the government parties. Erzberger promptly pointed out that the yield of the Reichsnotopfer was no more vulnerable to seizure by the Entente than the proceeds of a forced loan or any other government revenue. In any case, to allow financial policy to be affected by such considerations was to court ruin for Germany.\textsuperscript{3} Hugenberg's suggestion that an Allied occupation of the Ruhr would be preferable to the adoption of the Reichsnotopfer provoked angry replies from the government parties. Hugenberg was accused of wishing to sacrifice Germany's freedom merely in order to protect the interests of property.\textsuperscript{4}

The Democrat, Petersen, considered Hugenberg's attitude completely irresponsible because the Right would have found it necessary to impose property taxes similar to the Reichsnotopfer if it had been in power.\textsuperscript{5}

\begin{itemize}
\item[1.] Düringer (DNVP), 6 December 1919, Nationalversammlung, Vol. 331, p. 3887.
\item[4.] Erzberger, 9 December 1919, ibid., Vol. 331, p. 3941; Braun (SFD), 10 December 1919, ibid., Vol. 331, p. 3949; Farwick (Zentrum), ibid., p. 3958.
\item[5.] ibid., p. 3959.
\end{itemize}
Arguments which had a better chance of affecting the shape of the Reichsnotopfer were those to do with its possible financial and economic repercussions. Representatives of the right-wing opposition groups expressed fears, which were shared by a large section of the business community, that unless the Reichsnotopfer were amended it would drain the life-blood from the German economy. By this they meant that it would deprive enterprises of necessary working capital, that it would diminish their ability to obtain domestic and foreign credits, that it would encourage high prices and capital flight, and, incidentally, that it would reduce the yield from other taxes. It was, in fact, more with a view to avoiding these disadvantages than because of their fear of the reparation policy of the Entente that the opposition groups put forward their various schemes involving a forced loan. The advantages of the forced loan were that it was repayable, that it bore interest at a low rate, and the bonds issued to subscribers could be used as security for credits.\footnote{Becker (DVF), 6 December 1919, Vol. 331, p. 3901; 10 December 1919, ibid., p. 3961; Riesser (DVF), 9 December 1919, ibid., p. 3929. Petitions from the German business community concerning the Reichsnotopfer: ibid., Vol. 337, Anl. 647; Vol. 338, Anl. 753, 863; Vol. 339, Anl. 1171, 1287, 1429; Vol. 340, Anl. 1762; Vol. 341, Anl. 2112. Cf. Riesser, 17 December 1919, ibid., Vol. 331, p. 4117; and V.V. Badulesco, op. cit., pp. 296-7.}

But even this financially-slanted criticism of the Reichsnotopfer did not cause it to be amended. One of the main reasons for this was that the government representatives...
could point to the provisions in the measure for exemptions in cases of hardship and for payment by instalments over periods of up to 50 years.  

It could even be asserted confidently that an emergency levy with these safeguards would be less damaging to the business community than a forced loan, which would have to be levied within a few months. That the original government proposal contained these mitigating provisions, which were subsequently exploited so as to reduce the yield of the Reichsnotopfer in a disastrous manner, indicates that the pressures exerted during the debates in the National Assembly had no important effect. There is, moreover, no reason for concluding that the government was in fact bowing to hidden pressures or that it was deliberately insincere in putting forward its proposal for the Reichsnotopfer qua a severe and prompt levy on property. Both the insertion of these mitigating provisions and the arguments used by the government in debate certainly reveal considerable sensitivity to the financial needs of the community. But the dismay expressed by Wirth in April 1920 at the extent to which the provisions for delayed payment had been exploited reveals that these provisions had been intended by the government for cases of genuine hardship.

Whatever may have been the exact reasons for the technical loopholes in the Reichsnotopfer they only became important because of the influence of the psychological and administrative factors which decreased the effectiveness of most German fiscal measures in this period. These factors included the delay in assessment and collection, the inflexibility of the levy in a period of rapid fluctuations in the value of money and, above all, the decline in the general willingness of the German people to pay taxes. It is possible that the reparation problem accelerated the last development through its influence on the tone of the fiscal debates in December.

There was increased general reference to the financial provisions of the treaty in the December debates. Representatives of the three government parties all stated clearly that Germany's financial future depended on treaty revision, and the Democratic spokesman was far less optimistic about the likelihood of such revision than his Social Democratic and Centrist colleagues. All the opposition groups were frankly pessimistic. The Independent Socialist, Wurm, attributed Germany's financial distress entirely to the malevolence of her capitalistic rivals. Becker of the DVP was extremely critical of the optimism of the government parties, and the

3. ibid., p. 3904.
Nationalist, Hugenberg, asserted that it was the clear intention of the Allies to ruin Germany. ¹

But in spite of this increased emphasis upon the treaty, domestic partisan, political and social arguments of the type that have already been noticed set the tone of the debates. The personal abuse which had characterised the debate on the Premium Loan was intensified. On the one hand government speakers repeatedly attributed Germany's existing distress to the fiscal irresponsibility of the old regime.² On the other hand the Nationalists levelled equally irrelevant partisan attacks at the government and, above all, at Erzberger. The latter's domestic financial policy was ridiculed on the grounds of unjustified optimism which he was alleged to have displayed in his war-time missions to Italy and Vienna and in his conduct of the armistice and peace negotiations. The Finance Minister's earlier failures in foreign policy were, in the opinion of Nationalists such as Düringer and Hugenberg, sufficient reason for assuming that his current financial policy would ruin Germany.³

The social emphasis of the debate was also very strong. The Social Democrats had continued to stress, largely no doubt in answer to the criticism of the Left opposition groups, that the best way of approaching socialism was through tax

¹ ibid., 9 December 1919, Vol. 331, p. 3936.
² Keil (SFD), 5 December 1919, ibid., Vol. 331, pp. 3860-1; Erzberger, 6 December 1919, ibid., Vol. 331, p. 3898; Braun (SFD), 10 December 1919, ibid., Vol. 331, p. 3950.
³ Düringer (DNVP), 6 December 1919, ibid., Vol. 331, p. 3886; Hugenberg (DNVP), 9 December 1919, ibid., Vol. 331, p. 3936.
reform.1 And on 9 December Erzberger had insisted, just as he had in July, on the deep social and political significance of a measure such as the Reichsnotopfer. The broad masses of German people, he declared, had the right to demand that property should make a substantial sacrifice before further indirect taxes were imposed.2 The reaction of the Right to these assertions was extremely unfavourable. The venerable Jakob Riesser remarked with distaste that the idea of socialism "ran like a red thread" through the Reichsnotopfer, the Income Tax and the Capital Gains Tax. He endorsed ex-Finance Minister Goethein's description of these measures as "a capitulation to the mob" (eine Verbeugung vor der Strasse) which could ruin the German economy.3 The impact of this aspect of the fiscal debate was heartily deplored by moderates such as the Democrat, Dernburg. They conceded that the government's anti-capitalist slogans, together with the steep tariffs embodied in its fiscal measures, expressed an understandable revulsion against the corruption and profiteering of the war and revolutionary periods. But they were critical of the encouragement which had at the same time been given to the propertied classes to evade taxes and to export capital. "Anyone," Dernburg said ruefully, "who has the opportunity...of listening to the conversations of otherwise ordinary people...in which protection

1. E.g. Noske on 7 November 1919 at Chemnitz; quoted by Hugenberg 9 December 1919, ibid., Vol. 331, p. 3938.
2. ibid., p. 3947; also Farwick (Zentrum), p. 3955.
of one’s property against confiscation is advocated in the most cynical way, will have serious doubts as to whether we have not made a mistake.”

The predominance of social and partisan preoccupations in the December debates was confirmed in a negative way by the character of the discussion of the Sales Tax (Umsatzsteuer). Although it was expected to yield about 4 billion marks, this important measure aroused little determined opposition. The reason for this was largely that, as an indirect tax, it was in most respects socially and politically acceptable to the Right. A further reason for the absence of opposition was that the SPD, the traditional opponent of indirect taxation, was a member of the government coalition. The financial straits of the government and the political necessity for some counterpoise to the spate of new direct taxation obliged the Social Democrats to give their somewhat shamefaced support to the measure. The only forthright opposition to the Sales Tax came from the Independent Socialist Eichhorn, who protested against the hardship which would be caused to the poorer classes by any increased taxation of the necessaries of life.

Before the National Assembly was finally dissolved there were important financial discussions both at the end of February 1920, when the Income Tax and Capital Gains Tax

1. ibid., 5 December 1919, Vol. 331, p. 3879.
2. Wetzlich (DNVP), 16 December 1919, ibid., Vol. 331, p. 4078; Kempkes (DVP), ibid., p. 4083.
proposals emerged from committee, and later in April, during the debate on the preliminary budget for 1920. Both in the detailed discussion of individual laws and in the general debate there was, if anything, less stress on the reparation question and more upon partisan and economic issues than there had been in December 1919.

The main feature of the detailed debate over the Income Tax Law was a socially orientated dispute over paras. 44-52 which provided for a 10% wage deduction (Lohnabzug). The right-wing parties argued that, apart from being of doubtful value as a means of simplifying tax collection, this measure betrayed the government's lack of confidence in the working class and would cause pressure on employers to grant wage increases. 1. The Left opposition objected to the hardships which would be caused by a flat 10% deduction if refunds were to be made only every quarter. It also protested - presumably on the assumption that there should be an equal opportunity for all to evade taxes - at what it considered to be discrimination in favour of those who paid their taxes in a single lump sum after their incomes had been assessed. 2. The government parties were able to answer these socially slanted criticisms satisfactorily, 3. and right and left-wing proposals that paras. 44-52 should be omitted were easily defeated. 4. But the prominence of the dispute in these and later debates over the

1. Wetzlich (DNVP), 2 March 1920, ibid., Vol. 332, p. 4617; Becker (DVP), ibid., pp. 4620-1.
2. Eichhorn (USPD), ibid., p. 4618.
4. ibid., p. 4623.
Income Tax is a clear indication that the social aspects of taxation were those with which the National Assembly was preoccupied.

The main feature of the general debate on the Income Tax was increasing pessimism, not only as to the size of the fiscal burden which the German economy could bear, but also as to the possibility of a prompt reduction of swollen government expenditures. This pessimism was voiced not only by representatives of the DVP and DNVP, but also by the Democrat, Pohlmann, who stressed on the one hand industry's need for working capital, and on the other hand the postal and railway deficits and the cost of import subsidies. Only Social Democrats and Centrists expressed any positive optimism about Germany's financial future. Since only Pohlmann laid any emphasis upon revision of the treaty as a prerequisite for financial stabilisation, it seems that this mounting despair was induced largely by consciousness of Germany's domestic financial problems.

As hopes of effective financial reform sank, partisan recriminations over Germany's financial condition increased.

One of the immediate reasons for this was the Erzberger-Helfferich lawsuit which ran from 19 January to 12 March 1920.

2. ibid., pp. 4550-3.
4. The Independent Socialist, Düwell, advanced the impossibility of balancing the budget by traditional methods as an argument for socialisation: ibid., p. 4567.
Erzberger had been provoked into bringing a libel action against Helfferich, the Nationalist war-time Secretary of State to the Treasury, by a personal press campaign which the latter had waged against him in the course of 1919. Erzberger rather inadvisedly wished to challenge Helfferich's vague allegations of offences against propriety, of habitual untruthfulness and of mixing politics with business affairs. The trial inevitably developed into little more than a slogging match between the old and the new regimes. The conservative anti-Erzberger groups scored a notable popular triumph, for although Erzberger technically won the case the verdict of the court was damaging enough to force his resignation from office. The undesirable impact of the trial upon German fiscal morality had been heightened by the seizure and publication in the press of Erzberger's tax returns, which appeared at first glance to provide evidence of tax evasion. Although the returns were subsequently proved to be in order, the immediate impression created was that the man who had been the champion of post-war fiscal reform was himself a tax evader. The sensation created caused Erzberger to resign on 24 February, pending the investigation of the charges made against him; and his suspension from office lasted until his formal resignation following the judgment in the libel suit a few weeks later.

The Erzberger-Helfferich case had an obvious effect in

2. ibid., p. 366.
raising the partisan pitch of the debate in the Assembly. In reply to a complaint from the German business community that the Income Tax Law was being rushed through the Assembly after insufficient discussion, the Social Democrat, Keil, retorted that the existing back-log of fiscal legislation was due to the financial policy pursued by Helfferich during the war. Keil went on to express indignation that Helfferich, "who had every reason for remaining silent", should have assumed the role of a guardian of political morality. 1 The Right parried with an apologia for Helfferich's war-time financial policy; 2 and counter-attacked with criticism of the spirit of post-war fiscal reforms which, it alleged, had harmed the economy, damaged internal and external financial confidence and depressed fiscal morality. 3 Irrespective of the amount of truth they contained, these allegations and counter-allegations could not have increased the willingness of the German public to pay taxes.

The debate on the provisional budget for 1920 yielded less partisan recrimination - largely because the fall of Erzberger had removed the Right's bête noir from the political arena - but it was the occasion for increased financial pessimism. Otto Wirth, Erzberger's successor as Finance Minister, estimated that ordinary expenditures for the coming year would be 27.9 billion marks and that ordinary revenues

3. Düringer (DNVP), ibid., pp. 4554-6; Becker (DVP), ibid., pp. 4559, 4661.
261.

would be 25 billions.\textsuperscript{1} This left a deficit of 2.9 billions which was to be covered by taxes which would be voted in the course of the year. Extraordinary expenditure, which would not be covered by regular revenue, was expected to be 11.6 billions. Finally, the budgets of the railways and the post office were expected to show deficits of 12 billion and 1 billion marks respectively. The most striking features of these estimates were the continued imbalance of the ordinary budget despite the expected increase in revenue, and the spectacular deficits of the public utilities. These items, together with extraordinary expenditure, were responsible for an estimated total deficit of about 25 billion marks. In view of the size of these figures it is perhaps surprising that the government speakers still displayed reasonable optimism. Wirth emphasised how much the level of government expenditure was due to abnormal economic conditions and high prices caused by the war.\textsuperscript{2} He went on to express hopes of a domestic loan and also referred to plans for increasing public revenues by means of state monopolies.\textsuperscript{3} His Social Democratic colleague, Keil, also attributed the size of government expenditure to temporary factors such as the Kapp Putsch, the winding-up of the old army and the swollen numbers of government employees. Moreover, while he disapproved of state monopolies if they merely raised prices, he considered that

\textsuperscript{1} ibid., 26 April 1920, Vol. 333, pp. 5442-5
\textsuperscript{2} ibid., p. 5442; cf. Nacken (Zentrum), ibid., p. 5469.
\textsuperscript{3} Wirth, ibid., p. 5449.
revenues could be increased by imposition of further taxes on luxury goods. The speaker for the other coalition party, Dernburg (DDP), also pointed out that the deficit was caused by transitional factors arising out of the war and the aftermath. But he admitted that the deficit of the railways and the extraordinary expenditure occasioned by the Versailles Treaty would not diminish rapidly, and he was less hopeful than Wirth about the possibility of a substantial domestic loan or about an increased yield from taxes. The right-wing opposition groups were openly pessimistic. Riesser predicted that it would be impossible to increase public revenues except by forming self-administering fiscal trusts in industry, trade, agriculture and the professions. Short of this the only way of covering current government expenditures, let alone of funding the floating debt, was to impose a forced loan. The Nationalist, Posadowsky-Wehner, despaired of any further increase in government revenue and could advocate nothing but stern retrenchment. On the extreme Left the Independent Socialist, Henke, asserted that Germany's plight could only be cured by socialism, but he refrained from making any practical suggestions.

Germany's treaty obligations do not appear to have exerted any great effect on attitudes to the budget. Wirth,

1. ibid., p. 5460.
2. ibid., p. 5462.
3. ibid., p. 5466.
4. ibid., 27 April 1920, p. 5495.
5. ibid., 26 April 1920, p. 5474.
6. ibid., 27 April 1920, pp. 5497-5506.
after making a provisional estimate that expenditures arising out of the treaty would account for 5 billions of the 11.6 billions of the extraordinary budget, stressed the importance of fixing Germany's future reparation obligations at a reasonable level. However, the absence of any final reparation settlement enabled him, like Erzberger on previous occasions, to evade any estimate of the regular cost of the treaty to Germany in the future. He even referred to the imminence of negotiations on this subject without undue pessimism. The Social Democrat, Keil, predicted that fulfilment of the treaty would cost Germany 3 billion gold marks a year; but advanced this as an added incentive for financial reform. The Democrat, Dernburg, stressed the harm that had already been done to Germany's public finances by the armistice and treaty terms, but quoted hopefully the opinion of the Italian Foreign Minister Nitti that the treaty ought to be revised. Even the right-wing opposition groups did not place overmuch emphasis upon the treaty as a reason for financial pessimism. Riesser demanded that the costs of the armies of occupation (3 billion marks a year) should be reduced; and protested at the figure of 90 billion gold marks which had been suggested in the French press as Germany's total reparation liability. But it was significant that Riesser felt able to dismiss this sum as ridiculous because of an increasing

1. ibid., 26 April, 1920, p. 5451.
2. ibid., p. 5445.
3. ibid., p. 5462.
4. ibid., p. 5464.
awareness in Entente countries that such notions were "intolerable and consistent only with unbridled imperialism and revanchism". ¹ It was even more significant that the speech of the Nationalist, Posadowsky-Wehner, contained no reference of any sort to Germany's treaty obligations.²

The largely domestically-induced financial pessimism of the Assembly was accompanied by the growth of financial apathy and fiscal amorality in the German nation. When introducing the budget, Wirth had deplored the financial ignorance of the broad masses of the German people and the apathy reflected in the poor attendance in the Assembly.³

The Democrat, Dernburg, attributed this apathy to the prevalence of 10 and 12 figure numbers which had caused both the Assembly and the German public to lose contact with the realities of the nation's finances.⁴

Wirth also expressed concern at the growth of positive opposition to paying taxes. His general explanation for this was that the German people were not accustomed to paying large direct taxes.⁵ But he attributed it more immediately to a recent partisan press campaign, conducted with an eye to the coming elections for the new Reichstag, which sought to arouse the feelings of the middle-class property owners hardest hit by the new taxes. In order to combat this development, Wirth

¹ ibid., 27 April 1920, p. 5494.
² ibid., 26 April 1920, p. 5471.
³ ibid., p. 5439.
⁴ ibid., p. 5464.
⁵ ibid., p. 5447.
stressed that the middle-classes would not be unduly harmed by federal taxation and appealed for a revival of the spirit of self-sacrifice (Opferricht) in the German nation.

The closing months of the National Assembly had undoubtedly witnessed a growth of financial pessimism. But this had been due almost entirely to domestic financial developments; and there was certainly no noticeable preoccupation with Germany's obligations under the treaty in the fiscal and budgetary debates at this time. A parallel observation may be made in explaining any deterioration of fiscal morality. Here again the important influences at work were the domestically significant Erzberger-Helfferich trial and the partisan press campaign which preceded the elections of June 1920. The debates of the National Assembly indicate that Germany's reparation obligations had relatively less impact on the attitude of the German taxpayer than in December 1919.

Political opposition certainly contributed psychologically, if not in a practical legislative way, to the German government's continued fiscal weakness and to its almost complete inability to borrow domestically before mid-1920. The reparation question was, however, never more than one among several grounds for this opposition. In any case, the depreciation of the mark, political unrest and the administrative difficulties involved in simultaneously setting up new fiscal machinery and imposing an entirely new system of taxes

1. ibid., pp.5449-1, 5476.
are sufficient to explain the persistent lowness of the government's revenues and the failure of the single attempt which was made to float a domestic loan in this period.

In its efforts to improve Germany's external finances, the German government was even more at the mercy of factors which were beyond its control. The most important of these was the post-war demand of the German public for goods. After the Allied blockade has been lifted in July 1919 this demand caused a flood of imports which had a disastrous effect on the German balance of trade.\(^1\) Germany's financial position was further weakened by the strong desire of German citizens to export capital. This desire which, in the words of one observer, caused the German mark to pour abroad "in inexhaustible streams\(^2\) was caused by a deep-seated lack of confidence in Germany's financial future which the government could do little to remedy.

The effect of these powerful economic and psychological factors on the German balance of payments was aggravated to a certain extent by administrative difficulties, such as Allied delay in sanctioning the enforcement of German import and export controls in Occupied Territory. In unoccupied Germany customs were paid in gold from 21 July 1919,\(^3\) exports were subject to license from 27 November 1919, and imports were

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1. For import figures in these months: see above, p.37. Cf. The Economist, 29 November 1919, pp. 983-4. (Berlin Correspondent, 15 November 1919).
3. Die Entwicklung der Reparationsfrage, p. 11.
variously restricted in the course of 1919. However, in
the Occupied Territories the collection of customs in gold
was not allowed by the Allies until 6 December 1919, the
licensing of exports did not begin until 6 March 1920, and
German import controls came into force only on 31 March 1920.

The undesirable impact exerted upon the balance of trade and
also upon public revenue by the existence of this "Hole in the
West" was the subject of repeated German protests; and it was
deplored by British observers in Germany early in 1920.

Administrative difficulties were also encountered in
operating the Foreign Trade Offices (Aussenhandelsstellen)
which had been set up in December 1919 to control the volume
and the price of exports. After the improvement of the mark
in the spring of 1920 much of the original justification for
the complicated control system, which had been designed to
prevent German goods from being sold abroad at unduly low
prices, was removed. Thereafter the slowness of the control
organisation in adjusting its levies in harmony with
fluctuations of the mark was a frequent subject of complaint

2. J.W.F. Thelwall, "General Report on ... Germany in December,
1920", loc. cit., pp. 8-9; Stuart to Curzon, 17 April 1920,
3. Gothein (DDP), 1 October 1919, Nationalversammlung, Vol. 329,
pp. 2797-8; Erzberger, ibid., pp.2800-3; Pohlmann (DDP),
27 February 1920, ibid., Vol. 332, p. 4550.
Stuart to Waterlow, 4 February 1920, ibid., pp. 36-8.
5. Enc. in Kilmarnock to Curzon, 22 May 1920, ibid., Vol. IX,
p. 491.
amongst German exporters. 1.

Political factors, among them the reparation question, also help to explain the ineffectiveness of the German government's external financial policy at this time. The debates in the National Assembly in August 1919 on the subject of curbing capital flight reveal that an important impetus to the export of capital was the desire to evade the new taxes which were being imposed by the federal government. 2. The prospect that the proceeds of these taxes might be absorbed in reparation payments to the Allies could easily have been an added inducement to this form of tax evasion. However, the speakers in the debate always referred in general terms to capital flight as a product of the lost war and the aftermath. 3. The only disagreement appears to have been over the question of whether the old or the new regime was more to blame for creating the conditions which gave rise to the exodus of funds. 4.

The influence of liberal economic ideas, which had contributed to the premature suspension of exchange controls in July, was also evident in this debate. The government's proposal sought to check capital flight by stipulating that notes and securities should be consigned overseas only through banks (para. 1). It further empowered the Finance Minister to flush capital hoarded by tax evaders within Germany by calling

3. E.g. Raschig (DDP), ibid., p. 2508.
4. Braun (SPD), ibid., p. 2512.
in, endorsing and converting notes and securities (pars. 7).\(^1\) Although the stipulation that capital exports should be made only through banks was far less severe than the provision of the war-time Foreign Exchange Regulations that they should be approved by the Reichsbank, there was considerable opposition to the bill in committee from liberal free traders.\(^2\) The unfavourable attitude of financially influential groups within the Assembly was given full expression by Riesser (DVP) who, after predicting that it would be impossible to stop the flight of capital, criticised the law on the grounds that it violated commercial privacy and that its provisions for the endorsement of notes would cause a shortage of circulating media.\(^3\) The widespread acceptance of such views could easily have had a serious effect on Germany's internal and external finances.

But, despite these administrative and political factors, Germany's external financial problems were due basically to economic dislocation and financial apprehensions which had been induced by the war and by the aftermath and which could not be cured by the unaided efforts of the German government. It was perhaps a symptom of this that further discussions of Germany's foreign financial position in the National Assembly were either predominantly partisan in character or were noticeably apathetic. In October 1919 members of the DVP and

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DNVP attributed Germany's external financial plight and the fall of the mark to the radical domestic financial policy which was being pursued by the government, and insisted that only a more liberal programme would restore badly needed domestic and international confidence in Germany.\(^1\) In reply, the government blamed the state of the mark exchange on insuperable economic forces, above all the unfavourable trade balance, and asserted that any German recovery would not be lasting unless it were based on a reform of domestic finances.\(^2\).

It was in keeping with this emphasis of purely domestic financial politics that there was hardly any reference in the debate to the reparation question. The Nationalist, Schiele, did at one stage argue against any attempt at financial reform until Germany's reparation obligations were fixed, on the grounds that the Entente would increase its demands once the German budget was balanced.\(^3\) However, Schiele was roundly rebuked by the Centrist, Bolz, who insisted that in the present state of German finances nothing could justify any delay in implementing reforms.\(^4\).

The continued deterioration of Germany's external finances caused a heightening of the partisan pitch of debate in the Assembly. In December 1919 a right-wing attack on the

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3. Schiele (DNVP), ibid., p. 2807.
4. Bolz (Zentrum), ibid., p. 2808.
government's domestic and foreign financial policies featured a familiar diatribe against controls which, it was claimed, destroyed the economy's natural balance, and against taxation, which was alleged to raise prices and absorb vitally-needed working capital. For the rest it consisted mainly of partisan recrimination about the contrast between the present plight of Germany and earlier more prosperous times. Erzberger had little difficulty in revealing the flaws in the financial and economic arguments of the government's critics; and he was quick to blame Germany's difficulties on the war-time economic policies of the old regime.

It was symbolic of the futility of the debate and of the powerlessness of the government to remedy the external financial malaise that, after the government speakers had made their replies, the Assembly adjourned for want of a quorum.

The fundamental reason for the external financial helplessness of the German government was its inability to limit or to consolidate Germany's external floating debt. In the period before mid-1920 several credits were obtained to facilitate imports of food and raw materials; and arrangements were made for the supply of raw materials by foreign financiers in return for either an interest in the business of the German

2. Mumm (DNVF), ibid., p. 4175.
recipient or a right to the finished goods produced by him. 1. But these were stop-gap measures which would, at best, only delay the growth of the external floating debt. So long as a huge amount of German paper money and short-term securities remained unabsorbed or uncovered by any large scale long-term international loan, the stability of the mark was never assured.

This inability to obtain substantial foreign assistance was in part due to the reparation question. Until the conclusion of the Spa Agreement in July 1920, Germany had even been unable to obtain credits from the Allies under Article 235 of the treaty in order to meet her immediate needs for food and raw materials. 2. Moreover, although the flotation of a large-scale loan on the security of Germany's future reparation payments was envisaged by the Allies in their discussion of the general reparation question, progress in this direction was prevented by the absence of any agreement on Germany's total reparation obligation. 3.

However, neither the satisfactory settlement of the reparation question nor the general financial reconstruction  

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2. See above, pp.138-42.
3. The general reparation scheme drawn up by the Allied financial experts on 21-2 June 1920 at the Boulogne Conference recommended that Germany should issue a series of loans with the support of the Reparation Commission, DBFF, Vol. VIII, p. 338.
of Europe were possible without the financial intervention of the United States government. Hopes of such an intervention receded rather than grew in the period before June 1920 because of the refusal of the Senate to ratify the Versailles Treaty. Wilson's tragic failure to obtain ratification on both 19 November 1919 and 19 March 1920 was, in the first instance, the result of a purely domestic party political struggle and of his own tactics rather than of any irrevocable dislike of the American people for the treaty. But the financial implications of this failure for Germany were disastrous. On 31 January 1920, Kilmarnock reported the substance of an interview which had taken place between Erzberger and Dresel, the American Commissioner in Berlin. Erzberger, after expressing hopes of loans from Holland, Denmark, Sweden, Switzerland and Spain, had stressed that Germany was "chiefly anxious to obtain large credits in the United States". Dresel had, however, discounted the possibility of an American loan until the treaty had been ratified by Congress. It is clear that non-ratification was reinforcing a trend towards financial isolationism which was to become stronger and stronger in succeeding months.

The period between June 1920 and the end of April 1921 witnessed a deterioration of the German government's finances which was checked only momentarily and slightly in the last

1. For an incisive account of the reasons for the non-ratification of the treaty: W.S. Holt, Treaties Defeated by the Senate, pp. 249-307. See also T.A. Bailey, Woodrow Wilson and the Great Betrayal, passim.

The major cause of the budgetary imbalance was clearly that, while expenditures remained high, income in terms of gold lagged behind at about its 1913 level of 3.5 billion marks.

The failure of revenue to increase rapidly was due, as in the preceding period, largely to the inability of the new fiscal administration to cope adequately with the burdens which had been placed upon it. Although the yields from relatively unimportant self-collecting stamp duties exceeded expectations, the return from all other major taxes except the income tax - much of which came from automatic wage deductions - did not, in the months July-September 1920, show any substantial or sustained improvement over that of the previous quarter, viz, 2.

<table>
<thead>
<tr>
<th>Tax</th>
<th>Est. Annual Yield (million paper mks)</th>
<th>Actual Yield (paper marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July</td>
<td>August</td>
</tr>
<tr>
<td>Income Tax</td>
<td>12,000</td>
<td>396,375,254</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>900</td>
<td>-</td>
</tr>
<tr>
<td>Dividend Tax</td>
<td>1,300</td>
<td>22,380,615</td>
</tr>
<tr>
<td>Reichsnotopfer</td>
<td>3,500</td>
<td>135,998,597</td>
</tr>
<tr>
<td>Property Tax</td>
<td>100</td>
<td>1,102,441</td>
</tr>
<tr>
<td>Inheritance Tax</td>
<td>620</td>
<td>15,320,182</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>3,700</td>
<td>70,797,843</td>
</tr>
<tr>
<td>War Levy on Capital Gains</td>
<td>4,300</td>
<td>16,966,057</td>
</tr>
<tr>
<td>Extraordinary War Levy 1917</td>
<td>2,000</td>
<td>162,958,620</td>
</tr>
<tr>
<td>Extraordinary War Levy 1918</td>
<td>1,800</td>
<td></td>
</tr>
</tbody>
</table>

It will be noticed that in the case of the Corporation Tax no returns had been received at all. The administrative difficulties hampering the collection of the Reichsnotopfer were typical. The deadline for the submission of declarations was extended several times until it was finally fixed at 30 September 1920. It was not until November 1920 that the yield of the Reichsnotopfer increased to a reasonable level, and even then this was due to privileges granted for payments made before 1 January 1921. Representatives of both the Right and the Left continued throughout the period to blame administrative factors for the lowness of tax returns.

The effect of delays in assessment and collection was

1. V.V. Badulesco, op. cit., p. 451.
2. ibid., p. 453.
seriously aggravated by the declining value of the mark. For most of the second half of 1920, the dollar rate rose suddenly, viz, 1.

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 1920</td>
<td>38.5</td>
</tr>
<tr>
<td>31 July 1920</td>
<td>42.5</td>
</tr>
<tr>
<td>31 August 1920</td>
<td>49.8</td>
</tr>
<tr>
<td>30 September 1920</td>
<td>62.2</td>
</tr>
<tr>
<td>31 October 1920</td>
<td>76.5</td>
</tr>
<tr>
<td>30 November 1920</td>
<td>70.7</td>
</tr>
<tr>
<td>31 December 1920</td>
<td>73.3</td>
</tr>
</tbody>
</table>

The peak of this rise actually occurred on 12 November, when the dollar was quoted at 87.6 paper marks. After this there was something of a recovery, which was followed in the early months of 1921 by a period of relative stability, viz, 2.

