

Europe Between The Wars

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At 11 a.m. on November 11, 1918, the guns were silenced on the western front, and the strategy of the military tactician gave way to the shrewd polemic of the diplomat as the victors gathered at Paris to create a settlement that would ensure a lasting peace. Yet it was evident almost from the start that the process of pursuing this quest would be tortuous and charged with emotion. Historiography has usually portrayed the events at Paris as an ideological conflict between liberal internationalism and old diplomacy, in which the Anglo-Americans were perceived as moderate and conciliatory, and France, as adamant in pursuing her goal of rubbing Germany's nose in the dirt by imposing a devastating peace, where Cato's "Delenda est Carthago" simply gave way to Clemenceau's "Delenda est Germania."

According to the traditional historical account, France played a key role as the driving force behind the demand for harsh reparations. Proponents of this view held that France sought to cripple Germany economically by imposing tough sanctions, and at the very least, the French have been accused of relying on reparations payments to help ease their own financial and economic distress. As Tom Kemp states "In the euphoria of victory it was assumed that the costs would be borne from German reparations."¹

John Maynard Keynes was instrumental in promoting this view in his *Economic Consequences of the Peace*.² It has become a classic, and together with Etienne Mantoux's retort established the paradigm for the historical debate over the inter-war period.³ Keynes condemns the Allies for their vindictive treatment of Germany. Germany, he argued, should have been treated with moderation rather than bankrupted by the imposition of harsh reparations. Though there are a number of flaws in this work, it is useful to consult for two reasons: First, Keynes was highly regarded, and as such his words were heeded by a large number of influential people in the Allied camp, and at the same time his polemic, though, perhaps not intentionally, served to bolster German morale. Sally Marks insists that "Keynes, who evidently was partially fooled himself, helped the myth along, and so of course did the Germans who continued to fulminate about the brutality of the settlement;"⁴ Second, the very controversial nature of Keynes' work has given rise to a good deal of scholarship and interpretation.

Some such as Charles Kindleberger argue that Keynes erred on a number of points. To be sure, his work became a self-fulfilling prophecy in its contention that, given a reasonable argument concerning her inability to pay, Germany would not pay. Yet Kindleberger allows that Keynes was correct in suggesting the advantage of cancelling war debts, and setting a small reparations figure instead.⁵ W. H. Dawson also criticized the *Treaty of Versailles* for its disastrous consequences, especially the tragedy of Danzig, the Polish Corridor, and the economic consequences of isolating East Prussia. And like Keynes he places the

blame for the monstrous treaty on the French. He admires Lloyd George's statesmanship at Paris, finding fault only with his lack of effective opposition to Clemenceau. The latter is portrayed as the villain at the Peace Conference. Part of the reason for Lloyd George's reluctance to mount serious opposition to the signing of the treaty, one is told, was due to his concern with public opinion.⁶ Lloyd George denied that this was ever the case and insisted that he was "not going to mislead the public on the question of capacity," moreover he was "not going to do it to win votes."⁷

Proponents of Keynes' view, such as Dawson, have maintained that Britain should have renounced her alliance with France, and acted in concert with Germany and Italy to force a revision of the treaty, and to eliminating some of the more unpleasant features such as the Polish Corridor. Such views, though, are one sided, anti-French, anti-Polish, pro-German, to the degree that it fails to consider German foreign policy developments since World War I.

Etienne Mantoux offers a belated challenge to the Keynesian polemic in *The Carthaginian Peace; or the Economic Consequences of Mr. Keynes*,⁸ in which he defends the Versailles Treaty and seeks to dispel the contention that the peace was unjust. Moreover, he sought to establish that it was possible for Germany to pay reparations. Of course Germany did not pay, and Mantoux argues that its default proved nothing about its capacity to pay. Though, Gerald Feldman would argue that the fact "that the Germans successfully cheated everyone in the end does not exculpate those responsible for the folly at Versailles. The absurdity of those arrangements was demonstrated precisely by the fact that America, as Steven Schuker has so skillfully argued, ended up paying 'reparations' to Germany."⁹ In any case, Mantoux maintains that Keynes was mistaken both politically and economically, as was evidenced by Hitler's financial and rearmament achievement.

Consequently, Keynes, more than any other individual, contributed to the notion that the 1919 treaties were monstrous in their inception and bound to be devastating in their repercussions on victors and vanquished alike. Moreover, Keynes' polemic encouraged the Germans to initially resist and ultimately revolt against the treaty, and by offering comfort to the vanquished, he undermined the confidence and subverted the resolve of the victors. Therefore Keynes must bear the odium of having fostered Allied impotence and appeasement, as Sally Marks, notes, "a whole generation of intelligentsia, especially in the English speaking world came to believe that the reparations burden under the Versailles Treaty was both vicious and unpayable, a belief that the Germans assiduously nurtured."¹⁰ Yet we are still haunted by Keynes, though it is time that we are rid of him so that we may re-examine the events of the first post-war period "with eyes no longer beclouded by Keynesian polemics."¹¹

During the past two decades there has been a tremendous amount of scholarly activity which has resulted in the emergence of a new international history of the inter-war period. This history, as Jon Jacobson states, is one "that abstains from tired debates over the primacy of domestic or foreign policy, avoids isolationism of military and political relations from financial and economic concerns, and examines the interpenetration of the private and public sectors of the international economy."¹² Out of this archival, both state and

private, based research there has emerged a new consensus on European inter-war developments that is more sympathetic to French problems, more attune to the constraints of public finance, more critical of British policy, and in general less critical of the Versailles settlement and the reparations question.

Walter McDougal in his examination the process of structural integration in the post 1919 era argues that the *Treaty of Versailles* was not the primary obstacle to European reconciliation since it was never tried.¹³ Furthermore, he insists, that "the strictures of Versailles were not designed to destroy Germany - they were designed to make the destruction of Germany unnecessary."¹⁴ It was the failure of France to carry out harsh postwar policies, and not the harshness of the policies that contributed to the fragility of West-European stabilization in the 1920s. To be sure, the weakness of Versailles was not that it failed to gain acceptance from Germany, but more so that it failed to please the allies. On the one hand the British turned pro-German in the wake of the post-war depression, and on the other the Americans defected. Furthermore, German industrialists along with the German Government found that inflation was a wonderful ally in wrecking reparations. Needless to say, this made France's plight increasingly desperate.

Additionally, Clemenceau was isolated within French parliamentary, diplomatic and military establishments, as far as the conditions of peace with Germany were concerned. McDougal proposes that Clemenceau's own secrecy and jealousy of authority during the peace conference prevented France's leading politicians, diplomats and militarists from personally observing Anglo-American resistance to French recommendations concerning the Rhineland, Saar and reparations. In effect, Clemenceau deliberately excluded the legislative, military, and diplomatic establishments, and chose instead to rely on the talents of Andre Tardieu and Louis Locher, young men experienced in the art of coalition warfare and a directed economy and willing to experiment with new forms of international cooperation.¹⁵

France, as Stephen Schucker notes, "found itself caught in a morass of internal political, financial, and economic difficulties."¹⁶ Indeed, the French government was hampered by a sagging economy and the vicissitudes of inter-party politics. Schucker and Charles S. Maier both point out that this, in addition to the restraint imposed by political values on both Poincare and Herriot as well as their deficiencies in statesmanship, prevented France from successfully pursuing either independent treaty negotiations or independent treaty revisions with Germany. Consequently, France was dependent on Anglo-American mediation. In essence, Franco-German relations were hostage to Anglo-American finance, and that whatever the new continental order might be, it was dependent on City and Wall street for it's survival.¹⁷

To be sure, the tentative nature of the post-war order caused a certain anxiety in international relations. Yet part of the political intransigence can be traced to a continuity in Germany's foreign policy and economic goals, as noted by Fritz Fischer. He has placed the international disputes of the post war period against the social, economic and political structures and the objectives of the governing elites from 1871 to 1945, and concludes that there is a continuity in German history based on both political and economic aims which applied to the ruling

elites. Specifically: landed property, industry, the army, the Bildungsbürgertum, the bureaucracy, and the judiciary, which were able to retain their traditional places. Hitler's rise to power in particular, according to Fisher, would never have been possible without the aid of the "traditional agrarian" and "industrial" power elites, dominant factors in both the army and the diplomatic corps. Furthermore, "they represented the continuity of the national state legacy....and they were contemporaneous with the economic and military springs of German Great-Power in all its variations."¹⁸