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 January 1921</td>
<td>60.5</td>
</tr>
<tr>
<td>28 February 1921</td>
<td>63.0</td>
</tr>
<tr>
<td>31 March 1921</td>
<td>62.5</td>
</tr>
<tr>
<td>30 April 1921</td>
<td>66.0</td>
</tr>
</tbody>
</table>

The value of the mark had therefore fallen noticeably over the period as a whole. This reduced disastrously the real value of the yield from direct taxes, above all those which, like the War-Time Capital Gains Levy and the Reichsnotopfer, were assessed on the value of property held on fixed dates - 30 June 1919 and 31 December 1919 respectively. Given a delay in assessment and collection, any rise in the paper value of property after these dates correspondingly reduced the severity of the taxes actually paid. The inflation of values was in fact so great in this period that, according to one authority, payments due under the War-Time Capital Gains Levy which had at their original assessment in June 1919 amounted to 80% of

2. Ibid., pp. 16-18.
of increases in wealth were reduced by the end of 1920 to 20\%\textsuperscript{1}. This meant not only that property owners escaped lightly, but also that expenditures, many of which were sensitive to the general inflation of values, tended to outstrip revenues. The relative inflexibility of paper revenues at a time when paper expenditure was increasing rapidly was reflected in the successive estimates and final figures for the budget of 1920/21, viz,\textsuperscript{2}

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Total Expenditure (billion paper marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>April</td>
<td>52.5</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>55.3</td>
</tr>
<tr>
<td></td>
<td>October</td>
<td>111.7</td>
</tr>
<tr>
<td>1921</td>
<td>January</td>
<td>122.5</td>
</tr>
<tr>
<td></td>
<td>Final</td>
<td>156.5</td>
</tr>
<tr>
<td></td>
<td>Actual</td>
<td>166.4</td>
</tr>
</tbody>
</table>

The increase in estimated and actual expenditures was due partly to the addition of entirely new items in the later budgets. In the October estimate, 9.4 of the 12 billion increase in ordinary expenditure was caused by the inclusion for


\textsuperscript{2} Sources: (1) April 1920: Wirth, Nationalversammlung, 26 April 1920, Vol. 333, p. 5439.
(4) January 1921: V.V. Badulesco, op. cit., p. 247.
the first time of disbursements which were to be made by the federal authorities to the state governments. Similarly, the increase of projected expenditures arising out of the treaty from 5 billions to 41 billions represented an upward revision of the estimated real cost of the treaty to Germany. However, the figures for the deficits of the public utilities and for general extraordinary expenditure almost certainly reflected the declining value of the mark. It was, moreover, the rapid increase of the latter categories of expenditure rather than the size of treaty expenditure, which was in the end responsible for most of the deficit.

It is highly likely that the short-term instability of the mark in this period was influenced by the development of the reparation question. The failure to reach any final reparation settlement at Spa in July 1920 does not appear to have had any dramatic effect. However, the rising tide of complaint which was voiced in Germany in ensuing months on the subject of the Spa coal deliveries was probably partly to blame for the fall of the mark in September and October. The influence of the reparation question seems to be most obvious during the violent depreciation which occurred between 25 October 1920, when the dollar rate stood at 69.6, and 12 November when it had reached 87.5. Speculation against the mark was almost certainly encouraged during this period by Wirth's budget speech of 27 October and the ensuing budget debate in which

1. Die Entwicklung der Reparationsfrage, p. 15.
Germany's reparation obligations were given a great deal of prominence. However, the subsequent recovery of the mark, and its relative stability in the early months of 1921, when reparation negotiations were generating a considerable amount of ill-feeling within Germany, reduce the significance of the reparation question as a short-term influence on the external value of German currency.

In fact, the value of the mark over any considerable period depended not on short-term speculation but on such factors as the balance of payments and the size of Germany's external floating debt. The reparation question did affect both of these factors by increasing the German trade deficit and by damaging Germany's credit. But its influence in both these areas was comparatively slight. Hence it cannot be blamed to any large extent for creating the underlying conditions which made the depreciation of the mark possible and which undermined the efforts of the German government to increase public revenues.

The imbalance of the German budget cannot be explained entirely in terms of administrative difficulties and the declining value of the mark. The failure of paper revenues to increase sufficiently was also due to a psychologically and politically induced inflexibility in the German fiscal apparatus. In this connection the fluctuating and uncertain psychological and political impact of negotiations over the reparation

1. See above, pp. 183-6.
2. See below, pp. 289-92.
question has been examined. However, the fiscal debates of these months seem to reveal that a more consistent and powerful influence was exerted upon the level of German public revenue by purely domestic political preoccupations. After the swing to the right at the elections of June 1920, the Weimar coalition of SFD, DDP, and Zentrum was succeeded by a more conservative DDP-Zentrum-DVP cabinet. The SFD, which had exerted pressure in the Bauer Cabinet in favour of stern property taxation, was now replaced by the DVP, a firm opponent of many of Erzberger's financial reforms. This did not cause any noticeable reversal of the financial policy inaugurated by Erzberger; but it increased the strength of the opposition, both inside and outside the government, to efforts to adapt Erzberger's direct and indirect taxes to fluctuating financial and economic conditions.

The general attitude of the new German government to the fiscal question was revealed when Bergmann, a German representative at the Brussels International Financial Conference of September 1920, claimed that Germany had gone to the limit of reasonable taxation, "considering that any diminution of production should be avoided lest the attempt to increase the revenue of the Reich should lead to the contrary effect". This opinion was repeated two months later by Schroeder, a German representative at the Brussels reparation conference of December 1920, who emphasised in particular the

1. See above, Part II, Section IV, passim
impossibility of increasing German direct taxation. ¹

The first domestic sign of the changed fiscal status quo was the unfavourable reaction of the SFD to proposals for the amendment of indirect taxation. When, in July 1920, the government proposed a year's extension of the lucrative 20% ad valorem Coal Tax, the SFD voiced strong opposition. In committee it proposed successively that the tax should be extended only until 1 October 1920, that the government should before that date submit proposals for the socialisation of the coal industry, and that the tax should not rise above the rate applicable on 31 July 1920.² Despite the rejection of all these proposals, the government was obliged to placate the left opposition by undertaking to investigate and to prepare a prompt report on the subject of coal nationalisation.³ In March 1921, when the question of further renewal was raised, joint SPD-USPD opposition made the adoption of the proposal dependent on the DMVP vote.⁴ Thus the SFD which had, as a member of the government coalition, voted for the Sales Tax in December 1919, felt free once it had been divested of cabinet responsibility to oppose the continuation of a vital piece of indirect taxation.

Possibly more important in its effect on the level of government revenue was the opposition within the Cabinet to proposals for raising the efficiency of existing direct taxes.

1. See above, pp. 201-2.
3. ibid., p. 454.
This was noticeable at the end of 1920 during discussions of Wirth's proposal for the quick assessment and collection of the Reichsnotopfer.\(^1\) Late in November 1920 the proposal was attacked in the tax committee by members of the DDP and DVP as well as by the Nationalist Helfferich.\(^2\) Although the DDP was won round to support the measure, the DVP remained adamant and a Cabinet crisis developed when the Zentrum and DDP demanded that the DVP should either accept part of the responsibility for the law or leave the coalition. The DVP eventually gave its support to the measure, largely because of the undesirability of leaving the Cabinet on the eve of the elections for the Prussian Landtag. But the DVP was, in practice, obliged to vote immediately only for a private bill introduced on 15 December which was concerned solely with the first part of Wirth's original proposal dealing with quick assessment.\(^3\)

A separate bill, introduced by the government on 17 December, which contained provisions for quick payment did not become law until 6 July 1921.\(^4\) The opposition to the measure, both in the Committee and in the Reichstag proper, was based exclusively upon fears of the confiscation of wealth and of financial dislocation.\(^5\) It was symptomatic that members of

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2. V.V. Badulesco, op. cit., p. 311.
3. Reichstag, Vol. 365, Anl. 1158
the DVP and DNVP expressed a preference, as they had in December 1919, for a forced loan on the grounds that the bonds issued to subscribers could be used by them to obtain working capital.¹

The opposition groups both inside and outside the Cabinet were also strong enough to influence the manner in which the Reichsnotopfer was to be assessed. A government order of 4 September 1920 had directed that landed property was to be valued according to its average yield in the years 1914-19. This aroused protests from the Right, which claimed that war-time land values were abnormally high and demanded that the valuation period should be extended back to 1908-9.² In practice, however, as the Democrat Pohlmann later pointed out, the final decision as to the basis of assessment was left to the local tax authorities.³ This was consistent with the promise which the DVP had extracted from the government that the provisions of the Reichsnotopfer would be applied in a broad spirit.⁴

The government seems in practice to have been more concerned to remove hardships imposed upon taxpayers by the fluctuation of the mark than it was to remedy the fall in real public revenue. The former preoccupation certainly inspired the various amendments to the Income Tax Law which were mooted in this period. The system of wage deductions, which had been a

¹ Helfferich (DNVF), ibid., p. 1860; Riesser (DVP), ibid., p. 1880.
² Helfferich (DNVF), ibid., p. 1862; Roesicke (DNVP), ibid., p. 1881.
³ 22 January 1921, ibid., Vol. 347, p. 2038.
⁴ V.V. Badulesco, op. cit., p. 312.
central issue in the original Income Tax debates, again became the subject of discussion as soon as the Reichstag assembled in June 1920. The committee appointed to examine the operation of wage deductions almost unanimously recommended their retention; but advised that the tariffs of the tax should be adjusted to the depreciated value of the mark. Wirth's Income Tax Amendment Law of 16 December 1920 was devised primarily with a view to making such an adjustment and to righting other anomalies in the existing legislation. It was significant that one of the few revenue-raising proposals contained in the measure - for the abolition of tax exemptions for contributions to cultural, charitable and political institutions - encountered such firm resistance from the DDP, DVP and DNVP that it had to be watered down. Provisions were even added to the law during its passage through committee which conferred new tax exemptions on income derived from "normal" (ie. non-speculative) sales of property and which liberalised arrangements for tax deductions in respect of depreciation allowances. The main preoccupation of the majority of the Reichstag was certainly not to make the income tax a source of increased revenue.

The negative attitude of the "bourgeois" parties to direct taxation, and above all to property taxes, provoked a

strong protest from the Left. Much of the debate on the first reading of the Income Tax Amendment Law on 22 January 1921 was in fact devoted to recrimination over the alleged sabotage of property taxation by parties in the government and by the DNVF. The Independent Socialist, Hertz, quoted extensively from an article published by a right-wing professor of the University of Münster which demonstrated that the real value of the yield from property taxes was far below what had originally been expected.\(^1\) The main left-wing attack was mounted by the Social Democrat, Keil, who alleged that systematic sabotage ('planmässiger Abbau') of property taxation was taking place. Keil emphasised how, in the deliberations over the amendment of the Reichsnotopfer at the end of 1920, Wirth had been faced with resistance not only from the DNVF but also from the DVP and DDP, and even from his own Centre Party, which, he claimed, had fallen under the influence of its agrarian and industrial sections. The aim of Wirth's opponents was, in Keil's opinion, not only to prevent the efficient exaction of property taxes but also to increase the burden of indirect taxation. To the claim that direct taxes had been imposed to the limit and that only consumption taxes could be increased, Keil retorted by declaring "before the whole world" that "German tax legislation was a deceptive piece of window-dressing which would not be carried out".\(^2\) Although the government parties denied the

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\(^1\) 22 January 1921, ibid., Vol. 347, p. 2028.

\(^2\) "...eine blendende Kulisse, die nicht ausgeführt wird", ibid., p. 2018.
existence of any plan to undermine Erzberger's taxes, all of them, including the Centre Party, insisted more or less strongly on their right to work for the revision of these taxes if they threatened to harm the interests of business or agriculture. ¹ This suggests that, although the Left somewhat overstated its charges, there was sufficient socially and financially based feeling within the Reichstag to explain the relative inertia of the government about direct taxation. A contrary impression was momentarily conveyed by the Democrat, Pohlmann, who advocated that the fiscal committee of the Reichstag should become a standing committee with the responsibility of adjusting German tax law to changing financial conditions. However, there is no special indication that Pohlmann envisaged the tax committee as an organ for the stern implementation of Erzberger's direct taxes. ²

The fiscal inertia of the government parties does not appear to have been induced to any large extent by preoccupation with Germany's existing or future reparation obligations. It is true that on 22 January 1921 Wirth mentioned the uncertain state of reparation negotiations as a reason for his failure to introduce any large-scale fiscal programme. But he went on to stress that political and partisan factors - presumably of a domestic nature - had, because of the imminence of the Prussian elections, exerted an important influence on the

1. Ten Hompel (Zentrum), ibid., p. 2026; Pohlmann (DDP), ibid., pp. 2037-8; Becker (DVP), ibid., p. 2032; Heifferich (DNVF), ibid., p. 2023.
2. ibid., p. 2036.
behaviour of the government parties.\(^1\) For the rest, the reparation question was hardly mentioned during the course of the fiscal debates in this period, except when the Social Democrat, Keil, predicted that the Right would use Allied demands as an excuse for increasing indirect taxation.\(^2\)

Allied reparation claims were certainly never referred to explicitly in debate over specific tax provisions.

The factors which were responsible for the Reichstag's lack of fiscal dynamism are also sufficient to explain the continued inability of the government to raise domestic loans. The only move in this direction during these months was made in November 1920 by the right-wing groups which preferred a forced loan to the government's proposal for the prompt collection of the Reichsnotopfer. On 1 December 1920 the tax committee of the Reichstag, encouraged by the favourable testimony of Havenstein, the President of the Reichsbank, had swung temporarily in favour of a scheme for combining the Reichsnotopfer with a forced loan.\(^3\) However, since the forced loan was seen by its supporters as an alternative rather than as a supplement to the Reichsnotopfer, the passage of Wirth's original proposal caused discussion of the former to lapse. In these circumstances, the outlook for any voluntary lending to the government by the German public was, needless to say, hopeless.

It was perhaps to be expected that the emphasis placed

1. ibid., p. 2025
2. ibid., p. 2018
3. V.V. Badulesco, op. cit., p. 310.
upon the reparation question during the budget debates of October-November 1920 would leave its mark on German fiscal morality. But, whether because the strain on the budget of Germany's current treaty obligations was less than Wirth had predicted, or whether because of the real uncertainty which existed as to Germany's future obligations, there was no reference to reparations as either a cause or a justification for increased tax evasion. Comment in the Reichstag usually attributed the state of fiscal morality to the imperfections of the tax system. On 19 March 1921 the Democrat, Pohllmann, quoted extensively from a statement by the Berlin Bar Association (Berliner Anwaltverein) about the moral effects of the provisions of the Income Tax Law concerning the taxation of the proceeds from non-speculative sales of property. It was alleged that under the influence of this provision much moral confusion had been created. Law-abiding citizens had refrained from transacting urgent business deals and others had sought to evade taxation by false declarations, by side payments, and by the conduct of illegal transactions. "It was useless," the report concluded, "to point out the nullity of these deals since the participants preferred to trust in the fulfilment of a void contract by the other party and to lay themselves open to the danger of prosecution rather than to allow the income accruing from the sale of their property to be taxed away." This account, although no doubt to some special pleading, seems to indicate that the seeming harshness

of the taxes and the self-interest of the taxpayer were a sufficient explanation for the decline of fiscal morality.

Germany's external financial problems in the months between June 1920 and April 1921 continued to be basically the result of a large trade deficit and an unfavourable balance of payments which it was impossible for the German government to remedy. Despite the incompleteness of the published figures, it can be calculated that 1.6 billion gold marks of Germany's official visible trade deficit for 1920 was incurred in the seven months June to December; and that about half of the following year's deficit of 1.1 billion marks was accumulated between January and April.\(^1\) This indicates that there was in these months an official visible trade deficit approaching 2 billion gold marks and, accordingly, a considerably larger actual visible and invisible trade deficit.\(^2\)

The direct contribution of reparation payments to this deficit could not have been more than the considerable, but not excessive, figure of 600 million gold marks.\(^3\) For the rest, the deficit was due to general economic dislocation, to which the reparation problem contributed, but which was mainly the product of the economic exhaustion caused by the war. One of the most noticeable features of this exhaustion was the dilapidation of German agriculture which, by causing large imports of foodstuffs, had a serious effect on the balance

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1. See above, p.37.
2. On the reasons for official under-estimation of the trade deficit: see above, p. 38.
3. See above, p. 81.
Germany's external payments difficulties were almost certainly aggravated by political factors in the months which are under consideration. Although the entry of the fiscally conservative DVP into the Cabinet probably reduced the impetus to capital flight among the propertied classes, it also decreased the likelihood of any reduction of the external pressure on the mark by the means of controls. At a meeting of a DVP executive group in October 1920 the lifting of wartime controls (Zwangswirthschaft) and the abolition of the tax on exports were cited as two achievements which had resulted from DVP membership of the government.

The restoration of Germany's external finances still depended ultimately on her ability to obtain substantial long-term foreign aid. Germany's almost complete powerlessness in this respect was due partly to the reparation policies of the European Allies. Lloyd George's proposal at Spa for large-scale credits to Germany had foundered on Millerand's refusal to supply food and raw materials "for the whole of German industry". The growth of the external floating debt had, it is true, been slightly restrained by the payment of 390 million gold marks to Germany between July 1920 and January 1921 under the terms of the Spa Coal Agreement. But the Allies had refused to renew this agreement, and 200 millions of the

1. The Economist, 4, 11 December 1920, pp.1038, 1081.
2. Nachlass, 6933/139791.
4. See above, p.78.
foreign exchange earned had been absorbed immediately by payments to foreign investors in pre-war Germany under the clearing agreements prescribed by Article 296 of the Versailles Treaty. Finally, the spectacular failure of the negotiations over Germany's total reparation obligation in the early months of 1921 had temporarily destroyed any hope of the negotiation of a long-term loan.

There were, however, indications that a long-term international loan would have been impossible to obtain even if there had been no reparation problem; or, in other words, that the reparation problem was a symptom rather than a cause of a general breakdown of the pre-war system of international credit. Hopes that this breakdown would be remedied by means of large-scale government financial intervention were severely shaken in October 1920 by the recommendation of the Brussels International Financial Conference that "apart from particular decisions dictated by national interests or by considerations of humanity, credits should (not) be accorded directly by governments". All possibility of a loan was finally removed by domestic developments in the United States of America. The landslide Republican victory in the Presidential election of November 1920 crystallised a rejection of Europe and its problems by the nation upon which the success of any European long-term loan ultimately depended. The American denial of

political responsibility for Europe which occurred when President Harding finally disowned the League of Nations on 12 April 1921 was paralleled by a financial washing-of-hands ten days later when the American President rejected the desperate appeal of the German government for his mediation over the question of Germany's total reparation obligation. The folly and impossibility of financial isolationism were to become obvious more quickly than were the tragic consequences of its political counterpart. It was not long before the headlong depreciation of the mark completely destroyed the savings of the many Americans who, instead of investing in a government-guaranteed German loan, had indulged in the speculative buying of mark notes.

In the first thirty months of peace, Germany's domestic financial instability had increased because of the failure of all efforts to increase regular public revenues and to float public loans. At the same time external financial collapse had loomed larger because the balance of trade, despite a slight improvement in 1920 and 1921, had remained exceedingly unfavourable, and because Germany was powerless to consolidate, or even to check the growth of, her external floating debt.

The German government had been unable even to devote its full attention to domestic financial reform until the middle of 1919. Thereafter, several powerful factors, apart from the general post-war economic dislocation of Germany, had

1. H. Hoover, The Ordeal of Woodrow Wilson, p. 298.
2. See above, pp. 208-9.
hampered efforts to raise revenue. In the first place there were obvious administrative difficulties in the way of simultaneously creating an entirely new fiscal organisation and imposing heavy taxation on a nation which was unused to bearing a large fiscal burden. These difficulties were made almost insurmountable by the continual depreciation of the mark, which destroyed the real value of the taxes that were collected and made government borrowing impossible. Political opposition also hindered financial reform, firstly by increasing the unwillingness of the German people to pay taxes and to subscribe to public loans, and secondly, after June 1920, by encouraging the reluctance of the government to adapt the tax system to the depreciation of the mark.

The reparation problem contributed in a comparatively minor way to the failure of the German government to increase its financial resources in the period before May 1921. It was only one among many political factors which increased the administrative difficulties of taxation and which undermined the credit of the government with the German people. It was, moreover, only one of several causes of the long-term fall of the value of the mark which had such a disastrous effect on real public revenue.

Germany's external financial imbalance, of which the depreciation of the mark was a symptom, was the product of the inability of the German government to reduce the trade deficit, to check capital flight and to float large-scale
international loans. The reparation problem caused part of the trade deficit, gave Germans added incentive to export capital, and injured Germany's international credit. However, in the period before May 1921 the most important causes of these developments were the economic dislocation and financial pessimism induced by the war and the aftermath within Germany, and a jamming of the mechanism of international credit which private enterprise could not, and governments would not, remedy.
PART III

THE ATTEMPT AT A FULL-SCALE REPARATION SCHEME

MAY 1921 - JANUARY 1923
The period between May 1921 and the close of the year 1922 witnessed a remarkable growth of German industrial output. For the first time since the war, production in vital sectors of German industry recovered almost to its pre-war level, viz,\(^1\).

<table>
<thead>
<tr>
<th>Year</th>
<th>Black Coal</th>
<th>Lignite</th>
<th>Pig Iron</th>
<th>Crude Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>190</td>
<td>87</td>
<td>12.9</td>
<td>15.3</td>
</tr>
<tr>
<td>1913 (post-war frontiers)</td>
<td>173</td>
<td>87</td>
<td>10.9</td>
<td>11.9</td>
</tr>
<tr>
<td>1913 (frontiers after May 1922)</td>
<td>140</td>
<td>87</td>
<td>10.3</td>
<td>10.9</td>
</tr>
<tr>
<td>1918</td>
<td>160</td>
<td>101</td>
<td>9.2</td>
<td>12.9</td>
</tr>
<tr>
<td>1919</td>
<td>108</td>
<td>94</td>
<td>6.3</td>
<td>8.5</td>
</tr>
<tr>
<td>1920</td>
<td>131</td>
<td>112</td>
<td>6.4</td>
<td>8.5</td>
</tr>
<tr>
<td>1921</td>
<td>136</td>
<td>123</td>
<td>7.9</td>
<td>10.1</td>
</tr>
<tr>
<td>1922</td>
<td>130</td>
<td>137</td>
<td>9.4</td>
<td>11.7</td>
</tr>
</tbody>
</table>

These figures, which do not include the post-May 1922 output of the portion of Upper Silesia which was ceded to Poland, reveal that in 1922 production of pig iron and crude steel was either approaching or had surpassed its level in 1913 in the same area. There was still a lag of about 10 million tons in the production of black coal; but this was balanced by an enormous increase in the yield of lignite, which was used increasingly in this period as a substitute for black coal.

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These production trends were highly significant as an index of the general level of German industrial activity because the iron and steel trades and coal mining were Germany's most important basic industries and were linked very closely to the highly developed engineering and ship-building industries. In the latter sphere there was particularly intense activity in 1922, when the tonnage of ships launched was well above the level of 1913, viz, 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tonnage (thousand tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>459</td>
</tr>
<tr>
<td>1920</td>
<td>326</td>
</tr>
<tr>
<td>1921</td>
<td>446</td>
</tr>
<tr>
<td>1922</td>
<td>625</td>
</tr>
</tbody>
</table>

A further indication of increased industrial activity was the almost continuous fall in the number of persons receiving unemployment relief. The only interruption to the downward trend of unemployment occurred during the months January to March 1922. Thereafter the fall continued until, in the summer of 1922, unemployment in Germany was at an incredibly low level, viz, 2.

<table>
<thead>
<tr>
<th>Month</th>
<th>1921</th>
<th>1922</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January</td>
<td>410,238</td>
<td>164,248</td>
</tr>
<tr>
<td>1 February</td>
<td>202,594</td>
<td></td>
</tr>
<tr>
<td>1 March</td>
<td>212,526</td>
<td></td>
</tr>
<tr>
<td>1 April</td>
<td>413,321</td>
<td>115,845</td>
</tr>
<tr>
<td>1 May</td>
<td>64,708</td>
<td></td>
</tr>
<tr>
<td>1 June</td>
<td>357,352</td>
<td>28,626</td>
</tr>
<tr>
<td>1 July</td>
<td>314,475</td>
<td>19,648</td>
</tr>
<tr>
<td>1 August</td>
<td>15,137</td>
<td></td>
</tr>
<tr>
<td>1 September</td>
<td>232,057</td>
<td>11,671</td>
</tr>
<tr>
<td>1 October</td>
<td>185,806</td>
<td>16,681</td>
</tr>
<tr>
<td>1 November</td>
<td>149,126</td>
<td>24,738</td>
</tr>
</tbody>
</table>

1. C. Bresciani-Turroni, op. cit., p. 194 Note.
The contrast between the state of German industry and that of German agriculture was striking. At the end of 1921 numbers of livestock were slightly below their 1920 level; and there was a further more noticeable decline during the course of 1922, viz,\(^1\).

<table>
<thead>
<tr>
<th>Date</th>
<th>Horses (Thousand head)</th>
<th>Cattle</th>
<th>Sheep</th>
<th>Pigs (Thousand)</th>
<th>Goats (Thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/12/13</td>
<td>4,523</td>
<td>20,994</td>
<td>5,521</td>
<td>25,659</td>
<td>3,548</td>
</tr>
<tr>
<td>4/12/18</td>
<td>3,493</td>
<td>18,095</td>
<td>5,382</td>
<td>10,545</td>
<td>4,426</td>
</tr>
<tr>
<td>Post-war</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/12/18</td>
<td>2,978</td>
<td>16,448</td>
<td>4,905</td>
<td>9,227</td>
<td>4,021</td>
</tr>
<tr>
<td>1/12/19</td>
<td>3,468</td>
<td>16,298</td>
<td>5,356</td>
<td>11,469</td>
<td>4,052</td>
</tr>
<tr>
<td>1/12/20</td>
<td>3,588</td>
<td>16,807</td>
<td>6,150</td>
<td>14,179</td>
<td>4,459</td>
</tr>
<tr>
<td>1/12/21</td>
<td>3,666</td>
<td>16,791</td>
<td>5,891</td>
<td>18,818</td>
<td>4,296</td>
</tr>
<tr>
<td>1/12/22</td>
<td>3,650</td>
<td>16,316</td>
<td>5,566</td>
<td>14,678</td>
<td>4,140</td>
</tr>
</tbody>
</table>

In 1921 most crop yields continued their recovery from the low level to which they had slumped in 1919. However in 1922 there was, except in the case of potatoes, an extremely serious 20\(^\%\) to 30\(^\%\) reduction of all yields, viz,\(^2\).

<table>
<thead>
<tr>
<th>Year</th>
<th>Rye (Thousand metric tons)</th>
<th>Wheat</th>
<th>Barley</th>
<th>Potatoes (Thousand)</th>
<th>Oats (Thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>12,222</td>
<td>4,656</td>
<td>3,673</td>
<td>54,121</td>
<td>9,714</td>
</tr>
<tr>
<td>1918</td>
<td>8,035</td>
<td>2,527</td>
<td>2,038</td>
<td>29,941</td>
<td>4,769</td>
</tr>
<tr>
<td>Post-war</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1918</td>
<td>6,676</td>
<td>2,337</td>
<td>1,850</td>
<td>24,744</td>
<td>4,381</td>
</tr>
<tr>
<td>1919</td>
<td>6,100</td>
<td>2,169</td>
<td>1,670</td>
<td>21,449</td>
<td>4,494</td>
</tr>
<tr>
<td>1920</td>
<td>4,970</td>
<td>2,250</td>
<td>1,800</td>
<td>28,250</td>
<td>4,870</td>
</tr>
<tr>
<td>1921</td>
<td>6,798</td>
<td>2,933</td>
<td>1,937</td>
<td>26,149</td>
<td>5,004</td>
</tr>
<tr>
<td>1922</td>
<td>5,234</td>
<td>1,958</td>
<td>1,607</td>
<td>40,661</td>
<td>4,015</td>
</tr>
</tbody>
</table>

Germany's foreign trade continued to be severely imbalanced over the period as a whole. During the months November 1921 to January 1922 the value of exports and imports was temporarily almost exactly equal. But thereafter the deficit grew larger; so that

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1. For sources: see above, p. 36 Note 2. See also: Statistisches Jahrbuch für das deutsche Reich, 1926, pp. 50-1.
2. ibid., pp. 44-5; C. Bresciani-Turroni, op. cit., p.192 Note.
in the second half of 1922 there was a visible trade gap of over 1400 million gold marks, viz, 1.

<table>
<thead>
<tr>
<th>Month</th>
<th>Imports (million gold marks)</th>
<th>Exports (million gold marks)</th>
<th>Balance</th>
<th>Imports (thousand tons)</th>
<th>Exports (thousand tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913 Average</td>
<td>896</td>
<td>842</td>
<td>- 55</td>
<td>6,068</td>
<td>6,143</td>
</tr>
<tr>
<td>1919 Average</td>
<td>539</td>
<td>146</td>
<td>-393</td>
<td>827</td>
<td>1,054</td>
</tr>
<tr>
<td>1920 Average</td>
<td>583</td>
<td>419</td>
<td>-164</td>
<td>1,572</td>
<td>1,899</td>
</tr>
<tr>
<td>1921 May</td>
<td>373</td>
<td>310</td>
<td>- 63</td>
<td>1,530</td>
<td>1,140</td>
</tr>
<tr>
<td></td>
<td>392</td>
<td>331</td>
<td>- 61</td>
<td>1,820</td>
<td>1,510</td>
</tr>
<tr>
<td></td>
<td>407</td>
<td>334</td>
<td>- 73</td>
<td>1,920</td>
<td>1,560</td>
</tr>
<tr>
<td></td>
<td>463</td>
<td>328</td>
<td>-135</td>
<td>2,110</td>
<td>1,830</td>
</tr>
<tr>
<td></td>
<td>440</td>
<td>309</td>
<td>-131</td>
<td>2,530</td>
<td>1,870</td>
</tr>
<tr>
<td></td>
<td>396</td>
<td>276</td>
<td>-120</td>
<td>3,000</td>
<td>1,970</td>
</tr>
<tr>
<td></td>
<td>219</td>
<td>226</td>
<td>+ 7</td>
<td>2,530</td>
<td>1,910</td>
</tr>
<tr>
<td>Dec</td>
<td>299</td>
<td>318</td>
<td>+ 19</td>
<td>2,080</td>
<td>1,930</td>
</tr>
<tr>
<td>1921 Average</td>
<td>374</td>
<td>304</td>
<td>-557</td>
<td>17,520</td>
<td>13,720</td>
</tr>
<tr>
<td>1922 Jan</td>
<td>330</td>
<td>325</td>
<td>- 5</td>
<td>2,309</td>
<td>2,027</td>
</tr>
<tr>
<td></td>
<td>360</td>
<td>298</td>
<td>- 62</td>
<td>1,475</td>
<td>1,747</td>
</tr>
<tr>
<td></td>
<td>563</td>
<td>324</td>
<td>-239</td>
<td>2,645</td>
<td>2,153</td>
</tr>
<tr>
<td></td>
<td>508</td>
<td>327</td>
<td>-181</td>
<td>2,889</td>
<td>2,176</td>
</tr>
<tr>
<td></td>
<td>565</td>
<td>416</td>
<td>-149</td>
<td>3,810</td>
<td>2,093</td>
</tr>
<tr>
<td></td>
<td>565</td>
<td>428</td>
<td>-137</td>
<td>4,029</td>
<td>1,879</td>
</tr>
<tr>
<td></td>
<td>684</td>
<td>336</td>
<td>-348</td>
<td>4,798</td>
<td>1,636</td>
</tr>
<tr>
<td></td>
<td>545</td>
<td>255</td>
<td>-290</td>
<td>4,676</td>
<td>1,407</td>
</tr>
<tr>
<td></td>
<td>422</td>
<td>291</td>
<td>-131</td>
<td>4,289</td>
<td>1,587</td>
</tr>
<tr>
<td></td>
<td>532</td>
<td>291</td>
<td>-241</td>
<td>5,552</td>
<td>1,539</td>
</tr>
<tr>
<td></td>
<td>536</td>
<td>255</td>
<td>-281</td>
<td>4,551</td>
<td>1,551</td>
</tr>
<tr>
<td></td>
<td>570</td>
<td>423</td>
<td>-147</td>
<td>4,320</td>
<td>1,760</td>
</tr>
<tr>
<td>1922 Average</td>
<td>515</td>
<td>331</td>
<td>-184</td>
<td>3,779</td>
<td>1,796</td>
</tr>
</tbody>
</table>

These figures also reveal a rise in the volume of imports which became particularly rapid in the second half of 1922. This was accompanied by a slight increase in the volume of exports which was disguised by the exclusion of reparation deliveries from export figures after May 1921. However, despite these

increases, imports in 1922 were still only 62 per cent. of their 1913 level and exports remained at 29 per cent. of their 1913 volume.