A similar conclusion had been reached by Henry Ashby Turner in his work on Gustav Stresemann.¹⁹ The latter, Turner argues, was a "pragmatic conservative" dedicated to preserving the pre-1918 economic and social order. He was also intent on restoring Germany's position of leadership in Europe, albeit, with the peace of Europe in mind. Even though Stresemann, subordinated the interests of domestic to foreign policy, he was not oblivious to the relationship between the two, and followed this course because he believed that positive changes at home could only come from success abroad. France, on the other hand, fought hard to prevent German hegemony over Europe, hoping eventually to achieve European integration under her leadership.

The notion of continuity is also addressed by Charles S. Maier who proposes that the European nations after Versailles were still confronted with unresolved class conflicts as well as unresolved international rivalry. in,²⁰ In the wake of defeat German power may have been blocked, at least for the time being, but it was hardly removed. Furthermore, the Anglo-French ascendancy in the aftermath of the war was dependent upon a shared commitment to a concert foreign policy, and since such a commitment did not exist, that ascendancy was precarious and brief. The United States, Maier argues, sought to guarantee the international order, not through public funding or even less through a collective security system, but by means of private capitalism. To be sure, there were a number of influential Americans in the 1920s who were convinced that common interests developed by a prosperous international economy would transcend any nationalist ambitions.

Yet this utopian vision was never to be achieved, as Maier so deftly demonstrates. There were National and International dilemmas which interacted largely through continuing reparations disputes. These disputes were a continuation of war time conflicts albeit in another form. Reparations not only overburdened the international economy, thereby preventing it from mitigating contending national interests, but also led to the intensification of tax and budget disputes within France and Germany. The latter, in Maier's estimation, provided a new fiscal focus for both class and interest group conflicts.

In the process of seeking to stabilize society, they were actually creating new institutional arrangements and distribution of power. This was reflected in the evolution of a political economy, or, as Maier terms it Corporatism, and that this "corporatist stabilization was an answer to Class divisions exacerbated, if not created by industrial employment."²¹ This new arrangement involved a shift in power from elected representatives and the career bureaucracy to organized interests representing both society and the economic sector. "The new corporatism, however, sought consensus less through the occasional approval of

a mass public than through continued bargaining among organized interests.²² At times they sought to exert their influence through a weakened parliament or even a new executive authority. Yet in each case corporatism signaled a growth in private power and a decline in sovereignty.

In any event, one of the dominant issues of the inter-war period was that of reparations. Recent interpretations suggest that the indemnities demanded by the treaties were not unreasonable, and there are those who would argue in the tradition of Mantoux that Germany was capable of meeting the indemnities demanded of her.²³ Gerald Feldman on the other hand, suggests that "Reparations were Weimar's fatal distraction" Because they served as a justification for the inflationary policies between 1920 and 1923.²⁴ Still others, among them Marc Trachtenberg, propose that if the payments demanded by the allies were so exorbitant as to cause distress, then the responsibility belongs to England, which Trachtenberg states, was the only obstacle to a moderate settlement. To be sure, "it was British policy, especially British intransigence on figures, that was ultimately responsible for the failure of the treaty to include a fixed sum."²⁵

Much has been made of Germany's resistance to meeting the indemnity payments by the peace accords and their role in the inter-war period. Jaques Bariety examines this issue. Though he notes that France fully expected Germany to default on its payments and that the French, who harbored serious Rhenish ambitions, had succeeded in establishing a connecting between the reparations issue and occupation of the Rhineland.²⁶ One is provided, however, with a conflicting view as to Clemenceau's attitude on the Rhenish question. On the one hand it is argued Foch had an active interest in this regard only for security reasons.²⁷ On the other hand Bariety permits that Clemenceau, even though he abandoned an active Rhenish policy, retained Tirard as French High Commissioner of the Rhineland "a preserver L'instrument d'une eventuelle politique rhénane."²⁸ Trachtenberg, though, maintains that "one has the impression that ...this strain of French policy...was more or less put on the back burner."²⁹ Furthermore, Clemenceau held the notion that Rhinelanders were not Germans, as evidenced by his statement "that the inhabitants of the left bank of the Rhine are Celts, that without being French, without being Gauls they are not Germans....We must have a policy of helping these people-this must not be put in the newspapers! -to free themselves from Prussia..."³⁰ Trachtenberg concludes that if someone as obdurate as Clemenceau subscribed to the Rhenish myth, then it must have been far-reaching indeed.

French policy in the Rhineland was essentially a part of a much broader policy aimed at weakening Germany by providing encouragement to federalist, autonomist and perhaps separatist forces. Trachtenberg suggests that, a view shared by McDougal, one only needs to look at France's Bavarian policy to understand how real her Rhenish ambitions were. He bases his conclusions, in part, on Haguenin's correspondence with Albert Petit in 1920. Haguenin noted that anti-Prussian sentiment reached a high point in Bavaria, and that it was possible for a separatist, or at the very least a federalist, policy to be developed, however, he cautioned that the utmost care be exercised in order to avoid compromising French activities in this regard.³¹

In any event, Trachtenberg argues that France would not have benefited by a relaxation of the treaty clauses. One also needs to appreciate that reparations were only one aspect of France's peace policy. To be sure, they helped to ensure Allied military occupation of the Rhineland, and Clemenceau, according to Bariety, had presented the utilitarian value of the reparations clause to Poincare when he stressed that a German failure to pay would give France the right to occupy the Rhineland or to prolong that occupation. Clemenceau went so far as to predict that Germany would go bankrupt in which event France would remain in the occupied area and still have the Anglo-American alliance.³² Poincare, though, especially after Rapallo when the international situation began to deteriorate, hoped only to use these measures as leverage in order to pressure the Allies into closer cooperation in dealing with the German problem.³³

Not everyone agrees with the contention that Germany sought to escape reparations payments. David Felix, who examines the early reparations period during which Walther Rathenau served in the Wirth Cabinets, insists that Germany sought to meet its obligations. During the tenure of the first Cabinet, Rathenau served as minister of reconstruction, and during the second, he served as foreign minister. During these years Rathenau evolved into both a key political figure and the symbol of fulfillment. McDougal agrees and notes that the Wirth-Rathenau "fulfillment" policy prompted Briand to give Versailles a second chance, and to take a chance on achieving European stabilization through direct Franco-German collaboration. Accordingly, Loucheur promised Rathenau to end French efforts at preventing German economic unity, but he would do so only in return for German acceptance of the Wiesbaden accords on reparations in kind. Consequently Tirard was ordered to cease his separatist intrigues, though, he fought the notion tooth and nail.³⁴

One ought also note Felix's implication that Rathenau's desire for fulfillment played a part in Hitler's rise to power, in that the bitterness over the reparations question provided a platform for Hitler, giving him his initial strength as well as the final force to capture the power. Without Rathenau the career of Naziism would have been significantly different.³⁵ The problem with Felix's hypothesis is that he offers no clear evidence to support this view. Though he is not alone in this regard, Gerald Feldman also supports this notion when he argues that the policy of fulfillment helped to poison German domestic developments which in turn helped to "strengthen the forces of the right."³⁶

Nonetheless, Felix concludes that the Weimar Republic was doing everything it could to meet Allied demands. McDougal disagrees with this assessment, and argues that the Wirth government viewed fulfillment as a tactic to win eventual relief from the burdens of the treaty. But to meet all the Allied demands, Felix argues, would have resulted in the economic collapse of Germany and this would have very likely resulted in a communist revolution, an upset in the balance of trade, and the endangerment of the British and French economies. These sentiments are echoed by Harold James who states that "For four years after the war, German governments had avoided a stabilization of the currency because such a stabilization, involving severe monetary restrictions would have led to an increase in unemployment and of the danger of successful revolution." Moreover, "Socially and politically the Germans could not afford to stabilize."³⁷

This view is supported by Stephen Schuker. Stabilization, he maintains, would have lead to both industrial and commercial disaster. Furthermore, it was the government's first duty to restore German domestic finances. But Rathenau pronounced that such a rehabilitation "was possible only after readjustment of the indemnity bill to a figure within Germany's capacity to pay."³⁸ Felix chooses to place the blame for all this squarely on American shoulders, specifically their adamant refusal to allow a moratorium on all war debts. Yet Felix states that "By and large American and Allied creditors and investors paid German reparations....Germany did not have the money they did."³⁹ Felix fails, however, to recognize that German monetary problems were certainly contributed to by the inflation arising out of the war-time deficit financing, the irresponsible printing of paper money, unrestricted and massive flights of German capital to other countries, and finally low taxes and lavish expenditures.