The condition of German industry, agriculture and foreign trade can be attributed partly, as in the preceding period, either to the general economic exhaustion caused by the war and the aftermath or else to contingent factors. The growing output of iron, steel, coal and shipping reflected a post-war emphasis on the production of instrumental goods which had arisen from the need to replace capital equipment worn out or destroyed during the war or delivered as reparation. On the other hand, although a shortage of certain fertilisers was still felt, the slump in agricultural production in 1922 was due to the wet summer of that year rather than to the effects of the war. The persistent trade deficit was the product of both war-induced and contingent factors. The excess of imports over exports was due partly to the large imports of iron and iron ore which were occasioned by Germany's industrial reconstruction, partly to the large foreign purchases of food which were made necessary by the low harvest yield of 1922, and partly to the partition of Upper Silesia which, from June 1922, caused Germany to become a net importer of considerable quantities of coal.

1. ibid., p. 38.
4. ibid., p. 16.
5. ibid., pp. 44-5.
6. ibid., p. 16.
7. See below, pp. 308-9.
The trends which have been described in Germany's domestic economic activity and external trade were affected in an important manner by financial developments. The dominating financial features of this period were the continued rapid expansion of both the internal and external floating debt, and the simultaneous reduction of the real value of this indebtedness because of the external depreciation and internal price inflation which occurred. The expansion of the government's domestic indebtedness can be seen in the monthly figures for public receipts and expenditure in the period between May 1921 and December 1922, viz, 1.

<table>
<thead>
<tr>
<th></th>
<th>Income (million gold marks)</th>
<th>Expenditure (million gold marks)</th>
<th>Increase in Floating Debt (million gold marks)</th>
<th>Total Floating Debt (billion paper marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>411.8</td>
<td>686.0</td>
<td>270.2</td>
<td>176.7</td>
</tr>
<tr>
<td>June</td>
<td>350.3</td>
<td>862.3</td>
<td>508.0</td>
<td>185.1</td>
</tr>
<tr>
<td>July</td>
<td>304.8</td>
<td>617.8</td>
<td>309.0</td>
<td>190.8</td>
</tr>
<tr>
<td>Aug</td>
<td>256.3</td>
<td>863.2</td>
<td>602.9</td>
<td>202.9</td>
</tr>
<tr>
<td>Sept</td>
<td>196.5</td>
<td>506.0</td>
<td>305.5</td>
<td>210.5</td>
</tr>
<tr>
<td>Oct</td>
<td>173.0</td>
<td>384.5</td>
<td>207.5</td>
<td>218.0</td>
</tr>
<tr>
<td>Nov</td>
<td>112.5</td>
<td>254.6</td>
<td>138.1</td>
<td>226.7</td>
</tr>
<tr>
<td>Dec</td>
<td>175.3</td>
<td>626.5</td>
<td>447.2</td>
<td>247.1</td>
</tr>
<tr>
<td>Total</td>
<td>1980.5</td>
<td>4800.9</td>
<td>2788.4</td>
<td></td>
</tr>
<tr>
<td>1922</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan</td>
<td>192.6</td>
<td>388.2</td>
<td>191.6</td>
<td>255.9</td>
</tr>
<tr>
<td>Feb</td>
<td>194.2</td>
<td>342.4</td>
<td>144.2</td>
<td>263.0</td>
</tr>
<tr>
<td>Mar</td>
<td>207.8</td>
<td>346.5</td>
<td>134.7</td>
<td>272.1</td>
</tr>
<tr>
<td>Apr</td>
<td>190.3</td>
<td>321.8</td>
<td>129.8</td>
<td>281.1</td>
</tr>
<tr>
<td>May</td>
<td>254.9</td>
<td>376.9</td>
<td>120.3</td>
<td>289.4</td>
</tr>
<tr>
<td>June</td>
<td>235.1</td>
<td>313.8</td>
<td>77.0</td>
<td>295.3</td>
</tr>
<tr>
<td>July</td>
<td>183.4</td>
<td>208.5</td>
<td>23.4</td>
<td>308.0</td>
</tr>
<tr>
<td>Aug</td>
<td>116.4</td>
<td>205.1</td>
<td>86.9</td>
<td>331.5</td>
</tr>
<tr>
<td>Sep</td>
<td>90.8</td>
<td>434.9</td>
<td>342.5</td>
<td>451.1</td>
</tr>
<tr>
<td>Oct</td>
<td>66.2</td>
<td>269.5</td>
<td>201.6</td>
<td>603.8</td>
</tr>
<tr>
<td>Nov</td>
<td>60.6</td>
<td>199.8</td>
<td>137.5</td>
<td>839.1</td>
</tr>
<tr>
<td>Dec</td>
<td>73.4</td>
<td>438.0</td>
<td>362.9</td>
<td>1495.2</td>
</tr>
<tr>
<td>Total</td>
<td>1865.7</td>
<td>3845.4</td>
<td>1942.4</td>
<td></td>
</tr>
</tbody>
</table>

It will be noticed that the deficit for the last eight months of 1921 was considerably greater than that for the whole of 1922. This was due largely to the fact that the level of both real income and real expenditure was reduced severely by the fall in the value of the mark in the latter period. The enormous increase in the total floating debt, which was expressed in paper marks, was merely a reflection of the decline in the value of German currency. The fall of the mark from 66 to the dollar on 1 May 1921 to 7350 to the dollar on the last day of 1922 in fact meant that the real amount of the German government's floating debt had been drastically reduced in this period.1

The months between May 1921 and December 1922 also witnessed a paper expansion and real reduction of Germany's external floating debt. A Vice-President of the Reichsbank estimated that at the end of 1921 only 1 billion gold marks of a total post-war trading deficit of 11 billion gold marks had been covered by exports of bullion. The remainder had been covered by (1) the sale of 25-30 billion paper marks abroad, (2) an increase of about 35 billion paper marks in the credit balances of foreigners in German banks, (3) the sale to foreigners of German securities worth approximately 35 billion paper marks, (4) credits of, possibly, 30 billion paper marks and (5) the sale of land, buildings, and share undertakings of an unknown value.2 In the course of 1922 the nominal value of this

1. For exchange rates: Die Entwicklung der Reparationsfrage, pp. 18, 37.
2. Dr. von Glasenapp, "Germany's Balance of Payments with other Countries", MGCRE, 20 April, 1922, p. 28-9.
external indebtedness increased rapidly, but the violent fall of the mark substantially reduced the real size of Germany's foreign obligations.¹

Such inflation and depreciation inevitably had important economic repercussions. The violent slump of the mark in the autumn of 1921 precipitated a "catastrophe boom", during which Germans, anxious to convert marks into goods of any description, and foreigners, who were favoured by the superior purchasing power of their currencies in the early stages of any depreciation, vied with each other in a frenzy of buying. The improvement of the mark in the winter of 1921-2 was sufficient to cause considerable commercial and industrial uncertainty within Germany, although a severe recession was prevented by the back-log of orders which had been built up in the previous period. However, once the mark resumed its downward course in February and March 1922, industrial activity became more intense; and it reached a feverish pitch in the months of headlong depreciation after mid-1922.²

An important by-product of the fall in the value of the mark in 1921 and 1922 was an increase in the velocity of note circulation. At the end of December 1921 issues of Reichsbank and War Loan Office notes, which had amounted to 81 billion marks in May 1921, had risen to 1,293 billion marks.³ However, over

¹ J.M. Keynes, "Speculation in the Mark and Germany's Balances Abroad", ibid., 28 September 1922, p. 480.
³ J.S. Davis, op. cit., p. 90.
the same period wholesale prices of home-produced goods
increased, according to the index published by the Statistical
Bureau of the Reich, from 1,266 (1913=100) to 127,504. Since
the volume of notes had risen only sixteen-fold while prices
had risen to one hundred times their previous level, there had
inevitably been a sharp rise in the velocity of note circulation
from 0.96 in May 1921 (1913=1) to 6.85 in December 1922. This
development, which was most noticeable in the second half of
1922, was a symptom of the powerful demand for goods which
was precipitated by the actual and anticipated evaporation of
the purchasing power of the mark in this period.

The depreciation of the mark inevitably had an effect on
the balance of trade. This effect was however of an unusual
kind, since any sharp fall in the exchange rate not only stimulated
exports in the accepted manner but also increased imports. The
reason for this was that, because of the heavy dependence of
post-war German industry on foreign raw materials, the industrial
boom conditions created by a fall in the mark precipitated a
considerable demand for imports. Conversely, any rapid recovery
of the mark, such as occurred in the winter of 1921-2, decreased
imports as well as exports because of the slackening of the
domestic and foreign demand for German goods. The sharp rise
in the volume of imports which began in the spring of 1922 and

1. Figures derived from C. Bresciani-Turroni, op. cit., pp. 25-35, Table I-VI.
2. ibid., pp. 168-74.
3. ibid., p. 168, Table XXII.
5. See above, p. 298.
continued until late in 1922 was connected with the increasingly rapid fall of the mark in this period. The influence of the partition of Upper Silesia and the poor harvest of 1922 on the level of imports in the second half of 1922 was, however, also considerable. 1.

Besides affecting the level of economic activity and the balance of trade, the depreciation of the mark also shifted the emphasis of German production by increasing the financial power of certain sections of the German community at the expense of others. The classes which suffered most as a result of the falling value of the mark were those whose incomes were either fixed or slow in adapting themselves to rapid changes in the value of money. Small bondholders and savings bank depositors suffered severely because of the reduction of the real value of their income and their savings. By the end of 1922 the interest payments of the German government on the public debt were rapidly losing their real value; 2. and the gold value of savings bank deposits was a mere fraction of its former level. 3. The real incomes of wage-earners were also reduced appreciably, above all during the periods of violent inflation in 1921 and 1922, although this reduction was somewhat offset by the simultaneous increase in employment which occurred. 4. The relative impoverishment of these vulnerable groups in the community was such that there was a decline in the demand for consumption goods in Germany in 1921-2. 5.

1. See above, p. 299.
The financial power of which the consuming classes had been deprived by the depreciation of the mark was for the most part transferred either to the government, whose debts were almost completely wiped out, or else to large industrial groups, which were able to make inflation profits and to obtain liberal supplies of credit. The favourable position of the latter was reflected in the diminishing importance of the normal credit-creating agencies. Although the paper value of advances made by the War Credit Offices rose from 23 billion marks in May 1921 to 92 billion marks in November 1922, 1 this was insufficient, in view of the rapid depreciation of the currency, to prevent them from becoming, like the credit banks, relatively insignificant as a source of credit. 2 After the middle of 1922 the main credit-creating agencies in Germany came to be the Reichsbank and industry itself. The value of advances made by the Reichsbank on the security of commercial bills rose from 1 billion marks at the end of 1921 to 5 billions in June 1922, and thence to 422 billions at the end of 1922. 3 Meanwhile, large industrial groups made such profits out of the inflation that they were able either to absorb credit banks into their framework or to set up their own banks. 4 The drying-up of the normal sources of credit and the shift of credit-creating power to the Reichsbank and to the large industrial groups helps to explain the growing emphasis of German economic activity in 1921 and 1922 on the manufacture

1. R. Stucken, op. cit., p. 35.
of production goods. Large firms with command either of inflation profits or of Reichsbank credits, which could be repaid in depreciated paper currency, were able to venture upon considerable reconstruction and expansion of their productive apparatus, especially in the second half of 1922. This inevitably increased the demand for instrumental goods in an extraordinary manner.

The period between May 1921 and December 1922 was, therefore, one of intense economic activity in Germany. However, this activity, and the high level of employment which went with it, were achieved largely because of the artificial stimulus given by the domestic price inflation and external depreciation resulting from the persistent imbalance of Germany's internal and external finances. As a result, Germany's productive energy and resources were channelled too much towards the manufacture of producers' goods and too little towards satisfying the needs of consumers. The social distress and economic disorganisation caused by this distortion were already becoming evident in 1922, and they were to become painfully obvious when financial stabilisation removed the stimulus which had been provided by the falling value of the mark.

1. ibid., pp. 201-3.
SECTION II

THE ECONOMIC AND THE DIRECT FINANCIAL IMPACT OF REPARATIONS BETWEEN MAY 1921 AND THE END OF 1922

(a) The Economic Impact of Reparations

Because deliveries in kind were less important than cash payments after May 1921, the main impact of reparation was financial rather than economic in the twenty months which preceded the Franco-Belgian occupation of the Ruhr in January 1923. The main items among deliveries of goods, which accounted for 1.046 billion gold marks of total reparation payments of 2.749 billion gold marks, were:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (gold marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal, coke and lignite</td>
<td>481,996,745</td>
</tr>
<tr>
<td>Proceeds of Reparation Recovery Act</td>
<td>163,160,182</td>
</tr>
<tr>
<td>Sundry deliveries (Annex II)</td>
<td>157,978,339</td>
</tr>
<tr>
<td>Ships (Annex III)</td>
<td>46,774,665</td>
</tr>
<tr>
<td>Inland Watercraft</td>
<td>27,689,164</td>
</tr>
<tr>
<td>Animals</td>
<td>67,482,471</td>
</tr>
<tr>
<td>Sundry deliveries (Annex IV)</td>
<td>55,325,329</td>
</tr>
<tr>
<td>Derivatives of coal</td>
<td>21,518,814</td>
</tr>
<tr>
<td>Dyestuffs (Annex VI)</td>
<td>23,683,736</td>
</tr>
<tr>
<td>Pharmaceutical Products (Annex VI)</td>
<td>10,497,667</td>
</tr>
</tbody>
</table>

The relatively small size of most of these deliveries and the precautions which were taken to prevent shipments of agricultural equipment, rivercraft, dyestuffs and coal derivatives from causing economic dislocation meant that the only economically significant deliveries in this period were those of coal. The economic as opposed to the financial importance of these was, moreover, reduced by increased German coal production and, from the beginning of 1922, by a considerable rise in coal imports.

2. See above, pp. 49-53.
In assessing the economic impact of reparation coal deliveries a distinction must be made between the period from May 1921 to the beginning of June 1922 and the last seven months of 1922. In the first period of thirteen months, the amount of coal potentially available for distribution in Germany was 153.7 million tons, viz:

<table>
<thead>
<tr>
<th>Net Black Coal Production</th>
<th>Lignite Production</th>
<th>Total</th>
<th>Net Exports</th>
<th>Remainder</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in terms of black coal)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>129</td>
<td>30.7</td>
<td>159.7</td>
<td>6</td>
<td>153.7</td>
</tr>
</tbody>
</table>

Since reparation deliveries in these months came to 19 million tons, the amount of coal distributed in Germany was in fact 134.7 million tons. On the assumption that the amount of coal distributed in 1913 within post-war German frontiers was 11 million tons a month (that is, 143 million tons for 13 months), reparation deliveries were responsible for a lag of less than 7% behind peace-time consumption.

In the last seven months of 1922 more coal was distributed within Germany than at any time since the war. This was in spite of the partition of Upper Silesia which deprived Germany of 2 million tons of her monthly coal output after May 1922. The main reason for the improvement of the coal supply was that Germany, which had in the first five months of 1922 been a net exporter of 2.5

1. Figures for gross black coal and lignite production in 1921 and 1922 in: J.W.F. Thelwall, Report on ... Germany to March, 1922, p. 85; idem, Report on ... Germany to March, 1923, p. 60. Figures for net coal exports: ibid., p. 44. Net black coal production: gross production less 13%.
million tons of coal, became a net importer of 10.3 million tons. The amount of coal which was potentially available for distribution in these seven months was therefore 89.5 million tons, viz.

<table>
<thead>
<tr>
<th>Net Black Coal Production</th>
<th>Lignite Production (in terms of black coal)</th>
<th>Net Imports</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>61</td>
<td>18.2</td>
<td>10.3</td>
<td>89.5</td>
</tr>
</tbody>
</table>

Since reparation deliveries in these months amounted to 10.5 million tons, the amount of coal in fact available was 79 million tons. This was 2 million tons above the 1913 distribution level of 77 million tons (11 million tons a month for seven months).

Since the cession of Polish Upper Silesia reduced the total coal consumption of Germany by a considerable amount, coal was in fact even more plentiful by 1913 standards. In 1913 the consumption of the ceded portion of Upper Silesia had been about 14 million tons a year, that is, 8 million tons for seven months. Thus between June 1922 and December 1922 there were about ten million more tons of coal available within Germany than there had been for a comparable area and over the same period in 1913.

The state of the German coal distribution in 1921 and 1922 is reflected in the comments of two well-placed foreign observers. In the spring of 1922 Thelwall, the British Commercial Secretary in Berlin reported that "during 1921 the violent controversy

2. For sources: see above, p. 308 Note 1.
3. For sources, see above, p. 308 Note 2.
4. On figure for 1913 distribution level, see above, pp. 56-7.
concerning Germany's coal supply and coal deliveries which raged throughout 1920 died down almost completely". Thelwall considered that any coal shortage which was experienced in 1921 had been "due for the most part to defects in transport, labour and distribution, and not to the Reparation deliveries". Coal deliveries were, he admitted, a burden, but they were by no means an excessive one, nor was it impossible to remedy their effect "by judicious purchases on the world's coal markets and improved exploitation". The comment of an American observer, writing early in 1923, was somewhat different. He remarked that there had been complaints of a coal shortage, but these were, he considered, a reflection of "increased productive requirements rather than reduced supplies or increased deliveries on reparation account".

Any shortage of coal which was experienced in Germany was in fact due to the trend away from the production of consumer goods towards the production of producers' goods which has been noticed in this period. It was above all in the second half of 1922 that this trend heightened the demand for iron and steel and so, ultimately, for coal. Thus, although more coal was available in Germany in the second half of 1922 than there had been for a comparable area in 1913, the supply was still insufficient. However, since the upsurge of economic activity was artificially-induced and distorted in emphasis the real economic damage caused by any scarcity of coal was probably slight. It is 1. J.W.F. Thelwall, Report on ... Germany to March, 1922, p. 84. 2. J.S. Davis, "Economic and Financial Progress in Europe", Review of Economic Statistics, January 1923, Vol. V, p. 105. 3. See above, pp. 295-306. 4. C. Bresciani-Turroni, op. cit., pp. 197-200.
even arguable that any hindrance to the wasteful over-capitalisation which occurred in many spheres of economic activity in this period was highly desirable.¹.

(b) The Direct Financial Impact of Reparations

The direct financial impact of reparation payments was far more decisive than their economic effect in the period between May 1921 and the end of 1922. The total amount of government expenditure occasioned by the entire Versailles Treaty was 2.8 billion gold marks in the budgetary year 1921/2 and 1.2 billion gold marks in 1922/3. If deductions are made for "clearing" agreement payments under Article 296, compensation paid to German nationals living abroad and payments other than reparation, the remaining expenditures - those occasioned exclusively by the Reparation Chapter - amounted to 2.0 billions in 1921/2 and 1.1 billions in 1922/3. These sums were a much higher proportion of total government expenditure than they had been in preceding years, although they were still by no means the sole direct cause of the deficits which were incurred, viz,².

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Expenditure</th>
<th>Total Deficit</th>
<th>Reparation Expenditure</th>
<th>Total Expenditure</th>
<th>Total Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919-20</td>
<td>8.6</td>
<td>6.0</td>
<td>0.14</td>
<td>1.6</td>
<td>2.3</td>
</tr>
<tr>
<td>1920-21</td>
<td>9.3</td>
<td>6.2</td>
<td>0.89</td>
<td>9.6</td>
<td>14.4</td>
</tr>
<tr>
<td>1921-22</td>
<td>6.7</td>
<td>3.7</td>
<td>2.0</td>
<td>30.0</td>
<td>54.1</td>
</tr>
<tr>
<td>1922-23</td>
<td>4.0</td>
<td>2.5</td>
<td>1.1</td>
<td>27.5</td>
<td>44.0</td>
</tr>
</tbody>
</table>

Thus in the years 1921-2 and 1922-3 reparation payments, which had accounted for a relatively small proportion of the government's

¹. ibid., pp. 219-23.
outlay in the two preceding budgetary years, were responsible for almost one-third of total government expenditure and about one-half of the deficit.

Reparation payments also exerted a much greater direct effect on the German balance of payments in this period. Calculation of their effect via the balance of trade is simplified by the relatively small value of deliveries of capital equipment such as ships and inland watercraft, which were together worth less than 75 million marks.¹ The annual loss of invisible income occasioned by ship deliveries has already been estimated at a maximum figure of 300 million gold marks.² The additional loss resulting from deliveries between May 1921 and December 1922 would have been more than cancelled out by the earnings of the new or chartered ships which the German shipping lines had obtained to replace their former fleets.³ Therefore the loss of invisible earnings caused by the treaty in this period could still not have been more than 300 million gold marks a year.

The remainder of the deliveries in kind, with the exception of coal, were relatively small and can be crudely reckoned as either potential exports or import substitutes, and given the value of about 500 million gold marks ascribed to them by the Reparation Commission.⁴ On the assumption that these deliveries affected the balance of trade at a steady rate, the net unfavourable effect of all deliveries in kind, except coal, would

¹ See above, p. 307.
² See above, p. 79.
³ See above, pp. 49, 79.
have been 400 million gold marks in the last eight months of 1921 and 600 million gold marks in 1922.  

The Reparation Commission fixed the value of the 29.5 million tons of coal which were delivered in this period at 482 million gold marks. In calculating the balance-of-trade effect of these deliveries it will be assumed crudely that, if no reparation deliveries had been made, coal exports would before June 1922 have equalled the amount by which total production exceeded the 1913 level of distribution. It will further be assumed that in the period of heavy demand for coal after June 1922 all reparation deliveries would otherwise have been import substitutes. Finally, it will be assumed that both the price which would have been obtained if reparation deliveries had been exported and the price which was in fact paid for coal imports were the ruling English export price for coal. This assumption is necessary because the Reparation Commission's valuation of most of the reparation coal deliveries was based upon the abnormally low German domestic coal prices. It is also necessary because the fluctuations of the mark make the effective export price of German coal impossible to calculate. It is, moreover, to some extent justified by the fact that 65% of the coal imported by Germany in 1922 was English.

On these assumptions the amount of coal which would have

1. The loss in May-December 1921 would have been 200 millions (invisible) and 200 millions (visible). That in 1922 would have been 300 millions (invisible) and 300 millions (visible).
2. See above, p. 307.
3. See above, p. 144.
4. J.W.F. Thelwall, Report on...Germany to April, 1924, p.69.
been exported if no reparation deliveries had been made in the thirteen months between May 1921 and June 1922 would have been equal to the difference between total coal production (153.7 million tons) and the amount distributed during the same period in 1913 (143 million tons), viz,\(^1\):

\[
10.7 \text{ million tons;}
\]

and the imports obviated in the following seven months would have been

\[
10.3 \text{ million tons.} \quad ^2
\]

The foreign exchange which would have been either earned or saved by Germany in this period if no reparation deliveries had been made could have amounted, therefore, to about £27.1 million or 540 million gold marks, viz,\(^3\)

\[
\begin{align*}
10.7 \text{ million tons} @ \frac{29}{3} \text{ a ton} &= 15.5 \\
10.3 \text{ million tons} @ \frac{22}{7} \text{ a ton} &= 11.6 \\
\hline
\text{£ } 27.1 \text{ million or } 540 \text{ million gold marks})
\end{align*}
\]

Of these earnings and savings, approximately 190 million gold marks would have been effected in the months May-December 1921; and 350 million gold marks in the year 1922.

Thus the total unfavourable effect of all deliveries in kind on Germany's visible and invisible trade balance was

\[
(400 + 190) = 590 \text{ million gold marks in the last eight months of } 1921; \quad \text{and } (600 + 350) = 950 \text{ million gold marks in } 1922. \quad ^4
\]

Reparations could therefore be blamed for the greater part of Germany's adverse trade balance in the first period, when the

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1. See above, p. 308.  
2. ibid.  
4. See above, pp.312-3.
visible trade deficit was 557 million gold marks.\(^1\) They were however far less significant in 1922, when the total visible trade gap was 2,211 million gold marks.\(^2\)

In the period between May 1921 and December 1922, it was not deliveries in kind but cash payments of some 1.7 billion gold marks which had the most important effect on Germany's external financial position. These cash payments were heaviest in the second half of 1921 and the early months of 1922. One billion gold marks were paid in a single instalment which, although due on 31 May 1921, was actually procured and transferred over a period of several months ending in October 1921.\(^3\) Of the remaining 700 million gold marks almost 300 millions were paid before mid-March 1922;\(^4\) and the remission of the outstanding 400 millions was spread over the succeeding nine months. Thus it was in the eleven months following May 1921, when cash payments added 1.3 billion gold marks to Germany's external financial burdens, that reparations imposed the most severe direct strain upon the balance of payments. For the rest of 1922 the direct financial burden of reparation became much lighter, and the strains imposed by the reparation problem were chiefly of a psychological and political kind.

It is clear that the direct financial impact of reparations on the German budget and balance of payments was exceedingly severe after May 1921. Thus, in so far as the size of Germany's domestic

\(^1\) See above, p. 298.
\(^2\) ibid.
\(^3\) See below, pp. 328-9.
\(^4\) R.C., IV, Table VIII, p. 19.
and foreign financial burdens was responsible for the inflation and depreciation which occurred, reparation payments were largely to blame for the increasing instability of German finances in this period. The inflation and depreciation would not, however, have been so violent if it had not been for the huge domestic and external floating debt which had been accumulated by May 1921. Thus, although the financial developments of 1921 and 1922 were precipitated largely by reparation payments, they were in a broad sense the climax of a steady financial deterioration which had been proceeding in Germany since the outbreak of war.

1. See below, p. 317.
Although reparation payments added considerably to Germany's internal and external financial burdens between May 1921 and the end of 1922, the violent exchange depreciation and price inflation of 1922 was caused ultimately by the reaction of political and psychological factors upon a financial system which was already in a serious state of imbalance as a result of the strains imposed by the war and the aftermath, and the failure of early post-war governments to achieve effective financial reform. After May 1921 political and psychological factors became increasingly important in preventing the government from checking inflationary forces within Germany and from limiting or consolidating the country's external floating debt. Their influence was in the end such that they positively discouraged Germans and international speculators from holding mark notes, and thus helped to precipitate violent exchange depreciation and internal price inflation.

The reparation question had, by the end of this period, become the most important of these political and psychological influences. On increasingly frequent occasions it hastened the depreciation of the mark which undermined the German government's efforts to swell its real revenues. It also aroused opposition to new tax proposals, encouraged tax evasion, and, finally, decreased the German government's chances of borrowing either at home or
abroad. However, the impact of the reparation question in all these respects did not become dominating until the middle of 1922. Before that date the financial demands made upon Germany by the Allies caused the German government to make strenuous efforts to achieve financial stabilisation. The initial failure of these efforts and the considerable depreciation of the mark in the summer and autumn of 1921 was by no means due entirely to reparation, nor did it put an end to hopes of financial reform. On the contrary, these hopes were kept alive well into 1922 by the granting of a partial moratorium on reparation payments in January 1922 and by the prospect of a large-scale German international loan. However, by March 1922 the relatively limited nature of the moratorium and the conditions attached to it by the Allies were causing considerable financial pessimism and increasing dissatisfaction with the reparation question in Germany. Therefore, when negotiations on the subject of an international loan broke down in June 1922, German hopes of financial stabilisation and treaty fulfilment sank rapidly and the last obstacle to uninhibited international speculation against the highly vulnerable mark was removed. For the last seven months of 1922 the deadlock over the reparation question was not only an insurmountable barrier to the financial recovery of Germany but was also a major cause of the violent external depreciation of the mark and internal price inflation which occurred. The reparation question was, furthermore, responsible for a growing political estrangement between France and Germany which not only
hastened the immediate depreciation of the mark but also led inevitably to the Franco-Belgian occupation of the Ruhr and the German policy of "passive resistance" which were to cause the complete financial collapse of Germany in 1923.

Although reparations were not a consistent hindrance to financial reform after the end of April 1921, the reparation question from this time onwards played a vital part, for good or ill, in shaping the development of Germany's internal and external finances. The importance of the reparation question was in fact such that an account of its development may be given as part of a general description of German financial history in this period.

(a) *The London Schedule of Payments and Financial Deterioration, May to November 1921.*

The conciliatory trend in the German government's reparation policy which had been expressed by the offer of 24 April 1921 had been temporarily checked by the refusal of the Allies to enter into further direct reparation negotiations and by their imposition of the London Schedule of Payments on Germany early in May. The possibility of a negotiated reparation settlement had finally disappeared when, on 27 April 1921, the Reparation Commission, proceeding on the basis of the claims and counter-claims which had been submitted to it by the Allied and German governments, announced that it had fixed Germany's total reparation obligation

at 132 billion gold marks. 1. Shortly before this there had been a preliminary conference at Lympne (from 23 to 25 April) at which Lloyd George and Briand had discussed means of enforcing the Commission's impending award. This conference had been followed on 30 April by a meeting of the Supreme Council at Paris which had decided on the application of military sanctions in the event of German refusal to accept the Reparation Commission's ruling. Finally the Supreme Council together with the Reparation Commission, which had been summoned to assist on 4 May, had drawn up in London a "Schedule of Payments prescribing the time and manner for securing and discharging the entire obligation of Germany for reparation under Articles 231, 232 and 233 of the Treaty of Versailles". 2. This Schedule had been transmitted to Germany on 5 May together with an Allied ultimatum which rebuked the German government for failing to fulfil its obligations under Article 235 of the treaty and threatened an occupation of the Ruhr unless the new Allied terms were accepted within six days. 3.

Article I of the London Schedule fixed Germany's total obligation at 132 billion gold marks "less (a) the amount already

2. R.C., V, pp. 34-5. This sum did not include the value of restitutions which had been made or were to be made under Article 238 of the Versailles Treaty; nor did it include the Belgian debts to the Allies which Germany had been obliged to assume under paragraph 3 of Article 232 of the treaty.
paid on account of Reparation, (b) sums which may from time to time be credited to Germany in respect of State properties in ceded territory, etc., and (c) any sums received from other enemy or ex-enemy Powers in respect of which the (Reparation) Commission may decide that credit should be given to Germany....". The amount of these deductions, like the amount of the Belgian debt to the Allies, which was to be added to Germany's total obligation, was to be decided later by the Reparation Commission. The real financial burden of the schedule was, however, substantially reduced by the provision in Article 2 that payments of interest and sinking fund (6%) should be made for the time being only in respect of 50 billions of the total obligation. Germany's immediate total obligation was therefore to be much less than the global sum envisaged in the Paris Resolutions of the preceding January.

The annual payments prescribed by Article 4 of the schedule also promised to be far smaller than those previously planned by the Allies. In a normal year there was to be a basic annuity of 2 billion gold marks payable in quarterly instalments on the fifteenth day of January, April, July and October. There were also to be payments amounting to 26% of the value of German exports which were to be discharged every quarter in the months of February, May, August and November. The immediate financial strain of these provisions was increased by the direction in Article 5 that in the year beginning 1 May 1921 the payments due in July and October should be replaced by a single instalment of
1 billion gold marks payable on 31 May. This was, however, balanced by the exemption of Germany from any payments under the second heading until 15 November 1921. Thus, on the assumption that the value of German exports would be 5 million gold marks, Germany's total obligation for the first year of the schedule's operation would be 2.65 billion gold marks. This figure, although impossible for Germany unless she were accorded considerable financial assistance, represented a substantial reduction of Allied estimates of Germany's capacity to pay.

Articles 6 and 7 of the London Schedule directed that the execution of these payments should be supervised by a new sub-committee of the Reparation Commission known as the Committee of Guarantees which was to be stationed in Berlin. This committee, which was the Allied response to the dispute over Article 235, was to ensure the collection of three forms of revenue as securities for reparation payments. These were (a) customs receipts, (b) a 25% levy on German export earnings (except on earnings from exports to Britain, from which deductions were already being made under the provisions of the British Reparation Recovery Act), and (c) the proceeds of any direct or indirect taxes suggested by the German government and approved by the Committee of Guarantees. It was the general duty of the committee to ensure, in accordance with Articles 241 and 248 and para. 12(b) of Annex II of the Reparation Chapter of the Versailles Treaty, that reparation payments were treated as a first charge upon

1. See above, pp. 209-12.
2. This Act was one of the sanctions which has been imposed upon Germany in March 1921: see above, p. 205.
revenue and that the level of German taxation was at least as high as that of Allied countries. However, the committee was expressly forbidden "to interfere in the German administration".

When the text of the London Schedule arrived in Germany on 5 May there was no government to receive it, since the Fehrenbach cabinet, disillusioned by its failure to arrive at a negotiated reparation settlement and embarrassed at its inability to resist Polish incursions in Upper Silesia, had resigned on the previous day. Despite the absence of debate on 6 May when Fehrenbach, still acting provisionally as Chancellor, informed the Reichstag of the Allied communications, it is clear that the initial German reaction to the schedule was highly unfavourable. Even Rathenau, who a few days later joined a cabinet committed to fulfilment of the schedule, expressed initial hostility to the Allied terms in an article in the *Berliner Tageblatt*:

"A second Versailles. Woe to the vanquished and double woe to those who do not learn from history. The alternatives which confront us today are not whether the Ruhr shall or shall not be occupied, but whether this occupation will take place now or later. On the choice between "now" and "later" depends all that remains of our honour and existence. The remnants of our honour demand that we promise what we possess, and that we do not promise what we cannot possess".

Several factors apart from the contents of the schedule produced this sharp reaction. A contemporary right-wing commentator attributed the outcry in part to the mistaken but widespread belief that the figure of 132 billions represented the "present value" of Germany's reparation obligations.

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2. Quoted by von Braun (DNVP), ibid., 1 June 1921, Vol. 349, p. 3735.
aggravating influence was the Allied ultimatum which, as Rathenau's comment revealed, created an atmosphere similar to that which had prevailed in June 1919 when the question of accepting the Versailles Treaty was being debated. The fact that the parallel between the two occasions was drawn by the general public decreased the readiness of the parties, above all those which had borne the brunt of the earlier crisis, to shoulder the responsibility for acceding to Allied demands. "No section," Lord D'Abernon, the British Ambassador, observed, "wished to bell the cat." 1

Despite the violence of the initial German reaction to the London Schedule an SFD-Zentrum-DDP coalition committed to acceptance was formed by Wirth within the time-limit prescribed by the ultimatum. The debate in the Reichstag on 10 May, which ended in a vote of confidence of 220 to 172, revealed the considerations which had prompted such an action. All parties, including those which voted for acceptance, were convinced that the London Schedule would, if unamended, bring about Germany's financial and economic ruin. But the USPD, SPD and Zentrum, all of which voted unanimously for acceptance, were even more concerned, just as they had been in June 1919, about the economic political and social consequences of an Allied occupation of the Ruhr. 2 They also hoped that acceptance of the London Schedule,

   For SPD sensitivity on the subject of the responsibility for accepting the Schedule: Wels (SPD), 10 May 1921, Reichstag, Vol. 349, p. 3630.
2. Wirth (Zentrum), 10 May 1921, ibid., Vol. 349, p. 3629; Wels (SPD), ibid., p. 3630; Ledebour (USPD), ibid., p. 3637.
followed by a sincere attempt to fulfil it, would bring about
a prompt revision of Allied reparation demands.\footnote{1} A further
consideration, which weighed heavily with those members of the
DDP and DVP who voted in favour of acceptance, was the possibil-
ity that the Allies would make additional concessions which
included the lifting of the sanctions which they had imposed in
the preceding March and a settlement of the Upper Silesian
question in a manner favourable to Germany. On 9 and 10 May
Stresemann sought and received assurances from Lord D'Abernon
that the British government favoured (1) the lifting of the March
sanctions, (2) the reduction of the British levy on German
exports from 50\% to 26\%, and (3) the limitation of German
participation in Allied reconstruction solely to the restoration
of war damage.\footnote{2} On 10 May Stresemann declared in the Reichstag
that it was only his failure to obtain a firm British assurance
about the future of Upper Silesia which had prevented a group
within the DVP from giving active support to an attempt to fulfil
the London Schedule.\footnote{3} As it was, 6 members of the DVP, together
with 17 Democrats, voted for acceptance.\footnote{4}

The support within the Reichstag for the policy of
accepting the London Schedule should not be overestimated.
Although the DDP belonged to the government coalition and had
agreed provisionally to support a policy of fulfilment of
Allied demands, only a minority of its 38 members had recorded

\footnote{1} Wirth, ibid., p. 3630; Ledebour, ibid., p. 3638.
\footnote{3} Reichstag, 10 May 1921, Vol. 349, p. 3631.
\footnote{4} ibid., pp. 3652-4. For a statement of the DDP viewpoint:
Haas, ibid., p. 3640.
its rather conditional vote in favour of acceptance. A strong
group within the party considered that, because of the impossibil-
ity of the London Schedule, a policy of "fulfilment" would
postpone the occupation of the Ruhr for only a short period.\(^1\)
Moreover, despite the six affirmative DVP votes, the official
viewpoint of the People's Party was that the London Schedule would
prove to be beyond the economic capacity of Germany, especially
while the future of Upper Silesia remained in doubt.\(^2\).

If the DDP and DVP entertained strong reservations about
the feasibility of the London Schedule, the parties of the extreme
Left and Right wing expressed the firm conviction that it was
impossible. In a speech which emphasised the parallel with June
1919, the Nationalist Hergt asserted that acceptance of the Allied
ultimatum would be inconsistent with German national honour. The
real intention of the Allies, he claimed, was not to obtain
reparation but to occupy the Ruhr and to ruin Germany. The German
government should therefore adopt a policy of passive resistance
which, although it might cause dislocation, would at least lead to
the revival of national spirit.\(^3\). The Communist Koenen also
advocated resistance to Allied demands, although his views were
derived from a different set of assumptions. The London Schedule
was, in his opinion, the instrument by which Entente capitalists,
hand in hand with the German bourgeoisie, would oppress the
working classes not only of Germany but of the whole of Europe.

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1. ibid.
2. Stresemann, ibid., p. 3631.
3. ibid., pp. 3632-6.
Moreover, although his policy was one of resistance, he considered that the shackles of the Versailles Treaty would be finally loosed, not through revanchist nationalism, but through the agency of the revolutionary proletariat of Europe. 1

Although a majority had been found to comply with the ultimatum, the reaction of the Reichstag to the London Schedule had been at best equivocal. No party believed that the schedule could be fulfilled as it stood, and those groups which supported acceptance did so either in the belief that Germany's obligations would be promptly revised or on the condition that acceptance would lead to the lifting of the March sanctions and the retention of Upper Silesia. The tentative and conditional nature of the support for "fulfilment" and the strength of the positive opposition to such a policy soon exerted an important influence in the efforts of the German government to discharge its reparation obligations and so, in conjunction with other factors, upon the history of German public finance in this period.

It has already been shown that Germany's total obligation under the London Schedule in the year beginning 1 May 1921 was approximately 2.65 billion gold marks. This sum was to have been paid in the following instalments:

<table>
<thead>
<tr>
<th>Gold marks</th>
<th>On</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 billion</td>
<td>31 May 1921</td>
</tr>
<tr>
<td>325 million</td>
<td>15 November 1921</td>
</tr>
<tr>
<td>500</td>
<td>15 January 1922</td>
</tr>
<tr>
<td>325</td>
<td>15 February 1922</td>
</tr>
<tr>
<td>500</td>
<td>15 April 1922</td>
</tr>
</tbody>
</table>

Only two of these instalments were in fact paid before the

1. ibid., p. 3650.
deterioration of Germany's finances caused the London Schedule to be abandoned. Since the second instalment was relatively small and represented the value of deliveries in kind made between May and November 1921, its impact on German finances was almost certainly negligible. Thus, in so far as financial developments in the second half of 1921 were linked with the actual payment of reparation, they were due largely to the payment of the first billion gold marks.

The steps taken by the German government to collect and transfer the first instalment due under the London Schedule were financially disastrous. In the second half of May it took advantage of the temporary improvement in the mark brought about by the acceptance of the Allied ultimatum in order to buy gold and foreign exchange with paper marks.¹ On 31 May the yield from these buying operations - 150 million gold marks - was remitted to the Reparation Commission together with three-month Treasury Bills to the value of 850 million gold marks.² In order to honour these bills when they matured on 31 August the government simply continued to buy foreign exchange and gold within Germany. Because of the scarcity of these commodities and the unwillingness of Germans to part with them in a time of monetary instability, the dollar rate rose by the end of the first week of June to 66 (its level before the acceptance of the ultimatum), and thence to 75 on 30 June, 81 on 31 July and 86 on 31 August.³ This development in turn increased the desire of German citizens to...
hoard foreign exchange. The result was that, as the 31 August approached, the government found itself in need of 400 million gold marks of foreign exchange which could only be purchased at the risk of violent depreciation. This sum was raised at the last moment by drawing upon 68 millions of the Reichsbank's gold reserves and by obtaining short-term high interest foreign credits, the largest of which was a Dutch credit of 270 million gold marks. The latter procedure merely postponed until September and October further purchases of foreign exchange which contributed to the continued rise of the dollar rate in those months.

The German government's method of financing the first billion of the London Schedule had been simply to increase its floating debt at the Reichsbank and to borrow short externally, or worse, to buy foreign currency with paper marks. This procedure was likely, in view of the existing imbalance of the German budget and the passivity of the balance of payments, to have a disastrous effect on the value of the mark. This effect could not have been prevented by any prompt increase in regular internal or external revenues, since an increase in budgetary revenue would have been delayed by administrative difficulties, and an improvement of the balance of trade depended on factors which were for the most part beyond the control of the German government. In these circumstances the only financially sound method of collecting and transferring large sums of foreign currency

1. C. Bergmann, op. cit., p. 82; C. Bresciani-Turroni, op. cit., pp. 95-6.
would have been to resort to substantial long-term domestic and foreign borrowing.

The German government's short-sighted approach to paying the first billion was partly the result of a speculative miscalculation. Hirsch, a Secretary of the Ministry of Economics, had assured the Foreign Affairs Committee of the Reichstag early in May that acceptance of the Allied ultimatum would cause such a recovery of the mark that considerable purchases of foreign exchange would become possible. When the government's right-wing critics subsequently attacked Hirsch for his prediction Schmidt, the Minister of Economics, defended his subordinate by denying that he (Hirsch) had expected any sustained improvement of the mark. Schmidt admitted however that, because of the unfavourable impact exerted on the money market by the disarmament question and by the current dispute between the Federal government and Bavaria, the fall of the mark had been more rapid than anticipated. 1.

The fundamental reason for the German government's behaviour is to be sought in the balance of power in German financial politics. In simple terms, it lacked sufficient domestic support either to guarantee the success of a domestic loan or, a fortiori, to inspire the confidence of potential long-term foreign lenders. It was denied this support firstly because of factors which had been influential before May 1921, and secondly because of the increasingly unfavourable political impact, both of the reparation

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2. C. Bergmann, op. cit., p. 82.
problem itself, and of other issues, such as the continuation of
the sanctions which had been imposed by the Allies in March and
the dispute over the future of Upper Silesia, which had come to
be linked in the mind of the German public with the question of
Germany's capacity to pay reparation.

When the Reichstag debated Wirth's policy statement at
the beginning of June, representatives of the government stressed
the need for the co-operation of the opposition groups, above all
of the financially influential DVP, if the policy of "fulfilment"
was to be feasible.\(^1\) The Democrat Petersen stated explicitly
that the participation of the DVP in the government was essential
if Germany was to become credit-worthy in the eyes of overseas
financiers.\(^2\) However, the resentment expressed by Stresemann,
both at SPD attacks on his party and at the failure of the Allies
to lift the sanctions they had imposed in March, did not augur
well for the entry of the DVP into the coalition.\(^3\) Far from
offering practical support for a policy of "fulfilment"
Stresemann, observing that the first billion gold marks had still
to be paid, rather ominously reserved judgment about the
practicability of the London Schedule.\(^4\).

When Wirth outlined his financial programme on 6 July -
before the Reichstag adjourned for its summer recess - his

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1. Wels (SPD), 2 June 1921, Reichstag, Vol. 349, p. 3727; Becker
(Zentrum), ibid., pp. 3729-30; Petersen (DDP), 3 June 1921,
ibid., pp. 3765-8.
2. ibid., p. 3765.
3. ibid., pp. 3760, 3765.
4. ibid., p. 3764.
government was, if anything, less favourably situated to fulfil Allied reparation demands. Wirth predicted that expenditure for the budgetary year 1921/2 would amount to between 145 and 150 billion paper marks. Of this sum, 48.5 billions were classified as ordinary expenditure, 59 billions as extraordinary expenditure, and a further 40 to 45 billions as expenditure arising out of the fulfilment of the London Schedule. Since 26.6 billions of the extraordinary budget were earmarked for treaty expenditures other than reparation, the total budgetary expenditure occasioned by the Versailles Treaty was to be between 67 and 72 billion paper marks. Against these expenditures were set an estimated revenue of 80 billion paper marks, of which some 30 billions were to be raised by new taxation. These figures produced a sharp reaction from right-wing speakers, who complained at the size of the deficit and of the treaty expenditures and claimed that a balanced budget was now impossible. Even Keinath, the spokesman for the DDP, which belonged to the government coalition, asserted that the financial position was more serious than Wirth had made out. In fact, apart from Wirth himself, the only speakers who considered that the government was capable of devising measures to deal more effectively with the situation were the Majority Socialist Keil and the representatives of the left-wing opposition groups.

The unfavourable impact of the budget figures was aggravated

2. Helfferich (DNVP), ibid., pp. 4474-6; Becker (DVP), ibid., p. 4487.
3. ibid., p. 4498.
4. Keil (SPD), ibid., p. 4482; Crispien (USPD), ibid., pp.4492-8; Geyer (VKP), ibid., pp. 4500-3.
by growing dissatisfaction at the failure of the Allies to make
concessions in return for German acceptance of the London
Schedule. The continuation of economic and military sanctions
imposed in March had been the subject of a DVP interpellation on
30 June, and speakers of both government and opposition stressed
on 6 July that Germany's ability to fulfil her reparation
obligations would depend on prompt Allied accession to German
wishes both on this subject and about the future of Upper Silesia.

A final symptom and cause of the government's financial
impotence was that the schemes which it foreshadowed (in addition
to orthodox taxation) for dealing with the financial crisis were
of a type which was unacceptable to right-wing business groups,
whose support was essential if German finances were to be
stabilised. Although on 6 July Wirth made specific proposals
only about the extension and improvement of existing forms of
taxation, he also referred to plans which were under consideration
for government participation in industrial profits. The
Socialist Keil went further than this by pressing that the
government should proceed to an "appropriation of real values"
("Erfassung der Sachwerte"). Keil envisaged the government's
appropriation of a portion of land, property, houses, machinery
and raw materials - which in a time of monetary inflation were
the sole repositories of real wealth - not only as a means of

1. ibid., Vol. 350, p. 4235; 1 July 1921, pp. 4258ff.
2. Wirth, 6 July 1921, ibid., Vol. 350, p. 4473; Keil (SPD),
   ibid., pp. 4481-2; Keinath (DDP), ibid., p. 4498;
   Becker (DVP), ibid., p. 4491.
3. ibid., p. 4470.
balancing the budget and of strengthening Germany's credit abroad but also as a means of making the propertied classes bear more of the fiscal burden. Such a proposal would not have been preferred to a more expeditious loan scheme if the parties responsible for it had commanded or had wished to command the support of the German propertied classes in their efforts to reform German finances. Although the Independent Socialists naturally gave enthusiastic support to Keil's suggestion, it embarrassed the Democratic members of the government and offended the right-wing opposition groups. The attitude of the Democrats can only be inferred from their silence in the debate and from the comments of the other parties. However, the reaction of the DVP and the DNVP was in no doubt. Becker of the People's Party opposed the participation of the federal government in German industry on the grounds firstly that it was socialistic and secondly that the shares placed in the hands of the government would be seized by the Allies. Helfferich (DNVP) went further and objected on the same grounds even to the orthodox taxes which, in their revised form, threatened to encroach upon the substance of the taxpayer's wealth.

Despite the unfavourable tone of this July budget debate, it appeared for a time in September 1921 that the German government's financial position would be strengthened. German

1. ibid., p. 4484.
2. E.g. Crispien, ibid., p. 4494.
4. E.g. Crispien (USFD), ibid., p. 4494.
5. ibid., pp. 4489-90.
6. ibid., pp. 4479-80.
industrial circles, no doubt alarmed at the increasingly rapid depreciation of the mark which occurred in the first half of September - when the dollar rate of the mark rose from 86 to 110 - offered to pledge their credit in order to help the government obtain financial assistance from abroad. This offer, which probably caused the momentary recovery of the mark on 17 September, was also prompted by the desire of German industry to provide an alternative to the schemes for the appropriation of real values which were now being considered by the Ministry of Economics. 1 It was approved in principle at the end of the month by a conference of the influential Reichsverband der deutschen Industrie at Munich during which Rathenau made a speech deploring the disastrous effects on the mark exchange of recent purchases of gold and foreign currency. 2 Although subsequent negotiations between the German government and German industry yielded no result, the fact that they were begun is evidence of a temporarily co-operative trend in German financial politics.

The German government was at this time exploring other means, apart from borrowing, of cushioning the financial effects of reparation payments. On 6 October 1921 Rathenau and Loucheur, the French Minister of Industrial Reconstruction, signed the Wiesbaden Agreement, which was designed to facilitate deliveries in kind to France. 3 It was projected that in the period between 1 October

1921 and 1 May 1926 France should receive from Germany deliveries of machinery and other equipment referred to in Annex IV of the Reparation Chapter to the value of 7 billion gold marks. The attractive features of this agreement from the German point of view were that it provided for direct contact between Germany industry and the French recipients; that deliveries were to be made only to the devastated regions and only in so far as they did not overtax the German economy; and that valuation was to be entrusted to a Committee of Three composed of a Frenchman, a German and a neutral arbitrator acceptable to the other parties. Against these advantages was to be set the fact that only 35% of the value of these deliveries was to be credited to Germany's reparation account - or 45% if they were worth less than 1 billion marks in any year. The remaining sum was to be treated as an advance to France which would be repaid between May 1926 and December 1937. It was moreover stipulated that the value of all types of deliveries in kind to France to be credited to Germany's reparation account should not exceed 1 billion gold marks in any one year. Thus, if goods delivered to France under the other annexes of the Reparation Chapter (III, V and VI) were worth one billion marks by themselves, the entire value of the goods delivered under the Wiesbaden Agreement would be treated as an advance to France.

The obvious objective of the Wiesbaden Agreement was to induce France to accept more of Germany's reparation payments in the form of deliveries in the kind than she had in the past. Rathenau, the chief architect of the agreement, considered this
to be desirable on the financial grounds that the inflationary domestic government expenditures occasioned by deliveries in kind would cause less damage to the mark exchange than the purchases of foreign currency which were necessary in order to make cash payments. Rathenau appears to have realised that his reasoning was only correct in so far as the goods delivered under the Wiesbaden Agreement were neither potential exports nor potential import substitutes and were not manufactured from imported materials. But he was above all preoccupied to prevent a repetition of the psychologically-induced "buyers' strike" (Kauferstreik) against the mark which had occurred as a result of the large cash payments which had been made in the summer of 1921.

The other main objective of the Wiesbaden Agreement was the political one of hastening the reconstruction of the devastated areas in France in order that a visible incentive to French anti-German feeling should be removed. This could however only be achieved within the limits imposed both by French industrial groups, who were interested in obtaining reconstruction contracts, and by the other Allies, whose share in Germany's capacity to pay reparation threatened to be reduced. In fact Allied objections delayed the Reparation Commission's approval for a modified form

2. J. Ruppel, "Deliveries in Kind from Germany under the Wiesbaden and Subsequent Agreements", MGCRE, 28 September 1922, p. 477.
of the agreement until 31 March 1922; and domestic opposition postponed its ratification by the French Chamber until 6 July and ensured that little practical use would be made of it by France in succeeding months.¹

Rathenau probably realised that the Wiesbaden Agreement would not yield the financial and political fruits which he publicly expected from it. However, he certainly regarded it at the worst as a gesture designed to prove Germany's willingness to fulfil the Versailles Treaty. Such an opinion of the agreement was shared by well-informed contemporaries. Bergmann, the German reparation expert, considered that the scheme was unworkable and described it as "political window dressing",² and the British Ambassador in Berlin referred to it as "a swindle based on a fallacy" which might, nevertheless, "pacify Europe".³ The mere fact that the Wiesbaden Agreement was signed was a further indication that the German government was, in September-October 1921, taking positive steps to improve its foreign financial relations.

The German government's more constructive attitude to its internal and external financial problems was given some encouragement on 1 October by the removal of the customs barrier which had been erected by the Allies in the previous March between the Rhineland and the rest of Germany.⁴ However, the effect of this concession was more than cancelled out by the Allied Supreme

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¹ ibid., p. 56; J. Ruppel, op. cit., p. 477.
² C. Bergmann, op. cit., p. 94.
⁴ Die Entwicklung der Reparationsfrage, p. 20.
Council's announcement on 20 October 1921 of the forthcoming partition of Upper Silesia. This immediately provoked an upheaval in German domestic politics which threatened to cause a radical change in German financial and reparation policy. The Democratic Party, which had opposed the cession of any Upper Silesian territory to Poland, precipitated the resignation of the Wirth Cabinet on 20 October and subsequently refused to join a government which was prepared to accept the Supreme Council's decision. On 26 October Wirth was forced to form a Zentrum-SPD coalition which depended heavily on the support of the USPD in the Reichstag. This meant that an effective financial policy would be more difficult to sustain. The weakening of the government also caused a new note of conservatism in its reparation policy. Although Wirth and his supporters insisted on 26 October that an attempt should still be made to fulfil the treaty, they predicted that previous estimates of Germany's capacity to pay reparation would have to be drastically revised. Even this change of attitude did not satisfy the now numerically powerful right-wing opposition; and the Nationalists, who were naturally the most outspoken critics of the government, condemned the new policy of tentative "fulfilment" as "Erfüllungsfanatismus".

The Allied decision to partition Upper Silesia exerted its

1. Schücking (DDP), 26 October 1921, ibid., Vol. 351, p. 4760.
2. Wirth, ibid., pp. 4734-6; Müller (SPD), ibid., p. 4738; Breitscheid (USPD), p. 4760.
3. Hergt (DNVP), ibid., p. 4746; cf. Kahl (DVP), ibid., p. 4750; Schücking (DDP), ibid., pp. 4764-5.
most profound effect on German financial and reparation policy through its impact on the exchange rate of the mark, which was far more dramatic than that of the transfer of the first billion gold marks under the London Schedule of Payments. The recommendation of the League of Nations Council in favour of partition had become known in outline at least a week before the Supreme Council's formal declaration on 20 October. The fate of Upper Silesia was therefore an important cause of the speculation against the mark which prompted the dollar rate to rise from 120 to 150 between 10 and 15 October, and then to soar from 158 on 20 October to a peak of 310 on 8 November. 1. Although the dollar fell to 180 within a few weeks the net depreciation of the mark was sufficient to undermine completely Wirth's projected tax reforms.

The violent fall of the mark which had been caused by the Upper Silesian decision soon provoked expressions of financial pessimism and passivity in the Reichstag. On 4 November 1921 the Centrist Hermes, who had temporarily replaced Wirth as Finance Minister, predicted that in the budgetary year 1921-2 there would be an enormous paper deficit of 110 billion marks, of which 60 billions could be attributed to the Versailles Treaty. Hermes dismissed all ideas of Germany's internal bankruptcy or external default. However, it was clear that his continued optimism was based only on hopes of domestic credit assistance and prompt revision of Germany's reparation obligations. 2. The Finance

1. Die Entwicklung der Reparationsfrage, p. 21; The Economist, 15 October 1921, p. 566.
Minister's limited confidence was, moreover, not shared by the majority of the Reichstag. The Democratic Party joined the DVP and DNVP in proclaiming that Germany's budgetary and balance of payments problems were insoluble and would remain so until the treaty was revised. Helfferich, in a speech which lasted for almost two hours, juggled figures convincingly so as to predict a deficit of 300 billion paper marks (280 billions occasioned by the treaty) which, he alleged, was greater than Germany's annual national income. The pessimism of the extreme Right was echoed by the Communist Hollein who prophesied inevitable financial collapse for Germany. Only the socialist parties still expressed financial confidence and considered that a greater effort might be made to achieve stabilisation. But even they stressed the impossibility of this unless the treaty were revised and substantial foreign aid obtained.

Despite the unfavourable financial and psychological impact of the Upper Silesian decision, the inadequacy of German financial policy in the next few months was still due in part to purely administrative difficulties. On 3 November 1921 a DDP resolution precipitated a debate in which all parties from the Independent Socialists to the Nationalists agreed that Germany's financial problems were seriously aggravated by the delay in the assessment of the Income Tax. Gothein, the originator of the resolution,

1. Dietrich (DDP), ibid., pp. 4838-41; Helfferich (DNVP), ibid., p. 4858; Becker (DVP), 8 November 1921, ibid., pp. 4885-6.
2. ibid., 7 November 1921, p. 4851.
3. ibid., 8 November 1921, p. 4906.
4. Braun (SPD), 7 November 1921, ibid., pp. 4827-32; Schmidt (SPD), 8 November 1921, ibid., p. 4879; Hertz (USPD), ibid., p. 4895.
emphasized that the recent fall of the mark was due less to inflation than to "the excessive and absurd reparation demands of the Allies, which undermined internal and external confidence in Germany's economic position". But, since inflation had aggravated this depreciation by increasing the paper mark holdings of the public, he concluded that taxes should be collected as quickly as possible. 1. Gothein was supported by all parties, although the Right blamed the delay in tax collection upon post-war changes in German fiscal machinery and upon the complexity of new tax legislation; whereas the Left attributed it to systematic evasion and obstruction on the part of interested social groups and particularist state governments. 2.

Purely domestic pressures were also partly responsible for the shape of German fiscal policy in November 1921. The Independent Socialist Breitscheid attributed the resignation of the DDP on 20 October and the subsequent government crisis as much to the dissatisfaction of the Democrats with impending fiscal legislation as to the Upper Silesian question. The DDP, and the Centre Party too, he claimed, had been concerned at the time to draw the DVP into the government coalition "before the storm of new tax proposals broke". 3. The sensitivity of the "bourgeois" members of Wirth's cabinet on the fiscal question before the Upper Silesian decision helps to explain the increasingly

1. ibid., 3 November 1921, Vol. 351, p. 4788.
2. E.g. Helfferich (DNVP), ibid., p. 4795; Becker (DVP), ibid., pp. 4799-4801.
3. E.g. Hertz (USPD), ibid., pp. 4792-3; Simon (SPD), ibid., pp. 4797-8.
4. ibid., 26 October 1921, Vol. 351, p. 4757.
conservative tone of the government's fiscal programme in November 1921. In his budget speech on 4 November Hermes made no reference to any scheme for the "appropriation of real values" (Erfassung der Sachwerte) and even inveighed against any form of fiscal innovation. The most radical feature of the central measure which he proposed, a Property Tax (Vermögenssteuer) was that it was levied on the shares of joint-stock companies.\(^1\) The protests which this programme aroused from the Left\(^2\) were obviously less cause for concern to the government than the strong opposition which was voiced by both the Right and the Democrats to the idea of the appropriation of real values.\(^3\) This opposition was based in every case on a desire to protect the interests of private property as well as on the argument that property transferred to the government would fall into the hands of the Entente.

The socially and financially conservative outlook of a large section of the Reichstag had an important effect on the valuation provisions of the new Property Tax. The Reichs­
abgabenordnung (Federal Tax Ordinance) of March 1920 had directed that taxable property should be valued in accordance with the size of its yield—according to its "Ertragswert". Articles 16 and 17 of the original draft of the Property Tax had suspended the

\(^1\) ibid., 4 November 1921, Vol. 351, p. 4821.
\(^2\) Braun (SPD), 7 November 1921, ibid., Vol. 351, pp. 4830-1; Hertz (USPD), 8 November 1921, ibid., pp. 4902-4; 11th Committee, 22 November 1921, ibid., Vol. 371, Anl. 3728, p. 3792.
\(^3\) Helfferich (DNVP), 7 November 1921, ibid., pp. 4856-7; Becker (DVP), 8 November 1921, ibid., pp. 4882, 4886; Dietrich (DDP), 7 November 1921, ibid., pp. 4841-2.
relevant provisions of the Tax Ordinance and had directed that the valuation of property should be the responsibility of the Finance Minister, who was to "take account of the value of the mark and the general economic situation". This amounted to substituting for the somewhat rigid notion of "Ertragswert" the more flexible concept of "gemein Wert" or "practical value", which was more applicable to a period of inflation in which property had come to be sought because it was a stable repository of value rather than on account of the size of its yield. The idea of valuation according to "gemein Wert" initially gained the support of the DDP, but aroused the immediate opposition of the Zentrum, DVP and DNVP. Moreover, it became clear in committee that the DDP's idea of "gemein Wert" in practice amounted to nothing more than the average "Ertragswert" of property over the past three years. The eventual adoption of this less flexible measure of value, which seriously reduced the efficacy of the Property Tax, was due entirely to fears that private capital resources would be taxed away.

The importance of domestic financial pressures was further illustrated by the breakdown of the credit negotiations between the German government and German industry. This breakdown, although encouraged in a general way by the size of Allied reparation demands and by the Upper Silesian decision, was

1. For text of original and subsequent drafts of the Property Tax: ibid., Vol. 371, Anlage 3728, pp. 3834-7.
2. Dietrich (DDP), 7 November 1921, ibid., Vol. 351, p. 4841; Herold (Zentrum), ibid., p. 4834; Helfferich (DNVP), ibid., pp.4855-6; Becker (DVP), 8 November 1921, ibid., p. 4890.
3. ibid., Vol. 371, Anl. 3728, p. 3862.
actually precipitated by differences of opinion of a domestic nature. At a meeting on 4 and 5 November the Reichsverband der deutschen Industrie made the continuation of credit negotiations with the government conditional upon "the introduction of strict economy in the entire budget of the Reich, on the relief of economic life from all restraint upon its operation and development, and on the immediate transfer of all public utilities then in government hands to private enterprise, in order that their operation might produce sufficient revenue to meet interest and amortisation charges on the proposed foreign loan instead of being a burden on the government as heretofore". The unacceptability of these politically reactionary demands even to the moderate Left ensured that the credit negotiations would fail. On 7 November 1921 both Braun (SPD) and Schmidt, the Socialist Minister of Economics, deplored the attachment of such conditions to the industrialists' offer. The more forthright extreme Left claimed that the industrialists' only concern had been to divert the government from a confiscatory tax programme; and pressed that property taxes should be collected immediately, that the government should participate in the capital of industry, that foreign exchange accruing from exports should be confiscated, and that there should be import and export controls. The retort of the right-wing parties to these complaints and demands revealed the depth of the political rift between the government and

financially powerful groups. Both Becker, the spokesman for the DVP, and the Nationalist Helfferich insisted that, if German industry was to assist the government at all in the present financial emergency, it should do so in its own time and on its own terms. It was not surprising, therefore, that, although the credit negotiations were prolonged for a few more weeks, they yielded no positive results. Domestic political cleavages had clearly hindered the German government considerably in its efforts to secure the foreign financial assistance which it needed so badly.

(b) Moratorium and Loan Negotiations: a Financial Breathing Space, November 1921 to June 1922.