Hermann Rupieper also seeks to saddle the Allies with the responsibility for the reparations crisis. At the same time, he attempts to dispel, as he terms it, the myth of the long suffering creditor and the dishonest debtor. The primary clash during this period, according to Rupieper, was between the former allies, and that Germany was a pawn during this postwar struggle.⁴⁰ McDougal and Feldman echo these sentiments, the latter stating that "the unhappy connection between reparations and war debts became an integral part of French, British and American rivalries and differences that set severe limits to the creation of a viable order."⁴¹ Cuno, by Rupieper's account, was talented, albeit unsuccessful, and a man in his own right, as opposed to the French view which held him to be the mouthpiece of the industrial right. Moreover, believed in the primacy of economics in international relations. He also felt businessmen to be superior to politicians, and in that sense held that only a lunatic or a "Machtpolitiker" could have invented the reparations clauses.⁴² There was ample precedent for exacting reparations, though, as Charles Kindleberger has pointed out. Germany, for example, had received "5,000 million marks" in reparations from the French in 1871. By all appearances it did not cause any great difficulties for the French. The burden, according to Alfred Sauvy, appears to have fallen on Germany rather than France after the 1871 reparations. The receipt of reparations lead to inflation in Germany and reportedly caused Bismarck to conclude "The next time we win a war against France, we'll demand that we pay her indemnity." Additionally, Bismarck remarked that it did not appear as though Germany had received those millions, to which a French diplomat replied "Nor that we paid them."⁴³

Rupieper also examines the various perceptions on recovery and inflation. In relation to the former he points out that the French perceived Ruhr magnates as being powerful contributors to Reich policy-making. In essence, Germans entertained the view that prosperity could only be achieved if the French withdrew their troops from the Rhine, a revision of treaty provisions (the view advanced by Keynes), and a relaxation of state and labor constraints on productivity. In his explanation of post war German inflation, Rupieper cites a number of factors: First, the cost of the war, also a popular argument by liberals in England; second, exorbitant reparations demands, an argument advanced by the Germans as well as Keynes; third, a conscious German policy to escape

reparations, which the French also advanced; fourth, industrial profits from inflation, a popular socialist argument at the time; and fifth, that inflation was a political necessity to employ returning veterans, to transfer wealth to the poor, and to prevent chaos. The German government therefore had no choice but to postpone stabilization.⁴⁴

It is important to note that the dilemma created by war debts and reparations was unprecedented both in terms of the newness and its sheer complexity. The monetary equation involved 28 countries, of which 5 were solely debtors, and 10 were only creditors, the remaining 13 fell somewhere in between. At any rate, given the convolution of the situation and the intransigence of the countries involved, a reasonable settlement was not in the realm of probability. Furthermore, the futile attempts to collect payments engendered hostility and wreaked havoc on the international economy. France, in an attempt to satisfy her demands, opted along with Belgium, over British objections, for occupation of the Ruhr. The Franco-Belgian decision, by some accounts, resulted in the collapse of the German mark.⁴⁵ Maier in his examination of the crisis, however, as does Gordon Craig, places the blame squarely on German shoulders.⁴⁶ He argues that the hyper-inflation that followed was clearly attributable to the policy of passive resistance in the Ruhr. As industrialists shut down their mines and banked their furnaces, large numbers of workers found themselves idle. Berlin, in an effort to keep inactive workers from starving adopted a massive welfare budget, funded with equally massive deficit spending, which in turn led to increased acceleration of the already unrestrained inflation.⁴⁷