The financial weakness of the German government, above all its inability to borrow domestically and its consequent lack of security for any overseas borrowing, soon affected its reparation policy. Late in October 1921 Montagu Norman, the Governor of the Bank of England, had informed Havenstein, the President of the Reichsbank, that the procurement of funds to make reparation payments without any definite prospect of their repayment "was not a banking matter which could be undertaken by either of us". On 8 November the Reparation Commission, concerned at the possible implications of the depreciation of the mark for future reparation payments, visited Berlin. During discussions with the German government the Commission urged it

1. Becker (DVP), ibid., p. 4886; Helfferich (DNVP), 7 November 1921, ibid., p. 4860.
to make every possible effort "to obtain the necessary amount of foreign exchange either from its own nationals, who notoriously have such exchange at their disposal, or from foreign lenders". It went on to record its opinion that "the difficulties encountered by the German government, difficulties which are closely connected with the recent serious fall in the mark exchange, are of a financial rather than an economic character", and that they were due largely to the government's failure "to take timely steps to balance the Budget" and to the consequent inflationary note issues of the Reichsbank. In view of the deadlock in German financial politics on questions of fiscal policy and credit, the exhortations of the Reparation Commission were unlikely to have any effect. On 25 November Havenstein applied to the Bank of England for a long-term or short-term advance of 500 million gold marks. However, he did so in the knowledge that his application would be refused and because he wished to use the Bank of England's refusal in order to support a request for a moratorium of reparation payments. Norman's negative reply was referred to by Wirth when, on 14 December 1921, he informed the Reparation Commission that Germany would be unable to make the payments expected of her on 15 January and 15 February 1922.

The German request for a moratorium ushered in a brief period during which the reparation problem was again handled in

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a relatively conciliatory manner and firmer steps were taken to stabilise German finances. It is true that the initial reaction of the Reparation Commission to the German note of 14 December was uncompromising. The German government was reproved for not accompanying its request for a moratorium with information either as to the sums which it would be able to pay on 15 January and 15 February, or as to the length of the extension required for the payment of the balance, or as to the security to be offered in the meantime. The government was also ordered to outline the steps which it was taking to balance its budget. However, in its reply the German government not only volunteered to supply details of its budgetary policy, but was also able to suggest that any decision on the other questions submitted to it should be postponed pending the outcome of the Allied cabinet-level discussions which had been taking place at the end of 1921 on the subject of revising Germany's reparation obligations and remedying the general economic malaise of Europe.

Between 18 and 22 December a conference of English and French experts at London had recommended that the Supreme Council should hold discussions at Cannes on topics which included a proposed European economic conference and a draft scheme for reducing Germany's reparation payments in 1922. The latter envisaged a reduction of Germany's obligation in 1922 to 500 million gold marks in cash and 1750 million gold marks in kind.

2. Letter from the German Government to the Reparation Commission, 3 January 1922, ibid., p. 52.
In return for this, Germany was to check her inflationary budget policy by collecting her customs in gold, by raising the coal tax, by increasing railway tariffs and postal charges and by abolishing subsidies. Advances of the Reichsbank to the government and the note circulation were to be restricted to their level of December 1921; and the Reichsbank was to be made independent of the government and placed under the supervision of a technical adviser approved by the Reparation Commission.  

In short Germany was to be granted a partial moratorium if she undertook to remedy financial weaknesses which, in the opinion of the Allies, had made this moratorium necessary.

The Cannes Conference opened auspiciously when, on 6 January 1922, it adopted unanimously a resolution in favour of summoning an Economic and Financial Conference in February or early March "to which all the Powers of Europe, including Germany, Russia, Austria, Hungary and Bulgaria, should be invited to send representatives". The text of this resolution, which recorded the opinion that a co-operative effort by the economically stronger powers was necessary in order to achieve the reconstruction of Central and Eastern Europe, was forwarded to the German government together with an invitation to the Genoa Conference on 16 January 1922.  

Although the Genoa Conference was to end in failure the mere fact that it was summoned represented an advance in the


thinking of the major powers about Europe's economic problems.

Discussion of the reparation question at Cannes was by no means as uneventful or unanimous. Several modifications were introduced by the Allies into the original Anglo-French scheme, the most notable being an increase in Germany's cash obligation for 1922 from 500 million to 720 million gold marks.\(^1\) When the German delegation attended a meeting of the Supreme Council for the first time on 12 January the gap between Allied and German ideas about reparation soon became obvious. Lloyd George admitted that Germany's incapacity for making the reparation demanded of her was due partly to the general economic state of the world. It was however also due to the failure of the German government's financial policy.\(^2\) In a reply which lasted for three hours, Rathenau placed the blame squarely on balance of payments difficulties for which there was no rapid cure and upon budgetary problems which could not be resolved by increasing current revenues. In both cases the only immediate remedy was in his opinion substantial external and internal long-term borrowing. However, it was, he emphasised, precisely in the matter of raising such loans that the German government was least sure of its powers. Despite Germany's financial helplessness, Rathenau declared that he was prepared for political reasons to accept most of the Allied suggestions concerning Germany's obligations in 1922 and concerning budgetary reform. He opposed however the

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2. ibid., p. 39.
substitution of 720 million marks for 500 million marks as
Germany's cash obligation; and he entered a reservation about
the possibility of increasing the coal tax.¹

The fall of the Briand Cabinet on 12 January prevented
the Supreme Council from deciding on these issues, and precipitated
the break-up of the Conference on the following day. However,
the Reparation Commission, which had been present at Cannes, now
resumed control of the reparation question and granted Germany a
provisional postponement of the payments which she was due to
make on 15 January and 15 February on the conditions: (1) that she
should continue to make cash payments of 31 million gold marks
every ten days from 18 January; (2) that the German government
should within 15 days submit a scheme of budgetary and monetary
reform and a programme of cash payments and deliveries in kind
for the year 1922; and (3) that the Allied governments or the
Reparation Commission should have the power to end the postponement
as soon as they had considered the proposals submitted by the
German government.² On 28 January the German government
despatched to the Reparation Commission a long memorandum in
fulfilment of the second condition.³ The section of this document
which dealt with budgetary reform began with an account of how
revenue would be increased by new direct and indirect taxation.
It went on to reassure the Reparation Commission that the newly-

¹ ibid., pp. 39-44.
² Decision of January 13, 1922, from the Reparation Commission..,
R.C., III, p. 55.
³ ibid., III, pp. 56-112.
⁴ ibid., pp. 56-9.
created federal fiscal administration which was to collect these taxes was at last an "accomplished fact"; and enumerated the steps which had been taken to prevent tax evasion and the flight of capital. It was hoped by these means to raise revenue in the financial year 1922-3 to 103.2 billion paper marks. Meanwhile it was intended to restrict ordinary expenditures to 86.7 billion paper marks, mainly by discontinuing food subsidies - which had amounted to over 20 billion paper marks in 1921 - and by reducing general administrative outlays. Since the budgets of the public utilities were to be balanced either from current revenue or from special loans, the surplus of 16.5 billions in the ordinary budget could be devoted to defraying expenditures occasioned by the treaty, which were estimated at 187.5 billion paper marks.\(^1\)

The remaining 171 billions of the treaty budget could however only be covered by domestic borrowing. Since a domestic free loan was, in existing circumstances, unlikely to succeed it was intended to resort to a forced loan, which would enable the government "to meet its reparation payments at least for 1922 with the least possible recourse to the printing press".\(^2\)

In view of the difficulty which the government was obviously going to encounter in its efforts to restrict the growth of its floating debt, it was not surprising that the plan of reparation payments for 1922 contained in the second part of the memorandum of 28 January\(^3\) was more of a plea for a reduction of Germany's burden than a formal schedule. On purely financial and economic

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1. ibid., pp. 104-6.
2. ibid., p. 59.
3. ibid., pp. 59-61.
grounds it was urged that Germany should be granted a complete release from all payments for the rest of 1922. It was recognised that it might be politically necessary to endanger the economic life of Germany by fulfilling the demands which the Allies had made at Cannes. But such payments would only be feasible if (1) they were spread evenly over the coming financial year; if (2) the costs of the armies of occupation which were payable in foreign currency were counted as part of the total contribution for 1922; and if (3) the remaining charges occasioned by the treaty, including the costs of the armies of occupation which were payable in paper marks, were considerably reduced.

The German government concluded its memorandum of 28 January with a reminder of the connection between a tolerable adjustment of Germany's reparation problem and Germany's ability to obtain the domestic and foreign credit assistance which was essential for any lasting financial stabilisation. "At present," it observed, "neither the German capitalists nor the foreign capitalists desirous of making investments, consider Germany worthy of credit. A universal distrust is making itself felt; everyone doubts whether Germany will be able to recover, in present circumstances, economic weapons sufficient to make her a solvent debtor in a loan contracted on a large scale for reparation purposes. To restore confidence in Germany's solvency to the world at large is essential to a satisfactory solution of the problem."

Despite this altogether justified insistence on the need for internal and external credit, the memorandum of 28 January

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1. ibid., pp. 61-2.
reveals that at the beginning of 1922 the German government was pursuing a more conciliatory reparation policy and was adopting a more resolute attitude towards financial reform than it had in the autumn of 1921. The former trend was a direct response to Allied recognition in December 1921 that a temporary reduction of Germany's obligations was necessary. The latter was to a large extent prompted by the simultaneous increase in Allied pressure for a compensatory reform of German finances. Both of these trends were also encouraged by the balance of power in German domestic politics. This combination of external and internal factors favourable to "fulfilment" and to financial reform was to continue for several months in 1922. It was a symptom of the atmosphere which prevailed that, on 31 January 1922, Wirth brought Rathenau, the apostle of "fulfilment", back into his Cabinet as Foreign Minister.

On 26 January 1922 Wirth informed the Reichstag of the events which had led to the Reparation Commission's moratorium announcement on 13 January and also of the steps which had been taken by the German government to comply with the Commission's request. On this occasion the Reichstag proved to be more optimistic about foreign affairs and more co-operative about financial matters than it was to be for the rest of 1922. The tone of the debate was set by Wirth himself who, despite his misgivings about the effects on French policy of Poincaré's accession to power, expressed satisfaction that at Cannes German delegates had at last been able to discuss Germany's situation realistically before a conference on which the eyes of the world
were fixed. 1. Wirth's Centrist colleague Marx, although also uneasy about the future, proclaimed Cannes and the summoning of the Genoa conference as triumphs for Wirth's policy; 2. while the Socialist Müller considered that Poincaré was merely an added incentive to Germany to fulfil her treaty obligations in a punctilious manner. 3. Scepticism about the improvement of Germany's diplomatic position was predictably expressed by the extreme Right and Left, 4. just as the expected optimistic interpretation of Poincaré's intentions was given by the pacifist Independent Socialist Breitscheid. 5. But the clearest indication of the comparatively hopeful attitude which prevailed was that the DVP spokesman, Becker, although sharply critical of French policy, admitted that Germany's external relations were more favourable. 6.

The financial reform programme which the government was about to submit to the Reparation Commission received unusually broad support. It was in fact the product of five-party negotiations which had taken place in the second half of January between the Social Democrats, the Centre, the Democrats, the People's Party and the Bavarian People's Party. The occurrence of these negotiations and the resulting "fiscal compromise" (Steuerkompromiss), which included both a forced loan and

2. 27 January 1922, ibid., p. 5584.
3. ibid., p. 5581.
4. Westarp (DNVF), 26 January 1922, ibid., pp. 5565, 5572-3;
   Koenen (KPD) 27 January 1922, ibid., p. 5616.
5. ibid., p. 5584.
6. ibid., p. 5593.
substantial increases in indirect taxation, were hailed by Centrist and Democratic speakers as evidence of a co-operative trend in German financial politics. Although this claim was justified, the support accorded to the Steuerkompromiss by the DVP was motivated partly by a desire to avoid an election on the fiscal question, and was also conditional upon the protection of the interests of German industry. The approval of the DVP for the forced loan proposal was, moreover, encouraged not only by a desire to check inflation and to placate the Allies but also by an understanding that the proceeds of the loan would be devoted entirely to the compensation of German industry for reparation deliveries made to the Allies. The Social Democrats were also uneasy about the "fiscal compromise". They were acutely aware that the forced loan was a substitute for earlier plans to appropriate "real values", and that increased indirect taxation was contrary to socialist principles. For this reason they justified their support for the government's proposals largely on the undesirability of forcing an election on the eve of the Genoa Conference.

The criticisms of the "fiscal compromise" voiced by the extreme Left and Right both reveal the shortcomings of the government's programme and explain the embarrassment of the parties which supported it. The Independent Socialists, apart

1. Wirth, 26 January 1922, ibid., p. 5561; Marx (Zentrum), 27 January 1922, ibid., pp. 5584-5; Petersen (DDP), ibid., p. 5601.
from criticising the Majority Socialists for abandoning their fiscal principles and for failing to force an election, considered that no real sacrifice had been imposed upon the propertied classes. Breitscheid pointed out that the support of the middle-class parties for the forced loan had only been bought by the shelving of a proposal for a Profits Tax, by the reduction of a surcharge on the Property Tax and by the retention of inadequate valuation provisions in the latter measure.\(^1\) The Communists went further and called for a united proletarian front against the bourgeoisie and the Social Democrats ("social traitors") in order to appropriate "real values", to socialise the coal industry, to confiscate the foreign exchange earnings of exporters, to impose import controls and to bring about the prompt collection of the Reichsnotopfer.\(^2\)

The complaints of the Left about the inadequacy of the "fiscal compromise" were balanced by Nationalist protests that the government's financial programme would both ruin the German economy and place it under the control of foreigners. Although Westarp, the Nationalist spokesman, was particularly concerned about the forced loan on this account, he was also alarmed at the price rises which would be caused by the projected increases in railway and postal rates and the coal tax and also by the government's proposal to abolish food subsidies and to collect customs in gold.\(^3\)

Further evidence of the strength of the opposition to the

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3. ibid., pp. 5568-73.
"fiscal compromise" and of the provisional nature of the support accorded to it was provided by the ensuing debate on the budget figures which were contained in the German Note of 28 January. Hermes stressed first of all that the reduction of Germany's obligations envisaged at Cannes would not enable the German government to balance its budget. Although he proclaimed Germany's desire to fulfil her obligations, he doubted whether the Allies would realise the need for further concessions soon enough to prevent German financial collapse. The Finance Minister then went on to emphasise the need to bury domestic disputes if Germany's international position was to be improved. 1 The achievement of the latter condition was, however, made less likely by the insistence of the DVP spokesman, Quaatz, that he supported the "fiscal compromise" only on the condition of the economic rehabilitation of Germany in a manner which was acceptable to his party. 2 The prospects for continued five-party financial co-operation were also dimmed by the lengthy reminder of Scheidemann that working-class support for the government's rigorous budgetary policy depended on the passage of social reforms and the improvement of the administration of justice. 3

The delicate balance of forces upon which the "Steuerkompromiss" was based was somewhat disturbed by the time the government's fiscal proposals emerged from committee in March 1922. This was because the middle-class parties had, by means of co-operation in committee, given the tax programme a conservative

2. ibid., p. 5664.
3. ibid., pp. 5642-52.
emphasis. A symptom of this was Becker's evident satisfaction not only about mitigating provisions of the Property, Corporation and Sales Taxes but also about the government's acceptance of the People's Party's ideas concerning retrenchment and the removal of restraints on economic activity. 1 A financial programme which was so acceptable to the DVP inevitably offended the Social Democrats. Bernstein was now highly critical of the tax burden which had been placed on the propertyless classes. He also deplored the extent of the evasion of direct taxes and protested that no "appropriation of real values" had taken place. Nevertheless, he still defended the "fiscal compromise" as the best financial programme which could be obtained in the circumstances, given that the domestic and diplomatic situation made an election undesirable. He was, moreover, still hopeful that the forced loan would make the burden of direct taxation heavier. 2

While there had been a gradual crystallisation of differences of opinion over domestic financial policy, it was still not certain in the middle of March that the fiscal compromise would be undermined by the unfavourable financial impact of the reparation question. In the debate of 16 March the Nationalists made their usual assertion that financial reform in general, and the forced loan in particular, were pointless and undesirable because of the enormous financial demands of the Allies. 3 Becker of the DVP also stressed, as indeed did everybody else, that

2. ibid., 16 March 1922, pp. 6302-7.
continued payment of reparation at the existing rate of 31 million gold marks every ten days\(^1\) would be disastrous. However, he did not consider that Germany's external payments problem should be used as an excuse for failure to attempt internal financial stabilisation. On the contrary, the "fiscal compromise" was a necessary diplomatic preliminary to any attempt to obtain a remission of part of Germany's reparation burden.\(^2\) This reveals that Allied reparation demands were as yet not a compelling reason for financial passivity even amongst those participants in the "fiscal compromise" who were most sensitive on this subject.

The psychological and political atmosphere was transformed by two notes which were transmitted by the Reparation Commission to the German government on 21 March. The first of these dashed hopes of a further reduction of Germany's current reparation obligations by confirming the Commission's decision of 13 January that payments for 1922 should amount to 720 million gold marks in cash and 1450 million gold marks in kind. Since cash payments of 282 million gold marks had already been made in 1922, it was directed that there should be further instalments of

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<td>60 million</td>
<td>15 November and December.</td>
</tr>
</tbody>
</table>

It was further stipulated that cash payments and deliveries in kind were to be used first to cover the costs of the Allied armies of occupation, and that only the balance should be reckoned as a

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1. See above, p. 351.
credit against Germany's total reparation obligation under the London Schedule of Payments. ¹

The second note, which consisted of a series of unfavourable observations on the financial programme which the German government had submitted on 28 January, was bound to produce a highly unfavourable reaction both in Germany and abroad. It was influenced by a memorandum drawn up by the French delegation to the Reparation Commission which accused Germany of bad faith in the fulfilment of her reparation obligations because of her failure to achieve effective financial reform.² Accordingly it informed the German government that the Reparation Commission expected "a much more radical reform of the finances of Germany and a final abandonment of the mistaken policy hitherto followed".³ The main specific demands of the note were that legislation should be enacted by 31 May 1922 which would increase public revenue by 60 billion marks in the budgetary year 1922-3; and that 40 billions of this sum should actually be collected by 31 December 1922. The note also prescribed the reduction of public expenditure, the flotation of domestic and foreign loans, the passage of legislation to counter the flight of capital from Germany and to establish the administrative independence of the Reichsbank from the government, the publication of complete German economic and financial statistics, and, finally, closer supervision of the German government's financial policy by the

². Memorandum of 15 March 1922, ibid., VI, pp. 4-30.
³. Letter from the Reparation Commission to the German Chancellor, 21 March 1922, ibid., III, pp. 113-8 at p. 114.
Committee of Guarantees.

The psychological and political impact of these communications was revealed in the debates which they occasioned in the Reichstag. On 28 March Wirth claimed that the effect which the notes had already exerted on the mark exchange, together with the effect of future payments at the rate prescribed by the Reparation Commission, would completely undermine the effectiveness of the "fiscal compromise" which was about to become law. He went on to protest that the task of levying taxes which would yield another 60 billion paper marks would be impossible within the time limits imposed by the Commission.\(^1\) Even the Socialist parties, which were, in varying degrees, dissatisfied with the "fiscal compromise", insisted that the requests of the Reparation Commission were both technically and politically impossible.\(^2\) In these circumstances it was not surprising that spokesmen for the more financially conservative parties such as Rathenau (DDP) and Stresemann (DVP) insisted that the "fiscal compromise" was the extreme limit of taxation which Germany could bear;\(^3\) and that the Nationalist Hergt demanded a flat refusal by the government to impose new taxes.\(^4\)

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1. Wirth, 28 March 1922, Reichstag, Vol. 353, pp. 6613, 6621, 6616. Cf. Marx (Zentrum), 29 March 1922, ibid., Vol. 354, p. 6642. Wirth pointed out that the dollar rate, which had risen steadily from 200 at the end of January as a result of the 10-day schedule, had jumped from 289 on 21 March to 332 on 24 March.
3. Rathenau, ibid., p. 6655; Stresemann, ibid., p. 6647.
A particular source of ill-feeling was the direction of the Reparation Commission that the supervisory powers of the Committee of Guarantees should be extended. The Nationalists predicted that the Committee would become an instrument for spying upon and sabotaging German industry.¹ Wirth protested that the demands of the Reparation Commission were "incompatible with the self-determination and the honour of a great nation";² and Rathenau firmly opposed any threatened invasion of German sovereignty.³ The Social Democrats were the only government party which played down the significance of the Commission's demands and stressed that the Committee could recommend but not dictate financial measures.⁴

In view of the Commission's refusal to lower Germany's obligations and in view of the increased taxation and more rigid controls which it demanded it was only to be expected that the policy of fulfilment would lose a great deal of its attractiveness. On the Right, the Nationalists bluntly proclaimed the bankruptcy of fulfilment and advocated "passive resistance" to the Commission's demands;⁵ and Stresemann insisted more moderately that reparation payments could only be continued within strict economic limits.⁶ Although government speakers declared that an attempt would still be made to comply with Allied demands, the Democrats were very much on the defensive and pressed for a downward revision of

¹ ibid., p. 6624.
² ibid., p. 6617.
⁴ Stampfer (SPD), 28 March 1922, ibid., Vol. 353, p. 6634.
⁵ Hergt (DNVP), ibid., pp. 6630-1.
Germany's obligations.\textsuperscript{1} Even representatives of the Centre and Social Democratic parties admitted that the policy of fulfilment would lead to financial disaster unless the treaty were revised, and they advocated compliance with Allied demands largely because a policy of resistance would play into Poincaré's hands.\textsuperscript{2} Only the Independent Social Democrats were at all optimistic about the future, but even their attitude derived solely from the assumption that the Allies would be unable to absorb the full amount of deliveries in kind which they had demanded.\textsuperscript{3}

Despite the initial gloom of the Reichstag and the slump in the mark exchange, the long-term psychological and financial repercussions of the Notes of 21 March were not as serious as it had at first seemed they might be.\textsuperscript{4} One reason for this was that the gap between the tax programme demanded by the Allies and German fiscal performance was considerably narrowed by the forced loan scheme, which, although part of the "fiscal compromise", had not been formally enacted. A second reason was that, according to the German reparation expert Bergmann, the provisions for increasing the powers of the Committee of Guarantees proved on closer examination "to be more or less empty phrases" which demanded "no really effective control of revenue and expenditure".\textsuperscript{5}

\textsuperscript{1} Haas (DDF), ibid., pp. 6669-70.
\textsuperscript{2} Wirth, 28 March 1922, ibid., Vol. 353, p. 6621; Stampfer (SFD), ibid., pp. 6632-4; Marx (Zentrum), 29 March 1922, ibid., Vol. 354, p. 6641.
\textsuperscript{3} Breitscheid, ibid., p. 6658.
\textsuperscript{4} In April the mark recovered to its mid-March level of 280 to the dollar. \textit{Die Entwicklung der Reparationsfrage}, pp. 25-7.
\textsuperscript{5} C. Bergmann, op. cit., p. 123.
These facts even tend to encourage a conclusion that the violence of the government's protest against the Allied notes was in part due to its desire to increase its domestic popularity before the Genoa Conference, which was to begin on 10 April. 1.

The most important reason for the relatively slight unfavourable impact of the Reparation Commission's demands was the enhanced prospect of international financial co-operation at this time. Few hopes were aroused by the imminence of the Genoa Conference, from which men such as Rathenau and Stresemann expected no concrete results because of the non-participation of the United States and because of the exclusion of the reparation question from the subjects to be discussed. 2. A greater cause for optimism was the decision of the Reparation Commission on 4 April to appoint a committee of German, French, British, American and neutral experts to examine the possibility of a large-scale international loan for Germany. 3. It was in fact the prospect that this committee's deliberations might yield positive results which kept hopes of financial reform and fulfilment alive until the middle of 1922.

1. E. Schmacke, Die Aussenpolitik der Weimarer Republik..., pp. 79-80.
2. Wirth, 28 March 1922, Reichstag, Vol. 353, p. 6622; Haas (DDP), 29 March 1922, ibid., Vol. 354, p. 6672; Stresemann (DVP), ibid., p. 6651; Rathenau (DDP), ibid., p. 6655. America's refusal to participate in the Genoa Conference was attributed by Rathenau firstly to her "Europamödigkeit", secondly to the small proportion of her national income which was derived from exports, and thirdly to the prevailing American belief that money lent to Europe would be spent on armaments: ibid., p. 6656. On the limitation of the agenda of the Genoa Conference because of French pressure: A.J. Toynbee, op. cit., pp. 26-7.
For all the reasons referred to, the German government's reply of 7 April to the Reparation Commission's notes was remarkably conciliatory. In the first place it pointed out that the 10-day payments and the Reparation Commission's recent demands had caused a fall in the mark which was threatening to annihilate the domestic and foreign purchasing power of German currency. Accordingly it asked the Commission to reconsider its demands of 21 March and to conduct a fresh examination of Germany's capacity to pay. The government then reiterated its conviction that it could not make substantial reparation payments or achieve financial stabilisation without foreign assistance; and expressed the hope that the deliberations of the Loan Committee would produce "practical results as soon as possible". Finally, although it stressed the impossibility of raising 60 billion marks of new taxes and the undesirability of any infringement of German financial independence, the government pointed out that the projected forced loan "would yield the figure representing the increase demanded by the Reparation Commission", and affirmed its willingness "to furnish the Reparation Commission with any information it (might) require on the situation and on the financial operations carried out in Germany".  

In its reply of 13 April the Reparation Commission appears to have been concerned primarily to assert its authority in the face of what it considered to be a challenge by the German government. Therefore, on the grounds that the German budgetary

1. Reply from the German Government to the Reparation Commission, R.C., III, pp. 121-4.
deficit could not be covered entirely by forced or free loans, it made much of the government's refusal to impose further taxation. It even asserted that, since internal stabilisation was a prerequisite for the foreign loans which were essential in any reparation scheme, the German note of 7 April was "tantamount to a refusal to make any serious effort to provide foreign currencies for reparation". The same desire to assert its authority was evident in the Commission's references to the question of its supervisory powers. Because of the moratorium, the Commission claimed, it was entitled to impose "whatever conditions it might regard as necessary". However, although the Commission insisted upon its theoretical rights in these matters, it was in practice prepared to be conciliatory. A firm assurance was given that German financial sovereignty would not be trespassed upon; and the way was prepared for negotiations about Germany's obligations by a declaration of willingness "to examine any practicable suggestions which (might) be put forward by the German government for meeting the difficulties in which they (were) placed". 1.

The rejoinder of the German government to the Reparation Commission's Note of 13 April was delayed for some weeks by the Genoa Conference. Despite the non-participation of the United States and despite the limitation of the agenda, 2 Genoa offered a valuable opportunity for leading European statesmen and American

2. See above, p. 365.
financiers to hold informal discussions on the subject of reparation. The members of the recently appointed Loan Committee of the Reparation Commission who were among the delegates even succeeded in drawing up a plan for a provisional reparation settlement and a German international loan. This plan envisaged that Germany should make annual cash payments of 720 million gold marks for four years and that she should, in addition, effect deliveries in kind under contract with individual creditors. In return she was to be allowed to float a foreign loan of 4 billion gold marks, part of which was to be used to stabilise her currency.

In view of the opposition both in France and in Germany to the idea of a provisional reparation settlement, it is doubtful whether the financiers' discussions at Genoa would have led to any practical result. In any case, they were brought suddenly to a halt and their beneficial effect was more than cancelled out by the signature of the Rapallo Treaty between Germany and Russia on 15 April. The most important section of this treaty was an agreement under which Germany renounced all her claims to compensation for her pre-war investments in Russia in return for an undertaking by the Russian government to refrain from exercising its right under Article 116 of the Versailles Treaty to extract reparation from Germany. The remaining clauses re-established full diplomatic and consular relations between the signatories.

and provided for a "most-favoured nation" trading agreement and
general economic co-operation between them. There is no
reason to disbelieve Wirth's claim that this treaty owed its
origin simply to the re-establishment of economic contact
between Russia and Germany which had been proceeding since the
conclusion of the Russo-German Trade Treaty of 6 May 1921.

It also seems clear that the unfortunate timing of the treaty was
caused by the misleading behaviour of the British and Russian
delegates at Genoa which aroused baseless German fears about
the possible implementation of Article 116; and which momentarily
allowed Maltzan, who favoured closer German relations with Russia,
to assert his influence over that of Rathenau. It would therefore
be wrong to regard the Rapallo Treaty as a sign of any deliberate
change in German reparation policy. It is true that the right-
wing parties, despite their reservations about dealings with a
communist power, subsequently hailed Rapallo as the beginning of
"active" foreign policy. The Democrat Dernburg, moreover,
expressed the hope that the Russo-German mutual renunciation of
financial claims would be the prelude to a general cancellation
of international debts. However, against this must be set the
clear denial of the Majority Socialist, Müller, that Rapallo in
any way signified the end of the policy of "fulfilment".

1. L. Kochan, Russia and the Weimar Republic, pp. 52-3.
Kochan, op. cit., pp. 41-2; E.H. Carr, German-Soviet Relations
between the Two World Wars, Ch. 3.
3. Wirth, loc. cit., supra; Müller, ibid., p. 7679. L. Kochan,
Becker (DVP), ibid., p. 7723; Böhm (Bay.VP), ibid., p. 7734.
5. ibid., p. 7731.
6. 29 May 1922, ibid., p. 7680.
The motives of the German government for signing the Rapallo Treaty must be distinguished from the impact of the treaty on world opinion. Such an act of bilateral financial renunciation inevitably produced a violent reaction from the many creditors of the two signatories. Bergmann, the German reparation expert, was highly critical of Rapallo on the grounds that, by spreading suspicion of Germany's financial good faith, it strengthened the position of Poincaré, whose relentless reparation policy had until then caused increasing French diplomatic isolation. It was largely because of Rapallo that Poincaré was able, in a speech at Bar-le-Duc on 24 April, to threaten French retaliation if Germany did not comply with the Reparation Commission's note of 21 March.

The policy of fulfilment and financial reform was in fact given a fillip for several weeks after the Rapallo Treaty by the continued deliberations of the Loan Committee. Since an international loan was out of the question in the absence of any agreement on the reparation question, a determined effort was now made to heal the breach between the German government and the Reparation Commission. After preliminary discussions, the German government despatched a note to the Commission on 9 May which referred to the desire of both parties "to remove certain misunderstandings which (had) arisen from the previous exchange of notes and to clear the present situation by way of a full exchange of views". The note went on to assure the Commission that the

2. Die Entwicklung der Reparationsfrage, p. 27.
German government respected the principle of covering all its expenditures by taxation and domestic borrowing. However it pointed out once again that, because of her economic situation and financial obligations abroad, Germany would be largely dependent on foreign loans if she were to make the payments demanded of her. The note then promised that a complete scheme for balancing the German budget would be transmitted before 31 May, although it insisted that the enactment of the necessary legislation before that date would be impossible. Next it recorded the German government's satisfaction that the Reparation Commission had recognised the "sovereignty of Germany in questions of public expenditure, taxation and financial policy"; and repeated its offer of 7 April to provide the facilities for investigation and consultation requested by the Commission. The note concluded with a general undertaking to comply with the demands of the Commission's notes of 21 March. It claimed, however, that some of these demands were impossible and stressed the need for the further discussion of Germany's obligations which the Commission had promised in its note of 13 April.

A few days later the German Finance Minister, Hermes, journeyed to Paris to negotiate a detailed agreement on the lines which had been suggested. Although this proved to be no easy task in the atmosphere of mutual distrust which prevailed, a formula was eventually agreed upon which was transmitted in a note to the Reparation Commission on 28 May. This undertook to balance

1. C. Bergmann, op. cit., pp. 130-1.
the budget by increasing revenues, by abolishing subsidies and by reducing administrative expenditures. In addition, it guaranteed that, if a foreign loan were obtained, the floating debt would not be allowed to rise for more than a limited period above its level of 31 March 1922. It further agreed to the supervision demanded by the Reparation Commission on the understanding that this would "in no way affect the sovereignty of the German Government, ... disturb the working of the administration, and ... violate the secrecy of the fortune or of the private affairs of taxpayers". Finally, although it pleaded that there had so far been insufficient time to devise measures against the flight of capital, it reported that the Reichsbank had been made independent of the German government by a law of 25 May 1922, and that orders had been given for the publication of statistics in the pre-war manner. Appended to the note was a draft budget for 1922 which predicted a surplus on ordinary account of 71 billion paper marks. Against this was set an estimated treaty expenditure of 213 billion paper marks (calculated at the rate of 70 paper marks to 1 gold mark). This left a deficit of 142 billion marks which, together with additional extraordinary domestic expenditures of 23 billion paper marks, was to be covered by borrowing. A supplementary note of 30 May transmitted details of the proposed forced loan, the proceeds of which (60 billion paper marks) had been included in

1. ibid., pp. 133-8.
the estimates of ordinary revenue.¹

Although these conciliatory proposals met with the immediate approval of the Reparation Commission,² they were made in the teeth of growing opposition within Germany to the policies of financial reform and fulfilment. On 24 May, after Hermes had returned to Berlin from Paris, a government crisis threatened because of Wirth's conviction that too much had been conceded.³ The main cause for concern was the Commission's insistence on the restriction of the floating debt. Although this restriction was to be conditional upon Germany's ability to cover her treaty obligations by means of foreign borrowing, the German government was highly suspicious of such an arrangement, and demanded unsuccessfully that in the event of "force majeure" the whole agreement should become void. It eventually agreed to this provision only when the Loan Committee declared that it could not continue its deliberations unless an agreement was reached between the government and the Commission.⁴

It was not surprising that the government came under heavy fire in the Reichstag on 29 and 30 May. Although the official text of the note of 28 May had not been published, and although government spokesmen pleaded that the unofficial texts which had appeared in the press should not be discussed while negotiations were still in progress in Paris,⁵ the Nationalist

1. Letter from the Chancellor of the Commonwealth to the Reparation Commission, 30 May 1922, ibid., III, pp. 139-40.
Hoetzsch tabled a motion of no confidence in the government on the grounds of its reparation policy. Hoetzsch was violently critical of the government's promise to balance its budget since, even if a foreign loan were obtained, the tax increases envisaged by the government would prove impossible. He also claimed that if there were no revision of Germany's reparation obligations the proceeds of any loan which Germany succeeded in floating would be immediately absorbed by Allied demands. He therefore insisted that any loan scheme should be based upon a definitive and reasonable settlement of Germany's total reparation obligation. The DVP spokesman, Becker, although reserving his opinion about the Nationalist vote of no confidence, echoed Hoetzsch's views about the impossibility of increased taxation and about the desirability of a final as opposed to a temporary reparation settlement. An important indication of the stiffening attitude of the DVP was Becker's declaration that an Allied occupation of the Ruhr would be preferable to further concessions by the German government. Other signs of the same trend were his demand for a formal denial of German war guilt, for the lifting of the sanctions which had been imposed in March 1921, for the reduction of the costs of the armies of occupation and for a revised settlement of the status of the Saar. It was an even more ominous sign for the future of fulfilment and financial reform that the Democrats, apart from demanding a

1. Hoetzsch (DNVP), 30 May 1922, ibid., p. 7704.
2. ibid., pp. 7706-8.
3. ibid., pp. 7721-8.
fundamental re-examination of Germany's capacity to pay, also urged the revision of the "war guilt" clause upon which Germany's reparation obligation was based. ¹

(c) From the Report of the Loan Committee to the Occupation of the Ruhr: Financial Collapse, June 1922 to January 1923.

In view of the attitude of the bourgeois parties at the end of May, an unfavourable report of the Loan Committee was likely to be disastrous for the cause of fulfilment and financial reform. On 1 June the Committee had suspended its deliberations pending a decision by the Reparation Commission about its ability to make recommendations concerning the size of Germany's reparation obligation. On 7 June the Reparation Commission transmitted a resolution which welcomed all recommendations made by the Committee on any subject affecting Germany's ability to raise foreign loans. This resolution had, however, been adopted in spite of the negative vote of the French delegate. The reluctance of Germany's principal creditor to agree to any discussion of Germany's obligations was the immediate reason for the Committee's decision on 10 June that it would be useless to continue its labours. In the report which it submitted it insisted that the other essential conditions for any future loan, apart from the removal of uncertainty as to Germany's obligations, were (a) that Germany should make a real effort to stabilise her finances, (b) that the loan should be unanimously requested by the Allies, and (c) that there should be a settlement of inter-Allied debts.²

¹ Dernburg (DDP), ibid., pp. 7731-3.
The negative report of the Loan Committee had dramatic financial and diplomatic repercussions. From 10 June onwards there was little to discourage either the holders of Germany's massive external floating debt or German citizens from speculating against the mark. As a result the dollar rate, which had been hovering at about 280 since April, slumped to over 300 by the middle of June and to 400 by the beginning of July. This development served to deepen the financial deadlock of which it was itself the product. On the one hand it decreased the possibility of any successful policy of financial reform and fulfilment within Germany: on the other hand it gave added point to the French demand for "productive pledges", which would accord the Allies a share in Germany's productive capacity as a security both for financial reform and the payment of reparations.

The hardening attitude within Germany was reflected in a stormy three-day foreign policy debate in the Reichstag. This opened on 21 June with a series of interpellations concerning both the reparation question and other burning issues in Germany's external relations. The Nationalist, Reichert, began the debate with an indictment of the series of subsidiary agreements which had recently been concluded for expediting deliveries in kind under the Wiesbaden Agreement by means of direct dealings between Allied claimants and German industry. These agreements, he asserted, would add substantially to Germany's reparation

obligations, which were already rapidly destroying Germany's national wealth. Reichert's speech was followed by a DVP protest against an Anglo-French proposal for the neutralisation of the Rhineland which had been made earlier in the year. The Independent Socialist, Levi, then introduced an interpellation which, although approving of the policy of fulfilment, emphasised that this should not be achieved at the expense of the German proletariat. Finally, protests were registered by Centrist deputies about Allied destruction of allegedly strategic railways in the Rhineland and about the future status of the Saar.

The government and its supporters held their own against this barrage of complaint in the early stages of the debate. Rathenau immediately replied in a calm and factual manner to the detailed charges against the government; and, on the following day, he received strong support from the Majority and Independent Socialists. However, the only positive achievement which could be claimed for the policy of fulfilment was the condemnation of

1. Reichert (DNVP), 21 June 1922, Reichstag, Vol. 355, pp.7923-8. The agreements in question were the Bemelmans-Cuntze Agreement between the Reparation Commission and the German government which had been drawn up in a preliminary form on 27 February 1922, and finally signed on 2 June 1922. For text: R.C., II, pp. 14-31. This had been implemented by the Gillet-Ruppel Agreements between the French and the German governments of 15 March and June 6-9: ibid., pp. 32-3, 34-5. For a description of these agreements: J. Ruppel, "Deliveries in Kind under the Wiesbaden and Subsequent Agreements", MGCRE, 28 September 1922, pp. 477-8.

3. Ibid., pp. 7931-4.
5. Bell (Zentrum), ibid., pp. 7937-41.
6. Ibid., pp. 7941-5.
7. Stampfer (SPD), 22 June 1922, ibid., pp. 7948-51; Breitscheid (USPD), ibid., pp. 7969-73.
378.

French reparation policy which was implicit in the negative report of the Loan Committee. Against this was to be set the clear DVP statement that time was no longer working on the side of the policy of fulfilment. Moreover, towards the end of the debate the Nationalist, Helfferich, delivered a tirade which could perhaps be regarded as the death sentence of fulfilment, and which was at any rate popularly considered at the time to be the death sentence of the "apostle" of fulfilment, Rathenau, who was assassinated on the following day. Helfferich's speech was a sustained outpouring of scorn and partisan abuse upon a policy which had, he claimed, caused catastrophic depreciation of the mark, ruined the middle classes, driven countless people to despair and suicide, deprived Germany of much of her working capital, and shaken the foundations of the German economic and social system. Helfferich was particularly vehement in condemning the German notes of 9 and 28 May which, he maintained, had committed Germany to a budgetary programme and to infringements of her financial sovereignty which had been specifically rejected by the Reichstag at the end of March. He caused a sensation by claiming that the French text of the German note of 9 May conferred more extensive powers on the Committee of Guarantees than did the German text. A German government which condoned such encroachment upon the nation's sovereignty without

1. Breitscheid (USFD), ibid., p. 7971; Gothein (DDF), ibid., p. 7953.
2. Dauch (DVP), ibid., p. 7978.
3. ibid., 23 June 1922, p. 7992.
4. See above, pp. 370-3.
5. See above, pp. 373-5.
the consent of the Reichstag should, he concluded, be impeached for high treason.¹

The assassination of Rathenau, which occurred on the day after the campaign against fulfilment had reached this emotional and partisan pitch, caused a profound popular reaction against the right-wing parties. This reaction, which gave rise to tumultuous scenes in the Reichstag, was expressed by Wirth on 25 June during a debate on an "Ordinance for the Preservation of the Republic" which had been hastily devised by the government on the previous day.² In explaining the growing animosity in German political life which had led to Rathenau's death, Wirth blamed first of all the Allied Powers, who "in the course of a year had given only discouragement to democratic Germany". Then he turned angrily upon the nationalist groups and denounced them for "pouring poison into the nation's wounds". The nation's worst enemy, he concluded dramatically, "stood on the Right".³

The temporary absorption of the Reichstag in the debate on the "Ordinance for the Preservation of the Republic", which became law on 18 July with the support of all parties from the DVP to the USPD, did not make the German government any more capable of financial reform and fulfilment. On the contrary the tragedy of 23 June dimmed the prospects for both policies by causing the mark to plummet violently to 400 to the dollar on 1 July.⁵ This fall prompted the German government to address a note to the

⁵ Die Entwicklung der Reparationsfrage, p. 29.
Reparation Commission on 12 July which requested a moratorium on cash reparation payments until the end of 1924, and which foreshadowed a further request for a reduction of payments under the clearing agreements instituted by Article 296 of the Versailles Treaty. The reasons advanced in support of these requests were the negative report of the Loan Committee and the dislocation which was being induced by the depreciation of the mark, which had on 10 July been quoted at 528 to the dollar.

In its reply of 13 July the Reparation Commission expressed the conviction that reparation payments were not the most important cause of the depreciation of German currency and that financial stability would ultimately only be achieved by domestic reform. Pending the report of the Committee of Guarantees, which had journeyed to Berlin in the second half of June, it directed the German government to pay the cash instalment due on 15 July.

The German government complied with this order and also agreed on 21 July to the request of the Committee of Guarantees for more rigid financial controls. However, the fundamental deadlock between the Allies and Germany became steadily worse. On 26 July the French government rejected the German plea of 17 July for a reduction of clearing payments. This prompted a German declaration of inability to honour either the 40 million gold

marks of clearing debts due to be discharged at the end of July or the reparation instalment of 50 billion gold marks due on 15 August. 1. In reply to a French threat of sanctions on 2 August, the German government on 3 August, when the exchange rate of the mark stood at 762 to the dollar, suspended its purchases of foreign currencies for reparation purposes. 2. This intransigence gave rise to a series of French financial reprisals in the days that followed. 3.

The gap between Allied, or rather French, views and those of the German government was not bridged by the meeting of the Allied Supreme Council which took place in London from 7 to 14 August at the instigation of Lloyd George. 4. At the opening session of this conference Poincaré placed much emphasis upon France's financial distress, which, he complained, now threatened to become even more acute as a result of commencement of Franco-American negotiations on the subject of interest payments on French war debts to the United States. 5.

The Balfour Note of 1 August in which the British government offered to renounce its financial claims on the Allies and on Germany in return for a similar renunciation by the United States, had also increased Poincaré's uneasiness about France's financial

2. ibid.
3. ibid.
5. On 1 July the French government had, at the request of the United States Administration, despatched Parmentier to America to negotiate on this subject. Die Entwicklung der Reparationsfrage, p. 29.
future. This was because the British offer implied that, if
the United States claimed her debts from Britain in full, France
would in turn be confronted with a rigid claim from Britain.¹
It was for these reasons, Poincaré stressed, and not for military
motives or out of a desire to destroy Germany, that France
insisted on greater German efforts to pay reparation and to achieve
financial reform.² The only means of ensuring that this effort
would be made was, he insisted, to take possession of a series
of "productive pledges" in the Rhineland and the Ruhr district.
These pledges should take the form of (1) the control already
exercised by the Rhineland High Commission over the granting of
export licences; (2) a customs barrier between the occupied
territories and the rest of Germany; (3) Allied exploitation
of German state mines and forests; (4) Allied participation
in 60 per cent. of the share capital of German chemical industries
on the left bank of the Rhine; (5) levies in the occupied
territories; and (6) the German customs. Unless these pledges
were taken, Poincaré declared, it would be impossible for France
to consider any moratorium.³

Poincaré's proposals were severely criticised by a
Committee of Allied experts which considered them at London;
and they were completely unacceptable to the German government.⁵
On 12 August the British delegates to the conference submitted

² ibid., p. 13.
³ ibid., pp. 15-16.
⁵ C. Bergmann, op. cit., p. 142.
a compromise scheme which provided for a complete moratorium on cash payments until the end of 1922. The only condition on which this insisted, apart from compliance with the previous demands of the Reparation Commission and the Committee of Guarantees, was that there should be Allied supervision of German state mines and forests in the event of a default in coal and timber deliveries.¹ This plan was, however, unacceptable to Poincaré, and the conference broke up on 14 August without any agreement. Although Bradbury and Mauclère, the British and French delegates to the Reparation Commission, visited Berlin between 20 and 25 August in an effort to devise a scheme of productive pledges which was acceptable to both the French and the German governments, their efforts met with no success. The latter rejected the proposal that the state mines and forests should be used either directly or indirectly as pledges for coal and timber deliveries; and would offer no greater guarantee of deliveries than a deposit of 50 million gold marks and direct contracts between the Allies and German producers.² The only apparent result of these negotiations was that, despite the suspension of purchases of foreign exchange for reparation purposes, the dollar rate, which had risen to 1170 on 21 August, soared violently to 1850 four days later.³ On 31 August a decision on the pressing question of Germany's immediate cash reparation obligations was

deferred by the agreement of Belgium, to whom the remaining cash payments for 1922 were due, to accept six months Treasury Bills instead of cash. On 2 September an agreement affecting deliveries of building material to French devastated areas was concluded between the German and French industrialists, Stinnes and Lubersac. However, the fundamental reparation deadlock remained unresolved.

The dispute between the German government and the Reparation Commission soon hardened German opinion on the reparation question. On 16 August, after the break-up of the London Conference, Wirth, alarmed at the catastrophic fall of the mark and concerned about the increased food imports which would be made necessary by the poor harvest of 1922, had announced that the German people's food supply would henceforth have priority over reparation payments. The conviction spread in Germany, as it did in England, that France was using the reparation question in order to achieve the political subjugation of Germany. This belief was eloquently expressed in September in an article written for J.M. Keynes in the Manchester Guardian by the Democrat ex-Finance Minister Schiffer:

"The West is kept occupied by troops; the secession of the Rhineland, with the consequent destruction of the unity of the Reich, is advocated; the new mid-European States, which are to form an iron ring around Germany,

2. Die Entwicklung der Reparationsfrage, p. 31.
4. E. Schiffer, "Germany's Attitude Towards the Reparation Problem", MGCRE, 28 September 1922, p. 473."
are supported; the union of Austria and Germany is forbidden; German pride is hurt and outraged by brutalities and mortifications; and, lastly, the reparation question continues to be used for constant threats and claims and for the lasting suppression of Germany.... This is the picture of the situation which is formed in Germany. It is both disheartening and exasperating. What is the use of all the strenuous and honest endeavours to fulfil the treaty, if after all the other side is really in no way concerned with fulfilment".

The prevalence of such distrust was to make the prospect for any reparation settlement or financial stabilisation highly unfavourable.

The autumn of 1922 brought some improvement in the relations between the Reparation Commission and the German government. Early in October, when the mark had slumped to 2000 to the dollar, a far-reaching proposal for a moratorium of between two and four years and for the rehabilitation of German currency and credit was made by Bradbury, the British delegate to the Reparation Commission. This was opposed by the French delegation on the grounds that it made no provision for any controls or guarantees. However, on 24 October, when the mark stood at 4000 to the dollar, the Reparation Commission decided to journey to Berlin to consult the German government about means of achieving monetary stabilisation and budgetary balance. On 4 November, during the Commission's visit, the government submitted to it a note which attributed the current depreciation to the evaporation of domestic and foreign confidence in Germany's financial future, and which

1. Die Entwicklung der Reparationsfrage, p. 32.
4. Décision de la Commission des Réparations..., ibid., p. 129.
proposed the stabilisation of the mark by an international syndicate with a capital of 500 million gold marks.¹ In reply to the Commission's request for more details,² the government on 8 November transmitted the reports of a panel of foreign financial experts which it had recently invited to Berlin to give advice on questions of currency and credit. Two of these reports, which were drawn up by the British, Dutch and French bankers, Brand, Vissering and Dubois, discussed the German proposal for the short-term stabilisation of the mark by an international syndicate.³ A third, signed by Brand, Gustav Cassel, the Swedish economist, Jeremiah Jenks, the American financier, and J.M. Keynes, stressed that if permanent stabilisation were to be achieved, stringent domestic reforms would be necessary as well as foreign financial assistance.⁴ All three reports emphasised that a reparation moratorium of several years would be a necessary prerequisite for both stabilisation and budgetary balance. On 14 November the German government followed its communication of 8 November with a plan for financial stabilisation,⁵ which was based both on the reports which had already been transmitted and also on a further minority report, which had been submitted to it on 9 November.

1. Propositions du Gouvernement Allemand..., pp. 149-52.
by Vissering, Dubois and Kamenka, and which differed only in emphasis from the Brand-Cassel-Jenks-Keynes memorandum of 7 November.\(^1\) The government's proposal, while stressing that permanent financial stabilisation would be possible only after Germany's reparation obligations had been fixed within her capacity, declared that the urgency of the financial situation warranted steps towards provisional financial reform. On the condition of a reparation moratorium of three or four years,\(^2\) this reform was to be achieved by means of a stabilisation fund of 1 billion gold marks, of which half was to be provided by the Reichsbank and half subscribed by foreign bankers. This fund was to be used by an independent office to support the mark. Once internal and external confidence in German currency had been restored, the German government would proceed to float a domestic and foreign gold loan, which would enable the budget to be balanced. For the rest, the government undertook to reduce public expenditures, to stimulate economic activity, and, if it were given equal trading rights, to restore the balance of Germany's external payments.

Despite its theoretical soundness, the German offer of 11 November did little to break the reparation deadlock or to bring about the financial restoration of Germany. Its transmission was in fact never even formally acknowledged by the Allies.

The attitude of Germany's creditors to the scheme was, however,

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2. Deliveries in kind were to be continued to the devastated areas, but only in so far as their cost could be met without increasing the floating debt.
made clear on 10 December when a conference of Allied Prime Ministers, which met in London between 9 and 11 December to discuss the reparation problem, passed judgment on a letter which it received from Wirth's successor, Cuno. This letter repeated the suggestion that Germany should meet her current reparation obligations and stabilise her currency by means of gold loans issued both within Germany and abroad. Then, going further than the note of 14 November, it proposed that, if foreign credits could not be obtained immediately, Germany should proceed independently to stabilise her currency. Finally, it insisted on a two-year moratorium on all cash payments and on all deliveries in kind which could not be covered by the budget. 1 At the instigation of Poincare^this proposal was summarily rejected by the London Conference. The French Premier insisted that no moratorium could be granted to Germany unless Essen and Bochum, the nerve centres of the Ruhr district, were occupied as a guarantee of German good faith. 2 Since the conference would not sanction the French scheme and since Poincare^remained inflexible, the Prime Ministers dispersed on 11 December without having decided on any course of action except that of reassembling on 2 January 1923.

In the remaining weeks of 1922 the French government concerned itself with providing a legal justification for its plan of occupying the Ruhr district. A convenient casus belli was provided by the lag which had occurred in German timber

deliveries as a result of the confusion in the German timber trade caused by the depreciation of the mark. On 1 December German representatives had been given an opportunity to explain this lag to the Reparation Commission. ¹ On 26 December, after protracted debate, the Commission decided, against the vote of the British delegate, Bradbury, that the lag constituted "a default by Germany in her obligations within the meaning of Paragraph 17 of Annex II" of the Reparation Chapter of the Treaty. ² It subsequently decided that the word "default" in Paragraph 17 had the same meaning as the expression "voluntary default" in Paragraph 18 of the same Annex. ³ This implied that the Allied and Associated Powers were entitled to take measures against Germany which included "economic and financial prohibitions and in general such other measures as the respective Governments (might) determine to be necessary in the circumstances". ⁴

The German government had meanwhile turned to the rather desperate expedient of formulating "a comprehensive offer for a complete solution of the reparation problem". The point of such an offer was doubtful in view of the state of Allied opinion. Bergmann, the German reparation expert, relates that, although the new proposal was formulated before the end of 1922, it was not published because "it would have been promptly cried down by the Paris press, and was sure to meet with flat

². Extract from the Minutes of the Meeting of the Reparation Commission held on December 26th, 1922, R.C., V, pp. 248-64, at p. 260.
³. ibid., pp. 263-4.
⁴. See Appendix I.
rejection by Poincaré". It was for this reason that the German government merely informed the Allies on 30 December that the offer had been prepared, and requested an opportunity to present it orally.

The activities of the German government had no effect on the course of events when the Allied Prime Ministers met again at Paris between 2 and 4 January 1923 at the 27th international conference on the reparation problem since the war. The conference opened with Poincaré's presentation of French proposals which rejected any limitation of Germany's reparation payments to within her budgetary capacity; and which envisaged a reduction of Germany's total obligation only on the condition that France would be accorded a greater share of what remained. As on previous occasions, Poincaré would entertain the idea of a moratorium only on the condition of the seizure of a number of pledges which were to ensure deliveries of coal, timber and cash. Any German resistance to these measures was to result in

(1) the military occupation of the districts of Essen and Bochum and of the whole part of the Ruhr Basin decided upon by Marshal Foch;

(2) the establishment of a customs barrier on the east of all the occupied territories.

These proposals aroused the disapproval of the British Prime Minister, Bonar Law, who stressed the need to fix Germany's total obligation and the undesirability of any occupation of the Ruhr if Germany's credit were to be restored.

1. C. Bergmann, op. cit., p. 160.
3. The following account of the Paris Conference is drawn from A.J. Toynbee, op. cit., pp. 193-201.
A British proposal which had also been submitted to the conference suggested that the desired financial reform and guarantees could be obtained by setting up an international Foreign Finance Council in Berlin with wide supervisory powers. It was only if Germany refused to acknowledge the authority of this council or failed to achieve financial stabilisation in accordance with the Experts' Report of 7 November 1922 that there was to be any resort to further measures of the type suggested by Poincaré. A complete moratorium for four years and subsequent payments based upon a total obligation of only 50 billion gold marks were considered to be desirable if permanent German financial recovery was to be achieved.

Because of the incompatibility of the French and English proposals, the Paris Conference soon developed into a complete deadlock and it broke up on 4 January without having made any progress. The German representatives who were present in Paris were not even requested to present their reparation scheme. Bergmann, however, considered that the submission of the plan would have been "detrimental to German interests" because the German proposal did not even go as far as the British scheme, which was unacceptable to the other Allies. ¹

The break-up of the Paris Conference was the signal for the commencement of Franco-Belgian preparations for the occupation of the Ruhr. ² The legal preliminaries for this were completed on 9 January, when, after German representatives had been given

a further hearing, the Reparation Commission ruled that Germany had "voluntarily defaulted" in her reparation coal deliveries. On 10 January both France and Belgium announced the imminent despatch of Engineering Commissions under military protection to the Ruhr area. On the same day German diplomatic representatives were recalled from Paris and Brussels, reparation deliveries to France and Belgium ceased, and the headquarters of the Rhenish-Westphalian Coal Syndicate were evacuated from Essen to Hamburg. On 11 January when the mark stood at 10,000 to the dollar, the battle for the Ruhr was joined.

The cause and also the by-product of the growing estrangement of the Allies and Germany, which culminated in the Franco-Belgian occupation of the Ruhr and the German campaign of "passive resistance", was the increasing mutual resentment and distrust of the parties to the reparation dispute. The unyielding demand of Poincaré for "productive pledges" was the outcome of the blind frustration of the French public at having been deprived of substantial reparation payments by the continued instability of the German financial system. The economic and financial unreasonableness of Poincaré's demand should not be regarded as evidence of deep-seated French strategic and political designs. Although French right-wing and military circles certainly advocated it for other reasons, the occupation of the Ruhr only became a political necessity because of the resentment created in France by the failure of Germany to relieve the pressing

\[\text{French financial crisis.}\]

1. ibid., p. 38.
2. ibid.
The financial and economic illogicality of French reparation policy naturally strengthened German suspicions that the reparation question was being used to attain ulterior political ends. On 24 November Wilhelm Cuno, in his inaugural speech as Chancellor, informed the Reichstag that he would, like Wirth, continue the policy of fulfilment only in so far as it did not undermine the German economy. "No creditor," he added darkly, "for whom the reparation question was an economic question and not an instrument of power politics could object to such a policy." Other influential speakers such as Stresemann and the Democrat, Schiffer, openly attributed French reparation policy to the historic desire of France for a frontier on the Rhine.

This growing French resentment and German distrust explains the inability of both sides to make proposals which were acceptable to each other, and accounts for the disastrous fall in the value of the mark which occurred in the second half of 1922. These two phenomena in turn decreased the possibility of any successful attempt at internal and external financial stabilisation.

The domestic financial impotence of the German government in a time of rapid monetary depreciation had become evident in October 1922 when it had attempted to impose controls in order to counter the flight of capital from Germany and to check the repudiation of the mark in domestic transactions. This attempt had not only failed because the controls were circumvented by

2. Schiffer (DDP), ibid., p. 9124; Stresemann (DVP), 25 November 1922, ibid., p. 9158.
speculators. In addition, by decreasing confidence in the mark both inside and outside Germany, it had encouraged the very practices which it had been designed to counteract. 1.

The fall of the Wirth cabinet on 16 November and its replacement on 22 November by the non-party "business" cabinet of Cuno, the managing director of HAPAG, had no decisive impact on the effectiveness of German financial policy. 2. The exclusion of the SPD from the cabinet no doubt decreased the energy with which the government approached the problem of financial reform. There were, moreover, grounds for the misgivings of the extreme Left at the appointment of Becker, one of the foremost opponents of the Forced Loan, as Minister of Economics. 3. However, the change of administration was of little importance compared with the fall in the value of the mark as an influence on attitudes to the financial problem.

The fiscal debates of December 1922 were distinguished less by any concern for monetary stabilisation than by a desire to mitigate the immediate social distress and fiscal injustice.

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2. The fall of the Wirth Cabinet occurred largely because of the shift in the party balance of power caused by the reunion of the SFD and the USPD at the end of September 1922, and because of the growing importance of the financially-influential DVP in a time of acute financial crisis. On 9 November Wirth had, at the prompting of Ebert, opened discussions with the DVP on the subject of forming a DVF-SPD "grand coalition". These discussions had however led to the resignation of the SPD, because the idea of participation in a government with the party of Hugo Stinnes was repugnant to its newly-acquired left-wing. Breitscheid (VSP), 24 November 1922, Reichstag, Vol. 357, pp. 9106-7; F. Stampfer, Die vierzehn Jahre der ersten deutschen Republik, p. 306.
caused by the dwindling value of the German currency. Discussion of a proposal to amend the Income Tax centred around the perennial dispute as to the relative injustice of wage-packet deductions during a period of depreciation. The Socialist Hertz claimed that, as a result of the fall of the mark, the proportion of the total yield of the Income Tax derived from wage deductions had risen from 57% in April-July 1922 to 72% in October. On the other hand, right-wing speakers appear to have been primarily concerned to play down the extent to which the tax burden of the non-wage-earning classes had been lightened by the depreciation. This understandable partisan preoccupation with adjusting the fiscal balance of power rather than with raising the diminished real yield of the Income Tax boded ill for any attempt at financial stabilisation.

The same spirit pervaded a debate on 15 December on a proposal to amend the Forced Loan. When this loan had been approved by the Reichstag in July 1922, total subscriptions had been fixed at 70 billion paper marks. The actual yield of the Forced Loan between July and December 1922 was.

<table>
<thead>
<tr>
<th>Month</th>
<th>Paper Marks</th>
<th>Gold Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>July-August</td>
<td>1,887,900,000</td>
<td>9,730,000</td>
</tr>
<tr>
<td>September</td>
<td>584,900,000</td>
<td>1,670,000</td>
</tr>
<tr>
<td>October</td>
<td>256,400,000</td>
<td>330,000</td>
</tr>
<tr>
<td>November</td>
<td>108,500,000</td>
<td>60,000</td>
</tr>
<tr>
<td>December</td>
<td>910,600,000</td>
<td>500,000</td>
</tr>
<tr>
<td>July-December</td>
<td>3,748,300,000</td>
<td>12,290,000</td>
</tr>
</tbody>
</table>

These figures reveal not only that the real value of subscriptions

1. Hertz (VSP), 14 December 1922, ibid., p. 9309.
was very much reduced by the depreciation of the mark, but also that there was a considerable decline in the yield in terms of paper marks, which could only have been the result of considerable tax evasion. The net effect was that after six months the yield amounted to 3.7 billion paper marks (12.9 million gold marks), which was a tiny fraction of the return originally envisaged.

The reaction of the Reichstag to the emasculation of the Forced Loan was completely ineffectual. Despite left-wing pressure in favour of increasing paper subscriptions to a level warranted by the diminished value of the mark, 1 the majority would agree only to the negative stipulation that the total amount of the loan should not be limited to 70 billion paper marks. 2 The passivity of the Reichstag was epitomised by the Democrat, Fischer, who, after noting that the mark had fallen to one-thirtieth of its July value, proposed, not that the value of subscriptions should be raised, but that contributions which had been made in July and August should be reckoned at double their face value. 3 Although Fischer's proposal was rejected, the Reichstag's amendments of the Forced Loan deserved fully the criticism of Bernstein that they were conducive neither to financial stabilisation nor to social justice, and that they were inconsistent with the terms of the "fiscal compromise" of January 1922. 4

Apart from destroying all incentive to domestic financial

2. J.W.F. Thelwall, Report on...Germany to March, 1923, p. 35.
reform by accelerating the depreciation of the mark, the widening breach between the Allies and Germany precluded the possibility of any large-scale foreign intervention aimed at restoring Germany's finances. The United States government, perhaps encouraged by the accession to power of the Cuno cabinet, had begun in December 1922 to consider seriously the possibility of financial intervention in Europe. On 20 December 1922 it was announced in Paris that the American administration was in favour of calling an international financial conference to consider the question of Germany's capacity to pay reparation. On 29 December, Hughes, the American Secretary of State for Foreign Affairs, proposed in a speech at New Haven that the reparation problem should be examined by a committee of international financial experts. However, on the same day President Harding reassured the isolationist Senator Borah that the United States would not intervene in the reparation question unless invited to do so by all the parties involved. Such a unanimous invitation was not to be extended until the rift between France and Germany had brought the former to the verge of bankruptcy and the latter to the brink of national disintegration and social revolution.