Maier is not the only one to castigate the German government for its inability to institute the reform needed to stabilize the German economy. Eric Roll, for example, blames corruption in finance and administration, especially the unsound method of German finances, to be the root of the problem. Adam Ferguson also argues that Weimar financial arrangements allowed for the grossest monetary excesses by the German banking system, excesses which in the long run rendered post-war inflation uncontrollable. The blame, according to Ferguson, belongs to the German industrialists for ruthlessly driving their government "down the road to monetary doom."⁴⁸

A detailed examination of how German special interests and corporate interests sought "to be reconciled with those of a society in the throes of a continuous domestic and international crisis" is provided by Gerald Feldman.⁴⁹ Central to this reconciliation were the efforts of a small number of Reich industrialists, among them Stinnes and Wolff, who sought to enforce their economic vision; a vision which combined their personal and corporate interests with that of the larger economy, and held that the government ought to reconcile the public interest with that of the industrialists. This resulted in a struggle between Steel and Coal interests on one side, and Labor, Government, and Manufacturers on the other. The period in question witnessed the collapse of the German currency, and the ushering in of hyper-inflation. It was against this background that iron and steel owners, who until the end of 1922 gained large profits from the inflation, launched an effort to reestablish their pre-war eminence.

This post-war inflation, although they were often accused of fostering it, was not initiated by heavy industry. Inflation, Feldman insists, began in 1916, when government expenditures exceeded income from loans and taxation, a point that Hardach does not agree with. Hardach argues that inflation began in 1914 with the funding of the floating debt after which the government was always ahead with a six month deficit. Ferguson agrees that inflation was spawned during the war, and insists that the 1914 action was taken in an effort to finance the war and at the same time to protect Germany's gold reserve. The latter was accomplished by suspending the redemption of Reichsbanknotes in gold. The former objective was achieved by establishing loan banks "whose funds were to be provided by simply printing them."⁵⁰

At any rate, Feldman argues, industrialists made no effort to fight inflation; instead, they participated in the orgy of speculation arising out of the currency depreciation. In essence, the Steel Conglomerates profited while banks suffered. It must be understood, that industrial concerns led by men such as Stinnes, did not establish long term goals based on inflationary expansion. Their main emphasis was on surviving the negative effects of an uncertain economy, and establishing goals for future expansion. One way of surviving was by establishing vertical conglomerates, or *Interessengemeinschaften*, which created combinations based on coal, steel, electrical engineering and marketing organizations. Though, as Bresciani-Turroni points out, once the mark stabilized these combines were in difficulty. The Stinnes conglomerate collapsed, and others which had managed to pay off their notes were paralyzed due to a lack of working capital.⁵¹

Feldman's contention is supported by Carl-Ludwig Holtfrerich, an economist who has analyzed the various elements impacting on both the pace and the nature of the inflation itself, and has delineated the process which resulted in Germany's decision to finance its conduct of the war with inflation as its principle means. His argument also follows Hardach's polemic arguing that the German mark had already experienced a dramatic decline by the end of the war. To be sure, Germany was ill-prepared for the fiscal problems in addition to the effects of the hostilities on the real economy. German finance policy held that it was better to borrow than to levy taxes as a method of funding the war. As it was, in Germany "taxation supplied between zero and six percent of the costs of the war."⁵² Instead she relied on the printing presses under the guise of borrowing from the Reichsbank. Germany was not the only belligerent to pursue a policy of inflation to finance her war efforts. However, other countries, first, did not employ as extensive an inflationary policy, and second, other belligerents made an effort to stabilize their currencies after the war, Germany did not. Britain, for instance was committed to a return to par as soon as possible. In that vein the Cunliffe Committee was appointed in 1918 to pursue the matter.⁵³ France as well, struggled to save the franc, and as François Caron points out, in 1920 the French undertook one of the greatest efforts in their financial history to bring about budgetary reform.⁵⁴