The reparation problem had, until mid-1922, been at the worst only one of several factors responsible for the

1. Cuno certainly regarded his personal expertise in international finance and his strong connections with America as his main justification for accepting the Chancellorship. See his letter of 9 December 1922 in "Die den Alliierten...deutschen Angebote...", loc. cit., p. 104.
2. Die Entwicklung der Reparationsfrage, p. 36.
3. ibid.
4. ibid.
ineffectiveness of German domestic and foreign financial policy and at best something of an incentive to financial reform. However, in the latter half of 1922 it had clearly become both the major psychological incentive to a disastrous speculation against the highly vulnerable mark and, at the same time, the most important hindrance to all attempts to achieve both internal and external financial stabilisation.
POSTSCRIPT: FROM THE OCCUPATION OF THE RUHR AND FINANCIAL COLLAPSE TO THE DAWES PLAN AND FINANCIAL STABILISATION, JANUARY 1923 TO AUGUST 1924

(a) The Ruhr Conflict and Financial Collapse

Between 11 January 1923, when the Franco-Belgian occupation of the Ruhr began, and 24 September 1923, when German passive resistance in the Ruhr and the Rhineland came to an end, there was a state of war between the Franco-Belgian occupying authorities and the German government. The former sought to gain control of the economic and financial key-points in the Ruhr and Rhineland, and the latter retaliated with a campaign of industrial non-cooperation and civil disobedience. In the course of this struggle the occupying authorities confiscated coal, metallurgical products and synthetic dyestuffs which were estimated to have an actual or potential value of about one billion francs. However, these confiscations were a relatively unimportant by-product of the warfare which was being waged.

The occupation of the Ruhr and the passive resistance which it provoked caused economic stagnation and dislocation as severe as that which would have been occasioned if a war had been fought in the area. The suspension of reparation coal deliveries on 10 January 1923 and the refusal of the coal-owners to pay to the

1. J.W.F. Thelwall and C.J. Kavanagh, Report on...Germany, revised to April, 1924, together with a Report on the Occupied Territories, p. 118.
2. The following account is drawn from A.J. Toynbee, Survey of International Affairs, 1924, pp. 282-5.
occupying authorities the proceeds of the Coal Tax led, on 30 January, to a Franco-Belgian ban on all coal exports to unoccupied Germany; to the seizure of German Customs Offices at Düsseldorf, Duisberg and elsewhere; and to the establishment between 2 and 12 February of a customs barrier dividing the Rhineland and the Ruhr from the rest of Germany. As a result of the refusal of the German coal-owners to trade through this customs barrier considerable stocks of coal accumulated at the pithead and some of these were seized and transported to France and Belgium by the occupying authorities. However, the amount of coal obtained in this way was limited by a railway strike, which paralysed the German transport system in February and March, and by the cessation of work in the mines from April onwards. These developments, together with the German government's ordinance of 16th March 1923 forbidding payment of taxes and duties to the occupying authorities and prohibiting applications to them for export licences, drastically reduced the profitability of the Ruhr adventure in the first nine months of 1923. But they also had a disastrous effect on the level of German industrial activity. In 1923 black coal production (118 million tons in 1922) fell to 62 million tons; and production of lignite (137 million tons in 1922) was reduced to 118 million tons. Output of iron (4.9 million tons) and steel (6.3 million tons) was also only half of its 1922 level. Another indication of the

1. ibid., pp. 273-4.
2. ibid., pp. 291-3.
3. J.W.F. Thelwall, Report on... Germany, revised to April, 1924, pp. 88-9.
disastrous decline in economic activity was that goods transported on the German railways fell from an average of 32.3 million tons a month in 1922 to 20.8 million tons a month in 1923.\(^1\) A final sign of stagnation was that the volume of exports fell from 21.6 million tons in 1922 to 12.7 million tons in 1923.\(^2\)

The occupation of the Ruhr and passive resistance were largely responsible for the violent inflation and depreciation which occurred in this period, viz,\(^3\):

<table>
<thead>
<tr>
<th>Date</th>
<th>Notes in Circulation excluding &quot;emergency&quot; issues (thousand billion marks)</th>
<th>Dollar Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jan</td>
<td>1.30</td>
<td>7,260</td>
</tr>
<tr>
<td>1 Feb</td>
<td>2.01</td>
<td>41,500</td>
</tr>
<tr>
<td>1 Mar</td>
<td>3.54</td>
<td>22,800</td>
</tr>
<tr>
<td>1 Apr</td>
<td>5.54</td>
<td>21,152</td>
</tr>
<tr>
<td>1 May</td>
<td>6.60</td>
<td>31,779</td>
</tr>
<tr>
<td>1 June</td>
<td>8.64</td>
<td>74,932</td>
</tr>
<tr>
<td>1 July</td>
<td>17.39</td>
<td>160,400</td>
</tr>
<tr>
<td>1 Aug</td>
<td>43.89</td>
<td>1,102,750</td>
</tr>
<tr>
<td>1 Sep</td>
<td>668.80</td>
<td>11,027,500</td>
</tr>
<tr>
<td>1 Oct</td>
<td>28,244.40</td>
<td>242,605,000</td>
</tr>
<tr>
<td>1 Nov</td>
<td>2,504,995.70</td>
<td>130,325,000,000</td>
</tr>
<tr>
<td>1 Dec</td>
<td>400,267,640.00</td>
<td>4,210,500,000,000</td>
</tr>
</tbody>
</table>

Germany's balance of trade does not appear to have contributed to this development, since the value, as opposed to the volume, of imports and exports was almost exactly equal in 1923.\(^4\) The main cause appears to have been the budgetary burden incurred by "putting the whole of the commercial life of the occupied territories on a very liberal dole".\(^5\) During the period of

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2. J.W.F. Thelwall, *Report on...Germany, revised to April, 1924*, p. 46.
3. ibid., p. 111.
4. ibid., p. 46.
5. ibid., p. 109.
passive resistance the government not only supported wage-earners who were engaged in unproductive work and gave credits to industries which were devoted solely to building up their stocks, but also paid a considerable amount of compensation to producers of goods which were confiscated by the occupying authorities. Its outlay was also increased considerably by Franco-Belgian requisitioning of German currency, and by misappropriation on the part of the inhabitants of the Ruhr themselves, whose morale sank noticeably during the course of 1923.

The psychological and political effect of the Ruhr conflict on financial policy was by no means straightforward. The immediate effect of the Franco-Belgian invasion was that the mark tumbled from 10,000 to the dollar on 9 January to 49,000 to the dollar three weeks later. But the upsurge of patriotic feeling which the conflict provoked soon made possible unusually determined and momentarily effective attempts at fiscal reform and at supporting the mark. On 13 January a law which was designed to adjust the yield of fourteen different taxes to the depreciation of the mark was laid before the Reichstag. Two weeks later the Reichsbank began to support the mark with heavy buying operations in Berlin, Amsterdam and New York. However,

1. ibid., pp. 109-110.
2. ibid., p. 109.
6. C. Bergmann, op. cit., p. 186.
self-interest and the continuing inflation soon undermined these endeavours. On 9 March the Socialist Hertz complained that the proposed amendments dealt only with cases in which taxpayers were harmed by the depreciation and not with those in which they had profited from it. Moreover, although the intervention of the Reichsbank kept the mark fluctuating around 21,000 to the dollar until the middle of April, the purchasing power released in the community by the government's expenditures made it inevitable that the Reichsbank would be forced to suspend its buying operations and that the mark would resume its downward plunge. Financial stabilisation was only to become possible when the Ruhr conflict was brought to an end and when the Reichstag had reason to prefer effective fiscal reform to short-term fiscal self-protection.

The nationalistic feelings aroused by the Ruhr conflict were so strong that the German government displayed no desire to negotiate with the Reparation Commission until the second half of April. Even then a speaker such as Stresemann, who stressed that the reparation problem was one of negotiation and of compromise, declared that there could be neither compromise nor negotiation as long as France sought to annex the Rhineland and the Ruhr district. The German note of 2 May, which was the German government's first attempt to resolve the deadlock, was a

disastrous failure, according to Bergmann, because cabinet ministers who were afraid of domestic criticism "disfigured and diluted" the conciliatory proposal on which it was originally based. As a result, the German offer of a lump sum reparation settlement of 30 billion gold marks was hedged around with so many conditions and reservations that it was unacceptable to the Allies. It was therefore understandable that a French reply of 6 May described the German offer as "a thinly veiled expression of systematic opposition to the Treaty of Versailles". Even the British and Italian governments considered that the total sum offered was too low and that the guarantees promised were too vague. On 7 June another more acceptable German proposal was made at the prompting of the British government. However, this met with no response from the Allies, who now became embroiled in a war of notes among themselves. The Cuno government, already discredited by the failure of its note of 2 May, and only kept in power through the support of Stresemann and the DVP, now lost further ground by its policy of awaiting the outcome of the Allied exchange. On 28 June Stresemann, reflecting the changed German attitude to negotiations, criticised the government in "Die Zeit" for its inactivity. By August the failure of the government to open negotiations with Germany's

2. ibid.
creditors had aroused widespread discontent, and it was one of the main issues on which the Cuno cabinet was overthrown on 13 August.¹

Despite the growing feeling in favour of the resumption of negotiations which brought him to power, Stresemann, Cuno's successor, encountered violent Nationalist opposition when he declared on 14 August his intention of ending passive resistance.² On 7 September the new Chancellor declared that unconditional renunciation of passive resistance would give offence to broad and influential sections of the German public and would be exploited by extremists of the Left and Right.³ He therefore insisted during September that the cessation of passive resistance should be conditional upon a Franco-Belgian undertaking to withdraw from the Ruhr. However, on 24 September Stresemann, despite his previous declarations, renounced passive resistance unconditionally. He was driven to this course partly by French intransigence but more by a desire to avert the social revolution and national disintegration which now threatened Germany as a result of the deepening financial chaos. The influence of the fear of revolution upon the members of Stresemann's party is reflected in the prediction of Hugo Stinnes at a DVP meeting in September that there would be civil war in Germany within a fortnight.⁴

¹ E. Schmacke, Die Aussenpolitik der Weimarer Republik ..., p. 132.
⁴ ibid., Vol. I, p. 117.
(b) **Stabilisation**

The fears which prompted the renunciation of passive resistance also provided the positive incentive to financial reform which had been lacking since the war. The first efforts at stabilisation had been made by Hilferding, the SPD Finance Minister of Stresemann's Cabinet, who on 14 August introduced a gold currency, denominated in dollars and fractions of a dollar. Although this provided a useful standard upon which to base price calculations, it could not prevent the further depreciation of normal currency so long as the government continued to resort to the printing press. The cabinet therefore sought wide emergency powers in order to achieve a fundamental reform of the whole structure of currency and credit. At first it appeared that familiar differences between the DVP and SPD would prevent these powers from being obtained. A deadlock over the treatment of the question of the eight-hour day in the "Enabling Law" (Ermächtigungsgesetz), caused the Stresemann cabinet to resign on 3 October. However, the crisis was surmounted because the SPD, fearful of a Rightist dictatorship, agreed that their Finance Minister, Hilferding, should be replaced by Luther, who was more acceptable to the bourgeois parties in the coalition. Thus the cabinet was reconstituted and the "Enabling Law" was passed on 13 October, in the face of fierce opposition from both

1. J.W.F. Thelwall, Report on... Germany, revised to April, 1924, p. 6; C. Bergmann, op. cit., pp. 204-5.
2. E. Schmacke, op. cit., p. 139.
the KPD and DNVP.  

The passage of the "Enabling Law" made possible the appointment of Schacht as "Commissioner of National Currency" and the proclamation on 15 November of a series of emergency measures. These included the cessation of the discounting of Treasury Bills by the Reichsbank and the prohibition of all Emergency Money. The community's needs for currency were met by issues of Rentenmarks, temporary notes with a value of one gold mark which were in theory secured by a mortgage on all German landed and industrial property, but which depended for their acceptance and stability basically on the sentiment of the community. The immediate credit needs of the government were met by an advance of 1.2 billion Rentenmarks from the newly-founded Rentenbank. Since no further credits were to be granted by the Rentenbank, the government was obliged to institute fundamental fiscal reforms. Payment of existing taxes had already been placed on a gold basis by a decree of 11 October. In the following months three "Tax Emergency Decrees" were promulgated which created new sources of revenue; and expenditures were cut down sharply by a drastic reduction in the number of government employees, by a reform in the financial relations

2. Schacht relates that he accepted the post because "Germany was in danger of succumbing to Communism". H. Schacht, My First Seventy-Six Years, p. 182.
3. H. Schacht, The Stabilisation of the Mark, Ch. 4; cf. J.W.F. Thelwall, Report on...Germany, revised to April, 1924, pp.6-7.
4. ibid., p. 6.
5. ibid., pp. 29-30.
between the Federal government and the States, and by provision for the financial independence of the railway and postal services.  

Although the Rentenmark retained its value and although, by the beginning of 1924, the government's fiscal reforms had yielded a surplus of revenue over expenditure, a permanent stabilisation of German currency and balancing of the budget could not have been achieved without a settlement of the reparation question and the promise of foreign financial assistance. These were vouchsafed to Germany largely because of the concern which leading Anglo-Saxon statesmen shared with the German government about the dangerous social and political unrest which resulted from the depreciation of the mark. The trend of opinion is reflected in the activities of Smuts, who did much early in October 1923 to swing the British government in favour of intervention in the reparation question. Smuts also probably helped to galvanise the United States administration into action by cabling an appeal to Baruch, a financial adviser of President Coolidge, for American moral and financial co-operation in a reparation and inter-Allied debt settlement "which would bring permanent peace to France and Germany". A few days later, on 9 October, Coolidge declared in Washington that the United States stood by Hughes' proposal of 29 December 1922 for an international financial commission to examine Germany's capacity to

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1. For details of the tax reforms of this period: ibid., pp.30-45. See also, C. Bergmann, op. cit., p. 211.
2. Brand to Smuts, 3 October 1923, Smuts Papers.
3. Smuts to Baruch, 3 October 1923, ibid.
pay reparation. This statement was confirmed by Hughes, in reply to a formal enquiry by the British government, on 15 October. 1 Several weeks were to elapse before the American suggestion led to any positive action because of French insistence that the proposed international commission should confine itself to examining the existing, as opposed to the future, capacity of Germany to pay reparation. However, on 30 November, French opposition was finally circumvented by a decision of the Reparation Commission to create two expert committees, the first to consider means of balancing the German budget and stabilising the mark, and the second to discover the amount of German capital which had been exported. Since the terms of reference of the first committee would obviously oblige it to consider Germany's future capacity to pay reparation, the United States government agreed on 12 December to take an active part in its deliberations.

When the first committee met in Paris on 14 January 1924 under the chairmanship of the American, C.G. Dawes, its work was considerably simplified by the initiative which the German government had taken in stabilising the mark, balancing its budget and in restoring its external credit. 2 The committee was in fact so impressed by the efforts of the German government that, after visiting Berlin in February to examine the state of German finances, it revised its estimate of Germany's capacity


2. On the efforts of Schacht, now President of the Reichsbank, to establish a Golddiskontbank for the purpose of obtaining foreign credits: H. Schacht, *The Stabilisation of the Mark*, Ch. 5.
to pay reparation in a normal year from 2 billion to 2.5 billion gold marks. All that the Dawes Committee had to do was to construct on this solid foundation of reformed German finances a scheme for reparation payments which did not abuse common sense. The committee's report of 9 April 1924 answered these requirements admirably. It recommended that Germany should pay amounts rising in five years from 1 billion to 2.5 billion marks. The features of these payments which made them acceptable from the German point of view were the moderation of the amounts demanded in the early years and the fact that they embraced charges arising from all parts of the treaty. The attraction of the scheme from the Allied point of view was that there were proposals for earmarking state railway bonds, industrial debentures, and a transport tax as sources of revenue for those parts of Germany's liability which were not covered in the budget. Apart from these suggestions about the scale of payments and guarantees, the committee proposed solutions of the problems of credit and transfer. It was recommended that Germany's immediate need for credit should be met by a foreign loan of 800 million gold marks. The problem of preventing a repetition of the depreciation of the mark was resolved by the proposal that Germany should make reparation payments in her own currency to an Agent for Reparation Payments, and that the responsibility for converting these payments into foreign currencies should rest with the creditor nations.

2. Committee of Experts. Reports, R.C., VIII.
The moderation of the proposals of the Dawes Plan had a profound effect on the future stability of Germany's finances by increasing the willingness of the German people to achieve a workable reparation settlement. This effect was visible in the negotiations in March and April 1924 over the renewal of the interim reparation scheme which had been operating since 23 November 1923 under the M.I.C.U.M. Agreement. This agreement, which had been the product of direct negotiations in October and November 1923 between the Franco-Belgian authorities (Mission Interalliée de Controle des Usines et des Mines) and the Ruhr industrialists, was due to expire on 15 April 1924. Its exceedingly onerous terms, which are an indication of the strength of the desire of German industry to resume normal production in the autumn of 1923, had by the spring of 1924 aroused such violent opposition from the interested German parties that a resumption of the Ruhr struggle appeared likely. However, the presentation of the Dawes Report on 9 April transformed the situation by giving the Ruhr industrialists hope of prompt financial relief, and the M.I.C.U.M. Agreement was therefore temporarily renewed.

1. The M.I.C.U.M. Agreement provided (1) that reparation deliveries of coal and other goods should be resumed, (2) that the coal-owners were to pay a tax of ten francs for every ton of coal sold, and (3) that they should make a lump payment of arrears in the payment of the Coal Tax which had accumulated between January and November 1923. C. Bergmann, op. cit., pp. 213-4. These demands were made especially onerous by the refusal of the German government to compensate the coal industry for deliveries made. A.J. Toynbee, Survey of International Affairs, 1924, pp. 288-90; E. Schmacke, op. cit., p. 137.

The salutary impact of the Dawes Report on German opinion was reflected in the German government's favourable reply on 16 April 1924 to the Reparation Commission's note of 11 April, which recommended the adoption of the Report as the basis for a solution of the reparation problem. However, the task of securing the ultimate ratification of the Dawes Plan was temporarily complicated by the Reichstag election of May 1924, which was fought centrally on the unrealistic issue of whether to accept the Plan or reject it. In the course of the election campaign the DNVP referred irresponsibly to the Dawes Plan as a "second Versailles". The SPD, on the other hand, revealed a singularly bad appreciation of popular psychology by basing their campaign on the catch-word "Acceptance" (Annahme). Stresemann conscientiously compromised between these two extremes by advocating acceptance of the Dawes Plan in order to achieve the evacuation of the Rhineland and Ruhr. But this sort of approach could not compete with the slogans of the DNVP. The result of the election revealed a pronounced swing to the extreme Right and Left. The nationalists (95 seats) were now, with the support of the Landbund (10 seats), the strongest party in the Reichstag. The SPD, since 1922 united with the USPD, appears to have lost its left-wing completely to the KPD. The DVP lost 20 of its 65 seats largely because of the defection of the right-wing of the party; and the Democrats were reduced by 11 to a meagre total of 28 seats. The effect of the election was in short to increase

1. E. Schmacke, op. cit., p. 156.
the strength of those groups, namely the DNVP and KPD, who opposed the adoption of the Dawes Plan. Stresemann tried to counteract this new development by appealing to the DNVP to join a bourgeois cabinet committed to a "united foreign policy". However, the price which the DNVP asked for this, a "change of course in domestic and foreign policy", was too high, and as a result the Marx cabinet, which had ruled since 30 November 1923, remained in office in a severely weakened state. The no confidence motion which the DNVP promptly moved, and the ensuing debate in which Stresemann was referred to as "a good advocate for the other side", revealed the susceptibility of the new government. Although with the support of the SPD the government was able to defeat this motion on 6 June by 239 votes to 194, the outlook for the ratification of the Dawes Plan was not hopeful, because those parts of it which affected the ownership of the state railways required ratification by a two-thirds majority.

In these circumstances the attitude which Stresemann adopted to the question of the evacuation of the Ruhr in subsequent negotiations with the Allies over the ratification of the Dawes Plan is understandable. On 11 July Stresemann complained to D'Abernon that if he were not given assurance by the Allies about the evacuation of the Ruhr he would be unable to stifle the opposition of the DNVP, or even that within the DVP, to the Dawes Plan. And there was one stage during the London Conference in

2. E. Schmacke, op. cit., p. 159.
August, when a deadlock on this subject between Stresemann and Herriot, each under severe pressure from home, threatened to cause the breakdown of negotiations for the signature of the Dawes Protocol. The Protocol was only signed on 16 August after a compromise evacuation formula had been agreed upon by Stresemann and Herriot.

Although Stresemann's concern about the effect of the non-evacuation of the Ruhr on his ability to pass the Dawes Plan was probably genuine, there are indications that the attitude of at least a section of the DNVP to the Dawes Plan arose from a desire to strike partisan bargains rather than from a sincere wish to reject the plan. Stresemann himself commented on 9 July that the Nationalists were not fundamentally opposed to the Dawes Plan, but merely wanted to make their acceptance of it hinge upon certain conditions. The behaviour of the DNVP during the final struggle over the ratification of the Dawes Plan at the end of August seems to support this conclusion. On 29 August the DNVP decided to release a number of its members to vote with the government in order to ensure the required majority. This "Umfall" has been generally attributed to an alleged promise by the government that it would give cabinet seats in return for support of the Dawes Plan. "Votes in exchange for Portfolios," says Stampfer tersely, "parliamentary horse-trading of the lowest kind." This however is not an adequate explanation of the DNVP's behaviour.

Its aim was not to gain seats in the cabinet. Membership of the cabinet on the government's terms would have been a sign of weakness rather than a gain. In fact the "Umfall" of the DNVP should be viewed as a defensive rather than as an offensive measure. In the preceding months the DNVP had failed to suggest any convincing alternative to acceptance of the Dawes Plan. Because of this, there had since May been a growing movement of public opinion in favour of accepting the plan. Sections of the DNVP itself had been affected by this swing of opinion, and the party had only remained united in its negative stance because of the powerful influence of the official party newspapers, the "Kreuz Zeitung" and the "Deutsche Tageszeitung", and of the Hugenberg press. The eventual decision to support the Dawes Plan was the product of a fear that its rejection would cause a new election which, because of the state of public opinion, might reduce the gains which the DNVP had made in May.

The discomfiture of the DNVP in August 1924 revealed that German public opinion, although prepared to vote for the slogans of the Nationalist parties at election time, was unwilling to give practical support to policies which would lead to a repetition of the events of 1923. The way was prepared for several years of fulfilment and financial stability.

2. ibid., p. 58.
CONCLUSION

The inflation and depreciation of the mark which occurred between the end of the war and 1923, and the economic disorganisation which both provoked and attended it, had its origin in the war of 1914-1918, which left Germany in a state of economic exhaustion and both internal and external financial imbalance. The ruthless diversion of all economic resources to the war effort and the growth of the internal and external floating debt also left a dangerous legacy of economic distortion and financial passivity. Thus, when the war ended, Germany was not only economically run-down and on the verge of financial collapse but was also neither able nor willing to submit herself to the economic controls and financial reforms which would have been necessary in order to achieve a balanced economic recovery and financial stabilisation. On the contrary, the end of the war brought the removal of the artificial restraints on domestic and overseas spending which had been imposed by war loans and by the blockade. In the absence of any international European reconstruction scheme or substantial foreign credits, Germany could, at the beginning of the post-war period, look forward only to economic disorganisation and monetary instability.

For a considerable part of the first thirty months of peace the German economic and financial situation deteriorated rather than improved. The economic dislocation which prevailed was aggravated by reparation deliveries of railway equipment, merchant shipping, coal and other goods. However, reparation
deliveries were only one of a number of factors arising from either the war or the aftermath which contributed to the economic malaise. Similarly, reparation deliveries exerted no decisive direct effect on the budgetary and trade deficits of Germany before May 1921. Finally, the reparation problem had no crucial effect either on the ability of the German government to raise loans at home and abroad or on the adequacy of its fiscal reforms. The internal credit of the government and its fiscal power were reduced largely because of partisan differences of a purely domestic nature and because of administrative difficulties; and Germany's external financial weakness was caused by the jamming of the mechanism of international finance which occurred in the early post-war years, largely as a result of the financial withdrawal of the United States from Europe.

In 1921 and 1922 there was a quickening depreciation of the mark, which caused both budgetary imbalance and a noticeable recovery in the sector of the economy which was devoted to the manufacture of production, as opposed to consumption, goods. The depreciation was at the outset due less to the economic impact of reparation deliveries than to the direct financial effect exerted in the second half of 1921 and the first half of 1922 by the large cash payments made under the London Schedule of Payments and subsequent agreements. The really disastrous fall of the mark in the second half of 1922, and the distortion of economic activity which it encouraged, occurred at a time when cash payments and deliveries in kind had become relatively
unimportant and when, because of the failure of negotiations over an international loan, and because of growing tension over the question of a moratorium, the psychological impact of the reparation question had become highly unfavourable. But neither the increased financial burden of reparations after May 1921 nor its psychological effect from the middle of 1922 would have been able to cause the depreciation which took place if it had not been for the huge size of the internal and external floating debt which had been accumulated in preceding years.

The complete financial collapse of 1923 was not the result of reparation payments as such, but of the huge government expenditures and psychological panic occasioned by the struggle in the Ruhr which followed the breakdown of moratorium negotiations in January 1923.

The stabilisation of the mark after November 1923 was due partly to the cessation of the Ruhr struggle and the strict limitation of government expenditure, and partly to the growing desire, born of fear of social revolution and national disintegration, for a stable currency. Stabilisation was also made possible by the long-delayed intervention of the United States in the financial affairs of Europe. The transformation of the domestic and international financial atmosphere was so complete by 1924 that neither the resentment aroused by the onerous terms of the M.I.C.U.M Agreement nor the partiality of the German electorate for Nationalist and Communist slogans at the Reichstag elections of May 1924 could prevent the inauguration of a period of financial stability.
APPENDIX I

THE REPARATION CHAPTER OF THE TREATY OF VERSAILLES

REPARATION
Section I
GENERAL PROVISIONS

Article 211

The Allied and Associated Governments affirm and Germany accepts the responsibility of Germany and her allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her allies.

Article 212

The Allied and Associated Governments recognise that the resources of Germany are not adequate, after taking into account permanent diminutions of such resources which will result from other provisions of the present Treaty, to make complete reparation for all such loss and damage.

The Allied and Associated Governments, however, require, and Germany undertakes, that she will make compensation for all damage done to the civilian population of the Allied and Associated Powers and to their property during the period of the belligerency of each as an Allied or Associated Power against Germany by such aggression by land, by sea and from the air, and in general all damage as defined in Annex I hereto.

In accordance with Germany's pledges, already given, as to complete restoration for Belgium, Germany undertakes, in addition to the compensation for damage elsewhere in this Part
provided for, as a consequence of the violation of the Treaty of 1839, to make reimbursement of all sums which Belgium has borrowed from the Allied and Associated Governments up to November 11, 1918, together with interest at the rate of five per cent. (5%) per annum on such sums. This amount shall be determined by the Reparation Commission, and the German Government undertakes thereupon forthwith to make a special issue of bearer bonds to an equivalent amount payable in marks gold, on May 1, 1926, or, at the option of the German Government, on May 1 in any year up to 1926. Subject to the foregoing, the form of such bonds shall be determined by the Reparation Commission. Such bonds shall be handed over to the Reparation Commission, which has authority to take and acknowledge receipt thereof on behalf of Belgium.

Article 233

The amount of the above damage for which compensation is to be made by Germany shall be determined by an Inter-Allied Commission, to be called the Reparation Commission and constituted in the form and with the powers set forth hereunder and in Annexes II to VII inclusive hereto.

This Commission shall consider the claims and give to the German government a just opportunity to be heard.

The findings of the Commission as to the amount of damage defined as above shall be concluded and notified to the German Government on or before May 1, 1921, as representing the extent of that Government's obligations.

The Commission shall concurrently draw up a schedule of
payments prescribing the time and manner for securing and discharging the entire obligation within a period of thirty years from May 1, 1921. If, however, within the period mentioned, Germany fails to discharge her obligations, any balance remaining unpaid may, within the discretion of the Commission, be postponed for settlement in subsequent years, or may be handled otherwise in such manner as the Allied and Associated Governments, acting in accordance with the procedure laid down in this Part of the present Treaty, shall determine.

**Article 234**

The Reparation Commission shall after May 1, 1921, from time to time, consider the resources and capacity of Germany, and, after giving her representatives a just opportunity to be heard, shall have discretion to extend the date, and to modify the form of payments, such as are to be provided for in accordance with Article 233; but not to cancel any part, except with the specific authority of the several Governments represented upon the Commission.

**Article 235**

In order to enable the Allied and Associated Powers to proceed at once to the restoration of their industrial and economic life, pending the full determination of their claims, Germany shall pay in such instalments and in such manner (whether in gold, commodities, ships, securities or otherwise) as the Reparation Commission may fix, during 1919, 1920 and the first four months of 1921, the equivalent of 20,000,000,000 gold marks. Out of this sum the expenses of the armies of
occupation subsequent to the Armistice of November 11, 1918, shall first be met, and such supplies of food and raw materials as may be judged by the Governments of the Principal Allied and Associated Powers to be essential to enable Germany to meet her obligations for reparation may also, with the approval of the said Governments, be paid for out of the above sum. The balance shall be reckoned towards liquidation of the amounts due for reparation. Germany shall further deposit bonds as prescribed in paragraph 12(c) of Annex II hereto.

Article 216

Germany further agrees to the direct application of her economic resources to reparation as specified in Annexes III, IV, V and VI, relating respectively to merchant shipping, to physical restoration to coal and derivatives of coal, and to dyestuffs and other chemical products; provided always that the value of the property transferred and any services rendered by her under these Annexes, assessed in the manner therein prescribed, shall be credited to her towards liquidation of her obligations under the above Articles.

Article 237

The successive instalments, including the above sum, paid over by Germany in satisfaction of the above claims will be divided by the Allied and Associated Governments in proportions which have been determined upon by them in advance on a basis of general equity and of the rights of each.

For the purposes of this division the value of property
transferred and services rendered under Article 243, and under Annexes III, IV, V, VI and VII, shall be reckoned in the same manner as cash payments effected in that year.

**Article 238**

In addition to the payments mentioned above Germany shall effect, in accordance with the procedure laid down by the Reparation Commission, restitution in cash of cash taken away, seized or sequestrated, and also restitution of animals, objects of every nature and securities taken away, seized or sequestrated, in the cases in which it proves possible to identify them in territory belonging to Germany or her allies.

Until this procedure is laid down, restitution will continue in accordance with the provisions of the Armistice of November 11, 1918, and its renewals and the Protocols thereto.

**Article 239**

The German Government undertakes to make forthwith the restitution contemplated by Article 238 and to make the payments and deliveries contemplated by Articles 233, 234, 235 and 236.

**Article 240**

The German Government recognises the Commission provided for by Article 233 as the same may be constituted by the Allied and Associated Governments in accordance with Annex II, and agrees irrevocably to the possession and exercise by such Commission of the power and authority given to it under the present Treaty.
The German Government will supply to the Commission all the information which the Commission may require relative to the financial situation and operations and to the property, productive capacity, and stocks and current production of raw materials and manufactured articles of Germany and her nationals, and further any information relative to military operations which in the judgment of the Commission may be necessary for the assessment of Germany's liability for reparation as defined in Annex I.

The German Government will accord to the members of the Commission and its authorised agents the same rights and immunities as are enjoyed in Germany by duly accredited diplomatic agents of friendly Powers.

Germany further agrees to provide for the salaries and expenses of the Commission and of such staff as it may employ.

Article 241

Germany undertakes to pass, issue and maintain in force any legislation, orders and decrees that may be necessary to give complete effect to these provisions.

Article 242

The provisions of this Part of the present Treaty do not apply to the property, rights and interests referred to in Sections III and IV of Part X (Economic Clauses) of the present Treaty, nor to the product of their liquidation, except so far as concerns any final balance in favour of Germany under Article 243(a).
Article 243

The following shall be reckoned as credits to Germany in respect of her reparation obligations:

(a) Any final balance in favour of Germany under Section V (Alsace-Lorraine) of Part III (Political Clauses for Europe) and Sections III and IV of Part X (Economic Clauses) of the present Treaty;

(b) Amounts due to Germany in respect of transfers under Section IV (Saar Basin) of Part III (Political Clauses for Europe), Part IX (Financial Clauses), and Part XII (Ports, Waterways and Railways);

(c) Amounts which in the judgment of the Reparation Commission should be credited to Germany on account of any other transfers under the present Treaty of property, rights, concessions or other interests.

In no case however shall credit be given for property restored in accordance with Article 238 of the present Part.

Article 244

The transfer of the German submarine cables which do not form the subject of particular provisions of the present Treaty is regulated by Annex VII hereto.

Annex I

Compensation may be claimed from Germany under Article 232 above in respect of the total damage under the following categories:

(1) Damage to injured persons and to surviving
dependents by personal injury to or death of civilians caused by acts of war, including bombardments or other attacks on land, on sea, or from the air, and all the direct consequences thereof, and of all operations of war by the two groups of belligerents wherever arising.

(2) Damage caused by Germany or her allies to civilian victims of acts of cruelty, violence or maltreatment (including injuries to life or health as a consequence of imprisonment), deportation, internment or evacuation, of exposure at sea or of being forced to labour, wherever arising, and to the surviving dependents of such victims.

(3) Damage caused by Germany or her allies in their own territory or in occupied or invaded territory to civilian victims of all acts injurious to health or capacity to work, or to honour, as well as to the surviving dependents of such victims.

(4) Damage caused by any kind of maltreatment of prisoners of war.

(5) As damage caused to the peoples of the Allied and Associated Powers, all pensions and compensation in the nature of pensions to naval and military victims of war (including members of the air force), whether mutilated, wounded, sick or invalided, and to the dependents of such victims, the amount due to the Allied and Associated Governments being calculated for each of them as being the capitalised cost of such pensions and compensation at the date of the coming into force of the
present Treaty, on the basis of the scales in force in France at such date.

(6) The cost of assistance by the Governments of the Allied and Associated Powers to prisoners of war and to their families and dependents.

(7) Allowances by the Governments of the Allied and Associated Powers to the families and dependents of mobilised persons or persons serving with the forces, the amount due to them for each calendar year in which hostilities occurred being calculated for each Government on the basis of the average scale for such payments in force in France during that year.

(8) Damage caused to civilians by being forced by Germany or her allies to labour without just remuneration.

(9) Damage in respect of all property wherever situated belonging to any of the Allied or Associated States or their nationals, with the exception of naval and military works or materials, which has been carried off, seized, injured or destroyed by the acts of Germany or her allies on land, on sea or from the air or damage directly in consequence of hostilities or of any operations of war.

(10) Damage in the form of levies, fines and other similar exactions imposed by Germany or her allies upon the civilian population.

Annex II

1. The Commission referred to in Article 233 shall be called "The Reparation Commission" and is hereinafter referred
2. Delegates to this Commission shall be nominated by the United States of America, Great Britain, France, Italy, Japan, Belgium and the Serb-Croat-Slovene State. Each of these Powers will appoint one Delegate and also one Assistant Delegate, who will take his place in case of illness or necessary absence, but at other times will only have the right to be present at proceedings without taking any part therein.

On no occasion shall the Delegates of more than five of the above Powers have the right to take part in the proceedings of the Commission and to record their votes. The Delegates of the United States, Great Britain, France and Italy shall have this right on all occasions. The Delegate of Belgium shall have this right on all occasions other than those referred to below. The Delegate of Japan shall have this right on occasions when questions relating to damage at sea, and questions arising under Article 260 of Part IX (Financial Clauses) in which Japanese interests are concerned, are under consideration. The Delegate of the Serb-Croat-Slovene State shall have this right when questions relating to Austria, Hungary or Bulgaria are under consideration.

Each Government represented on the Commission shall have the right to withdraw therefrom upon twelve months' notice filed with the Commission and confirmed in the course of the sixth month after the date of the original notice.

3. Such of the other Allied and Associated Powers as may be
interested shall have the right to appoint a Delegate to be present and act as Assessor only while their respective claims and interests are under examination or discussion, but without the right to vote.

4. In case of the death, resignation or recall of any Delegate, Assistant Delegate, or Assessor, a successor to him shall be nominated as soon as possible.

5. The Commission will have its principal permanent Bureau in Paris and will hold its first meeting in Paris as soon as practicable after the coming into force of the present Treaty, and thereafter will meet in such place or places and at such time as it may deem convenient and as may be necessary for the most expeditious discharge of its duties.

6. At its first meeting the Commission shall elect, from among the Delegates referred to above, a Chairman and a Vice-Chairman, who shall hold office for one year and shall be eligible for re-election. If a vacancy in the Chairmanship or Vice-Chairmanship should occur during the annual period, the Commission shall proceed to a new election for the remainder of the said period.

7. The Commission is authorised to appoint all necessary officers, agents and employees who may be required for the execution of its functions, and to fix their remuneration; to constitute committees, whose members need not necessarily be members of the Commission, and to take all executive steps necessary for the purpose of discharging its duties; and to
delegate authority and discretion to officers, agents and committees.

8. All proceedings of the Commission shall be private, unless, on particular occasions, the Commission shall otherwise determine for special reasons.

9. The Commission shall be required, if the German Government so desire, to hear, within a period which it will fix from time to time, evidence and arguments on the part of Germany on any question connected with her capacity to pay.

10. The Commission shall consider the claims and give to the German Government a just opportunity to be heard, but not to take any part whatever in the decisions of the Commission. The Commission shall afford a similar opportunity to the allies of Germany, when it shall consider that their interests are in question.

11. The Commission shall not be bound by any particular code or rules of law or by any particular rule of evidence or of procedure, but shall be guided by justice, equity and good faith. Its decisions must follow the same principles and rules in all cases where they are applicable. It will establish rules relating to methods of proof of claims. It may act on any trustworthy modes of computation.

12. The Commission shall have all the powers conferred upon it, and shall exercise all the functions assigned to it, by the present Treaty.

The Commission shall in general have wide latitude as to
its control and handling of the whole reparation problem as dealt with in this Part of the present Treaty and shall have authority to interpret its provisions. Subject to the provisions of the present Treaty, the Commission is constituted by the several Allied and Associated Governments referred to in paragraphs 2 and 3 above as the exclusive agency of the said Governments respectively for receiving, selling, holding, and distributing the reparation payments to be made by Germany under this Part of the present Treaty. The Commission must comply with the following conditions and provisions:

(a) Whatever part of the full amount of the proved claims is not paid in gold, or in ships, securities and commodities or otherwise, Germany shall be required, under such conditions as the Commission may determine, to cover by way of guarantee by an equivalent issue of bonds, obligations or otherwise, in order to constitute an acknowledgment of the said part of the debt.

(b) In periodically estimating Germany's capacity to pay, the Commission shall examine the German system of taxation, first, to the end that the sums for reparation which Germany is required to pay shall become a charge upon all her revenues prior to that for the service or discharge of any domestic loan, and secondly, so as to satisfy itself that, in general, the German scheme of taxation is fully as heavy proportionately as that of any of the Powers represented on the Commission.

(c) In order to facilitate and continue the immediate
restoration of the economic life of the Allied and Associated countries, the Commission will as provided in Article 235 take from Germany by way of security for and acknowledgment of her debt a first instalment of gold bearer bonds free of all taxes and charges of every description established or to be established by the Government of the German Empire or of the German States, or by any authority subject to them; these bonds will be delivered on account and in three portions, the marks gold being payable in conformity with Article 262 of Part IX (Financial Clauses) of the present Treaty as follows:

1) To be issued forthwith, 20,000,000,000 Marks gold bearer bonds payable not later than May 1, 1921, without interest. There shall be specially applied towards the amortisation of these bonds the payments which Germany is pledged to make in conformity with Article 235, after deduction of the sums used for the reimbursement of expenses of the armies of occupation and for payment of foodstuffs and raw materials. Such bonds as have not been redeemed by May 1, 1921, shall then be exchanged for new bonds of the same type as those provided for below (Paragraph 12, c, 2).

2) To be issued forthwith, further 40,000,000,000 Marks gold bearer bonds, bearing interest at $2\frac{1}{2}$ per cent. per annum between 1921 and 1926, and thereafter at 5 per cent. per annum with an additional 1 per cent. for amortisation beginning in 1926 on the whole amount of the issue.

3) To be delivered forthwith a covering undertaking
in writing to issue when, but not until, the Commission is satisfied that Germany can meet such interest and sinking fund obligations, a further instalment of 40,000,000,000 Marks gold 5 per cent, bearer bonds, the time and mode of payment of principal and interest to be determined by the Commission.

The dates for payment of interest, the manner of applying the amortisation funds, and all other questions relating to the issue, management and regulation of the bond issue shall be determined by the Commission from time to time.

Further issues by way of acknowledgment and security may be required as the Commission subsequently determines from time to time.

(d) In the event of bonds, obligations or other evidence of indebtedness issued by Germany by way of security for or acknowledgment of her reparation debt being disposed of outright, not by way of pledge, to persons other than the several Governments in whose favour Germany's original reparation indebtedness was created, an amount of such reparation indebtedness shall be deemed to be extinguished corresponding to the nominal value of the bonds, etc., so disposed of outright, and the obligation of Germany in respect of such bonds shall be confined to her liabilities to the holders of the bonds, as expressed upon their face.

(e) The damage for repairing, reconstructing and re-building property in the invaded and devastated districts,
including reinstallation of furniture, machinery and other equipment, will be calculated according to the cost at the dates when the work is done.

(f) Decisions of the Commission relating to the total or partial cancellation of the capital or interest of any verified debt of Germany must be accompanied by a statement of its reasons.

13. As to voting, the Commission will observe the following rules:

When a decision of the Commission is taken, the votes of all the Delegates entitled to vote, or in the absence of any of them, of their Assistant Delegates, shall be recorded. Abstention from voting is to be treated as a vote against the proposal under discussion. Assessors have no vote.

On the following questions unanimity is necessary:

(a) Questions involving the sovereignty of any of the Allied and Associated Powers, or the cancellation of the whole or any part of the debt or obligations of Germany;

(b) Questions of determining the amount and conditions of bonds or other obligations to be issued by the German Government and of fixing the time and manner for selling, negotiating or distributing such bonds;

(c) Any postponement, total or partial, beyond the end of 1930, of the payment of instalments falling due between May 1, 1921, and the end of 1926 inclusive;

(d) Any postponement, total or partial, of any instalment falling due after 1926 for a period exceeding three years;
(e) Questions of applying in any particular case a method of measuring damages different from that which has been previously applied in a similar case;

(f) Questions of the interpretation of the provisions of this Part of the present Treaty.

All other questions shall be decided by the vote of a majority.

In case of any difference of opinion among the Delegates, which cannot be solved by reference to their Governments, upon the question whether a given case is one which requires a unanimous vote for its decision or not, such difference shall be referred to the immediate arbitration of some impartial person to be agreed upon by their Governments, whose award the Allied and Associated Governments agree to accept.

14. Decisions of the Commission, in accordance with the powers conferred upon it, shall forthwith become binding and may be put into immediate execution without further proceedings.

15. The Commission will issue to each of the interested Powers, in such form as the Commission shall fix:

(1) A certificate stating that it holds for the account of the said Power bonds of the issues mentioned above, the said certificate, on the demand of the Power concerned, being divisible in a number of parts not exceeding five;

(2) From time to time certificates stating the goods delivered by Germany on account of her reparation debt which it holds for the account of the said Power.
The said certificates shall be registered, and, upon notice to the Commission, may be transferred by endorsement.

When bonds are issued for sale or negotiation, and when goods are delivered by the Commission, certificates to an equivalent value must be withdrawn.

16. Interest shall be debited to Germany as from May 1, 1921, in respect of her debt as determined by the Commission, after allowing for sums already covered by cash payments or their equivalent, or by bonds issued to the Commission, or under Article 243. The rate of interest shall be 5 per cent. unless the Commission shall determine at some future time that circumstances justify a variation of this rate.

The Commission, in fixing on May 1, 1921, the total amount of the debt of Germany, may take account of interest due on sums arising out of the reparation of material damage as from November 11, 1918, up to May 1, 1921.

17. In case of default by Germany in the performance of any obligation under this Part of the present Treaty, the Commission will forthwith give notice of such default to each of the interested Powers and may make such recommendations as to the action to be taken in consequence of such default as it may think necessary.

18. The measures which the Allied and Associated Powers shall have the right to take, in case of voluntary default by Germany, and which Germany agrees not to regard as acts of war, may include economic and financial prohibitions and reprisals and in
general such other measures as the respective Governments may determine to be necessary in the circumstances.

19. Payments required to be made in gold or its equivalent on account of the proved claims of the Allied and Associated Powers may at any time be accepted by the Commission in the form of chattels, properties, commodities, businesses, rights, concessions, within or without German territory, ships, bonds, shares or securities of any kind, or currencies of Germany or other States, the value of such substitutes for gold being fixed at a fair and just amount by the Commission itself.

20. The Commission, in fixing or accepting payment in specified properties or rights, shall have due regard for any legal or equitable interests of the Allied and Associated Powers or of neutral Powers or of their nationals therein.

21. No member of the Commission shall be responsible, except to the Government appointing him, for any action or omission as such member. No one of the Allied or Associated Governments assumes any responsibility in respect of any other Government.

22. Subject to the provisions of the present Treaty this Annex may be amended by the unanimous decision of the Governments represented from time to time upon the Commission.

23. When all the amounts due from Germany and her allies under the present Treaty or the decisions of the Commission have been discharged and all sums received, or their equivalents, shall have been distributed to the Powers interested, the Commission shall be dissolved.
438.

Annex III

1. Germany recognises the right of the Allied and Associated Powers to the replacement, ton for ton (gross tonnage) and class for class, of all merchant ships and fishing boats lost or damaged owing to the war.

Nevertheless, and in spite of the fact that the tonnage of German shipping at present in existence is much less than that lost by the Allied and Associated Powers in consequence of the German aggression, the right thus recognised will be enforced on German ships and boats under the following conditions:

The German Government, on behalf of themselves and so as to bind all other persons interested, cede to the Allied and Associated Governments the property in all the German merchant ships which are of 1,600 tons gross and upwards; in one-half, reckoned in tonnage, of the ships which are between 1,000 tons and 1,600 tons gross; in one-quarter, reckoned in tonnage, of the steam trawlers; and in one-quarter, reckoned in tonnage, of the other fishing boats.

2. The German Government will, within two months of the coming into force of the present Treaty, deliver to the Reparation Commission all the ships and boats mentioned in paragraph 1.

3. The ships and boats mentioned in paragraph 1 include all ships and boats which (a) fly, or may be entitled to fly, the German merchant flag; or (b) are owned by any German national, company or corporation or by any company or corporation belonging
to a country other than an Allied or Associated country and under the control or direction of German nationals; or (c) are now under construction (1) in Germany, (2) in other than Allied or Associated countries for the account of any German national, company or corporation.

4. For the purpose of providing documents of title for the ships and boats to be handed over as above mentioned, the German Government will:

(a) Deliver to the Reparation Commission in respect of each vessel a bill of sale or other document of title evidencing the transfer to the Commission of the entire property in the vessel, free from all encumbrances, charges and liens of all kinds, as the Commission may require;

(b) Take all measures that may be indicated by the Reparation Commission for ensuring that the ships themselves shall be placed at its disposal.

5. As an additional part of reparation, Germany agrees to cause merchant ships to be built in German yards for the account of the Allied and Associated Governments as follows:

(a) Within three months of the coming into force of the present Treaty, the Reparation Commission will notify to the German Government the amount of tonnage to be laid down in German shipyards in each of the two years next succeeding the three months mentioned above.

(b) Within two years of the coming into force of the present Treaty, the Reparation Commission will notify to the
German Government the amount of tonnage to be laid down in each of the three years following the two years mentioned above.

(c) The amount of tonnage to be laid down in each year shall not exceed 200,000 tons, gross tonnage.

(d) The specifications of the ships to be built, the conditions under which they are to be built and delivered, the price per ton at which they are to be accounted for by the Reparation Commission, and all other questions relating to the accounting, ordering, building and delivery of the ships, shall be determined by the Commission.

6. Germany undertakes to restore in kind and in normal condition of upkeep to the Allied and Associated Powers, within two months of the coming into force of the present Treaty, in accordance with procedure to be laid down by the Reparation Commission, any boats and other movable appliances belonging to inland navigation which since August 1, 1914, have by any means whatever come into her possession or into the possession of her nationals, and which can be identified.

With a view to make good the loss in inland navigation tonnage, from whatever cause arising, which has been incurred during the war by the Allied and Associated Powers, and which cannot be made good by means of the restitution prescribed above, Germany agrees to cede to the Reparation Commission a portion of the German river fleet up to the amount of the loss mentioned above, provided that such cession shall not exceed 20 per cent. of the river fleet as it existed on November 11, 1918.
The conditions of this cession shall be settled by the arbitrators referred to in Article 339 of Part XII (Ports, Waterways and Railways) of the present Treaty, who are charged with the settlement of difficulties relating to the apportionment of river tonnage resulting from the new international regime applicable to certain river systems or from the territorial changes affecting those systems.

7. Germany agrees to take any measures that may be indicated to her by the Reparation Commission for obtaining the full title to the property in all ships which have during the war been transferred, or are in process of transfer, to neutral flags, without the consent of the Allied and Associated Governments.

8. Germany waives all claims of any description against the Allied and Associated Governments and their nationals in respect of the detention, employment, loss or damage of any German ships or boats, exception being made of payments due in respect of the employment of ships in conformity with the Armistice Agreement of January 13, 1919, and subsequent Agreements.

The handing over of ships of the German mercantile marine must be continued without interruption in accordance with the said Agreement.

9. Germany waives all claims to vessels or cargoes sunk by or in consequence of naval action and subsequently salved, in which any of the Allied or Associated Governments or their nationals may have any interest either as owners, charterers,
insurers or otherwise, notwithstanding any decree of condemnation which may have been made by a Prize Court of Germany or of her allies.

Annex IV

1. The Allied and Associated Powers require, and Germany undertakes, that in part satisfaction of her obligations expressed in the present Part she will, as hereinafter provided, devote her economic resources directly to the physical restoration of the invaded areas of the Allied and Associated Powers, to the extent that these Powers may determine.

2. The Allied and Associated Governments may file with the Reparation Commission lists showing:

   (a) Animals, machinery, equipment, tools and like articles of a commercial character, which have been seized, consumed or destroyed by Germany or destroyed in direct consequence of military operations, and which such Governments, for the purpose of meeting immediate and urgent needs, desire to have replaced by animals and articles of the same nature which are in being in German territory at the date of the coming into force of the present Treaty;

   (b) Reconstruction materials (stones, bricks, refractory bricks, tiles, wood, window-glass, steel, lime, cement, etc.), machinery, heating apparatus, furniture and like articles of a commercial character which the said Governments desire to have produced and manufactured in Germany and delivered to them to permit of the restoration of the invaded areas.
3. The lists relating to the articles mentioned in 2(a) above shall be filed within sixty days after the date of the coming into force of the present Treaty. The lists relating to the articles in 2(b) above shall be filed on or before December 31, 1919. The lists shall contain all such details as are customary in commercial contracts dealing with the subject matter, including specifications, dates of delivery (but not extending over more than four years), and places of delivery, but not price or value, which shall be fixed as hereinafter provided by the Commission.

4. Immediately upon the filing of such lists with the Commission, the Commission shall consider the amount and number of the materials and animals mentioned in the lists provided for above which are to be required of Germany. In reaching a decision on this matter the Commission shall take into account such domestic requirements of Germany as it deems essential for the maintenance of Germany's social and economic life, the prices and dates at which similar articles can be obtained in the Allied and Associated countries as compared with those to be fixed for German articles, and the general interest of the Allied and Associated Governments that the industrial life of Germany be not so disorganised as to affect adversely the ability of Germany to perform the other acts of reparation stipulated for.

Machinery, equipment, tools and like articles of a commercial character in actual industrial use are not, however, to be demanded of Germany unless there is no free stock of such
articles respectively which is not in use and is available, and then not in excess of thirty per cent. of the quantity of such articles in use in any one establishment or undertaking.

The Commission shall give representatives of the German Government an opportunity and a time to be heard as to their capacity to furnish the said materials, articles and animals. The decision of the Commission shall thereupon and at the earliest possible moment be communicated to the German Government and to the several interested Allied and Associated Governments. The German Government undertakes to deliver the materials, articles and animals as specified in the said communication, and the interested Allied and Associated Governments severally agree to accept the same, provided they conform to the specification given, or are not, in the judgment of the Commission, unfit to be utilised in the work of reparation.

5. The Commission shall determine the value to be attributed to the materials, articles and animals to be delivered in accordance with the foregoing, and the Allied or Associated Power receiving the same agrees to be charged with such value, and the amount thereof shall be treated as a payment by Germany to be divided in accordance with Article 237 of this Part of the present Treaty.

In cases where the right to require physical restoration as above provided is exercised, the Commission shall ensure that the amount to be credited against the reparation obligation of Germany shall be the fair value of work done or materials
supplied by Germany, and that the claim made by the interested Power in respect of the damage so repaired by physical restoration shall be discharged to the extent of the proportion which the damage thus repaired bears to the whole of the damage thus claimed for.

6. As an immediate advance on account of the animals referred to in Paragraph 2(a) above, Germany undertakes to deliver in equal monthly instalments in the three months following the coming into force of the present Treaty, the following quantities of live stock:

(1) To the French Government

500 stallions (3 to 7 years)  
30,000 fillies and mares (18 months to 7 years);  
type: Ardennais, Boulonnais or Belgian;  
2,000 bulls (18 months to 3 years);  
90,000 milch cows (2 to 6 years);  
1,000 rams;  
100,000 sheep;  
10,000 goats.

(2) To the Belgian Government

200 stallions (3 to 7 years), large Belgian type;  
5,000 mares (3 to 7 years), large Belgian type;  
5,000 fillies (18 months to 3 years), large Belgian type;  
2,000 bulls (18 months to 3 years);  
50,000 milch cows (2 to 6 years);  
40,000 heifers;  
200 rams;  
20,000 sheep;  
15,000 sows.

The animals delivered shall be of average health and condition.

To the extent that animals so delivered cannot be identified as animals taken away or seized, the value of such
animals shall be credited against the reparation obligations of Germany in accordance with paragraph 5 of this Annex.

7. 'Without waiting for the decisions of the Commission referred to in Paragraph 4 of this Annex to be taken, Germany must continue the delivery to France of the agricultural material referred to in Article III of the renewal dated January 16, 1919» of the Armistice.

Annex V

1. Germany accords the following options for the delivery of coal and derivatives of coal to the undermentioned signatories of the present Treaty.

2. Germany undertakes to deliver to France seven million tons of coal per year for ten years. In addition, Germany undertakes to deliver to France annually for a period not exceeding ten years an amount of coal equal to the difference between the annual production before the war of the coal mines of the Nord and Pas de Calais, destroyed as a result of the war, and the production of the mines of the same area during the years in question; such delivery not to exceed twenty million tons in any one year of the first five years, and eight million tons in any one year of the succeeding five years.

It is understood that due diligence will be exercised in the restoration of the destroyed mines in the Nord and the Pas de Calais.

3. Germany undertakes to deliver to Belgium eight million tons of coal annually for ten years.
4. Germany undertakes to deliver to Italy up to the following quantities of coal:

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1919 to June 1920</td>
<td>4½ million tons</td>
</tr>
<tr>
<td>1920</td>
<td>6</td>
</tr>
<tr>
<td>1921</td>
<td>7½</td>
</tr>
<tr>
<td>1922</td>
<td>8</td>
</tr>
<tr>
<td>1923</td>
<td>8½</td>
</tr>
<tr>
<td>1924</td>
<td></td>
</tr>
<tr>
<td>and each of the following five years</td>
<td></td>
</tr>
</tbody>
</table>

At least two-thirds of the actual deliveries to be land-borne.

5. Germany further undertakes to deliver annually to Luxemburg, if directed by the Reparation Commission, a quantity of coal equal to the pre-war annual consumption of German coal in Luxemburg.

6. The prices to be paid for coal delivered under these options shall be as follows:

(a) For overland delivery, including delivery by barge, the German pithead price to German nationals, plus the freight to French, Belgian, Italian or Luxemburg frontiers, provided that the pithead price does not exceed the pithead price of British coal for export. In the case of Belgian bunker coal, the price shall not exceed the Dutch bunker price. Railroad and barge tariffs shall not be higher than the lowest similar rates paid in Germany.

(b) For sea delivery, the German export price f.o.b. German ports or the British export price f.o.b. British ports, whichever may be lower.

7. The Allied and Associated Governments interested may
demand the delivery, in place of coal, of metallurgical coke in the proportion of 3 tons of coke to 4 tons of coal.

8. Germany undertakes to deliver to France, and to transport to the French frontier by rail or by water, the following products, during each of the three years following the coming into force of this Treaty:

- Benzol 35,000 tons
- Coal tar 50,000 "
- Sulphate of ammonia 30,000 "

All or part of the coal tar may, at the option of the French Government, be replaced by corresponding quantities of products of distillation, such as light oils, heavy oils, anthracene, naphthalene or pitch.

9. The price paid for coke and for the articles referred to in the preceding paragraph shall be the same as the price paid by German nationals under the same conditions of shipment to the French frontier or to the German ports, and shall be subject to any advantages which may be accorded similar products furnished to German nationals.

10. The foregoing options shall be exercised through the intervention of the Reparation Commission, which, subject to the specific provisions hereof, shall have power to determine all questions relative to procedure and the qualities and quantities of products, the quantity of coke which may be substituted for coal, and the times and modes of delivery and payment. In giving notice to the German Government of the foregoing options the Commission shall give at least 120 days'
notice of deliveries to be made after January 1, 1920, and at least 30 days' notice of deliveries to be made between the coming into force of this Treaty and January 1, 1920. Until Germany has received the demands referred to in this paragraph, the provisions of the Protocol of December 25, 1918 (Execution of Article VI of the Armistice of November 11, 1918), remains in force. The notice to be given to the German Government of the exercise of the right of substitution accorded by paragraphs 7 and 8 shall be such as the Reparation Commission may consider sufficient. If the Commission shall determine that the full exercise of the foregoing options would interfere unduly with the industrial requirements of Germany, the Commission is authorised to postpone or to cancel deliveries, and in so doing to settle all questions of priority; but the coal to replace coal from destroyed mines shall receive priority over other deliveries.

Annex VI

1. Germany accords to the Reparation Commission an option to require as part of reparation the delivery by Germany of such quantities and kinds of dyestuffs and chemical drugs as the Commission may designate, not exceeding 50 per cent. of the total stock of each and every kind of dyestuff and chemical drug in Germany or under German control at the date of the coming into force of the present Treaty.

This option shall be exercised within sixty days of the receipt by the Commission of such particulars as to stocks as
may be considered necessary by the Commission.

2. Germany further accords to the Reparation Commission an option to require delivery during the period from the date of the coming into force of the present Treaty until January 1, 1920, and during each period of six months thereafter until January 1, 1925, of any specified kind of dyestuff and chemical drug up to an amount not exceeding 25 per cent. of the German production of such dyestuffs and chemical drugs during the previous six months period. If in any case the production during such previous six months was, in the opinion of the Commission, less than normal, the amount required may be 25 per cent. of the normal production.

Such option shall be exercised within four weeks after the receipt of such particulars as to production and in such form as may be considered necessary by the Commission; these particulars shall be furnished by the German Government immediately after the expiration of each six months period.

3. For dyestuffs and chemical drugs delivered under paragraph 1, the price shall be fixed by the Commission having regard to pre-war net export prices and to subsequent increases of cost.

For dyestuffs and chemical drugs delivered under paragraph 2, the price shall be fixed by the Commission having regard to pre-war net export prices and subsequent variations of cost, or the lowest net selling price of similar dyestuffs and chemical drugs to any other purchaser.
4. All details, including mode and times of exercising the options, and making delivery, and all other questions arising under this arrangement shall be determined by the Reparation Commission; the German Government will furnish to the Commission all necessary information and other assistance which it may require.

5. The above expression "dyestuffs and chemical drugs" includes all synthetic dyes and drugs and intermediate or other products used in connection with dyeing, so far as they are manufactured for sale. The present arrangement shall also apply to cinchona bark and salts of quinine.

Annex VII

Germany renounces on her own behalf and on behalf of her nationals in favour of the Principal Allied and Associated Powers all rights, titles or privileges of whatever nature in the submarine cables set out below, or in any portions thereof:

<table>
<thead>
<tr>
<th>Route</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emden-Vigo</td>
<td>from the Straits of Dover to off Vigo;</td>
</tr>
<tr>
<td>Emden-Brest</td>
<td>from off Cherbourg to Brest;</td>
</tr>
<tr>
<td>Emden-Teneriffes</td>
<td>from off Dunkirk to off Teneriffes;</td>
</tr>
<tr>
<td>Emden-Azores (1)</td>
<td>from the Straits of Dover to Fayal;</td>
</tr>
<tr>
<td>Emden-Azores (2)</td>
<td>&quot;</td>
</tr>
<tr>
<td>Azores-New York (1)</td>
<td>from Fayal to New York</td>
</tr>
<tr>
<td>Azores-New York (2)</td>
<td>from Fayal to the longitude of Halifax;</td>
</tr>
<tr>
<td>Teneriffe-Monrovia</td>
<td>from off Teneriffe to off Monrovia;</td>
</tr>
<tr>
<td>Monrovia-Lome</td>
<td>from about (lat. : 2°30 N.; (long. : 7°40 W. of Greenwich; to about (lat. : 2°20 N.; (long. : 5°30 W. of Greenwich; and from about (lat. : 3°48 N.; (long. : 0°00,</td>
</tr>
<tr>
<td>Lome-Duala</td>
<td>to Lome;</td>
</tr>
<tr>
<td>Monrovia-Pernambuco</td>
<td>from off Monrovia to off Pernambuco;</td>
</tr>
<tr>
<td>Constantinople-Constanza</td>
<td>from Constantinople to Constanza;</td>
</tr>
<tr>
<td>Yap-Shanghai, Yap-Guam, and</td>
<td>from Yap Island to Shanghai, from Yap Island to</td>
</tr>
<tr>
<td>Yap-Menado (Celebes)</td>
<td>Guam Island, and from Yap Island to Menado.</td>
</tr>
</tbody>
</table>
The value of the above-mentioned cables or portions thereof in so far as they are privately owned, calculated on the basis of the original cost less a suitable allowance for depreciation, shall be credited to Germany in the reparation account.

**REPARATION**

**Section II**

**SPECIAL PROVISIONS**

**Article 245**

Within six months after the coming into force of the present Treaty the German Government must restore to the French Government the trophies, archives, historical souvenirs or works of art carried away from France by the German authorities in the course of the war of 1870-1871 and during this last war, in accordance with a list which will be communicated to it by the French Government; particularly the French flags taken in the course of the war of 1870-1871 and all the political papers taken by the German authorities on October 10, 1870, at the chateau of Cercay, near Brunoy (Seine-et-Oise) belonging at the time to Mr. Rouher, formerly Minister of State.

**Article 246**

Within six months from the coming into force of the present Treaty, Germany will restore to His Majesty the King of the Hedjaz the original Koran of the Caliph Othman, which was removed from Medina by the Turkish authorities and is stated to have been presented to the ex-Emperor William II.

Within the same period Germany will hand over to His
Britannic Majesty's Government the skull of the Sultan of Mkwawa which was removed from the Protectorate of German East Africa and taken to Germany.

The delivery of the articles above referred to will be effected in such place and in such conditions as may be laid down by the Governments to which they are to be restored.

Article 247

Germany undertakes to furnish to the University of Louvain, within three months after a request made by it and transmitted through the intervention of the Reparation Commission, manuscripts, incunabula, printed books, maps and objects of collection corresponding in number and value to those destroyed in the burning by Germany of the Library of Louvain. All details regarding such replacement will be determined by the Reparation Commission.

Germany undertakes to deliver to Belgium, through the Reparation Commission, within six months of the coming into force of the present Treaty, in order to enable Belgium to reconstitute two great artistic works:

(1) The leaves of the triptych of the Mystic Lamb painted by the Van Eyck brothers, formerly in the Church of St. Bavon at Ghent, now in the Berlin Museum;

(2) The leaves of the triptych of the Last Supper, painted by Dierick Bouts, formerly in the Church of St. Peter at Louvain, two of which are now in the Berlin Museum and two in the Old Pinakothek at Munich.
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