The German government, according to Holtfrerich, was reluctant to achieve stabilization because it feared that this would lead to widespread unemployment. Moreover, a return of the mark to its pre-war value would make it extremely

difficult, if not improbable, to pay off debts that had been calculated in increasingly inflationary terms. Accordingly, the decision to maintain inflation was the only way out of a precarious situation. The government therefore continued to rely on the printing press to facilitate the return to a peacetime economy. Schuker, though, suggests that regardless of how pressing domestic considerations might have been, the failure to stabilize at "certain crucial points" was motivated more by foreign policy because the Germans considered reparations "morally unjust."⁵⁵ Holtfrerich, as does Heinz Haller, stresses that the state caused the inflation in self-defense instead. He notes that "Defeat was one of the primary constituents of 'situation of self-defense,' most materially because it transformed Germany from a nation expecting to receive reparations into a nation required to pay them." This meant that rather than finding relief for the Reich's fiscal problems, the "Armistice and Peace Treaty brought added burdens."⁵⁶

In Germany the entire economic system has, to a large extent, been predicated, Karl Hardach argues, upon political decisions. "It is impossible," he maintains, "not to view the fundamental political changes in Germany in recent decades as being decisive turning points in the history of the country."⁵⁷ Beginning in 1914, the German economy underwent a change from relative stability to one of uncertainty. The culprits, according to Hardach, were the uncertainty caused by the revolution, demobilization, the reparations question, and the structural crisis in industry and agriculture. Adam Ferguson also notes that the ups in the economic cycle, though short lived, show a correlation to external political and economic reactions to events within Germany. This according to Ferguson, was especially true of events related to reparations payments. He points out, for instance, that the mark had suffered heavy loss in 1921, yet when the Allies realized that anticipated payments would not be met. Accordingly, this led to immediate recovery of the external value of the mark.

Ferguson, however, realizes that such infrequent and temporary respites could not prevent the hyper-inflation that ensued. He blames incredible examples of economic ignorance and malevolence for the catastrophic decline of the German currency. On the Allied side, he insists, even the most eminent statesmen were blinded by greed and in some instances afflicted by rancor and vengefulness. While the Germans, according to Ferguson, were on the one hand helpless, on the other they were consumed by ill will and stupidity.

Indeed, the German decision to finance the passive resistance in the Ruhr led to the ruination of the mark. It is important to reiterate that the rampant inflation that followed resulted from German economic and political decisions and not from the occupation itself. The inflation, though, ruinous in the long run, did enable industrialists to expand by obtaining credit and then repaying their obligations in depreciated currency. Maier states "Germany's industrial activity was taken as a sign of wealth, whereas in point of fact, it was a symptom of redistribution and dissipation of her accumulated wealth; the paradox was achieved of a nation beaming with prosperity whilst its vitality was being sapped."⁵⁸ Industrialists were not the only beneficiaries of the inflation. The German government paid off its domestic and war debts in worthless marks, and while they might not admit it, the British also benefited from the reduction

in German exports. This was especially true in the British coal industry which, due to the French occupation of the Ruhr, witnessed a dramatic increase, for a short time at least, in coal exports. As Renshaw notes, "Two lean years in the coalfields had been followed by an artificial boom," where exports reached a peak in 1923.⁵⁹

To be sure, the tenuous economic situation in Europe required approaches to German financial reconstruction, a new reparation plan, and an arrangement to ensure Franco-Belgian withdrawal from the Ruhr. The need for intervention did not go unnoticed, and, as Sally Marks states, "Other powers quickly combined to minimize the damage to Germany."⁶⁰ She is quick to point out, however, that they did so without French blessings. American experts were allowed by Washington to participate in their private capacities, thus ensuring the involvement of American bankers. The Dawes committee, as it became known, began their task in January 1924 amid a chill in French and Allied relations.

H.G. Moulton provides a contemporary account of the Dawes Plan, under which the German government was promised \$200 million in foreign loans, which meant that in all reality the reparations would be financed by Britain, France, and the United States.⁶¹ Moulton had previously authored *Germany's Capacity to Pay* in which he offers the polemic that Germany was unable to make reparations payments as long as her exports did not exceed her imports.⁶² At any rate, Moulton sets forth the premise that the real contribution of the Expert Committee, which was established to supervise the scheme,⁶³ was its ability to recognize the interrelation of the currency, the budget, and international balance of payments. Secondly, they realized the importance of establishing sound financial and economic conditions in Germany, and lastly, they perceived the importance of administering the plan as an indivisible unit. Moulton continues, though, that the problems remaining to be solved were those of: first, determining the total sum to be paid by Germany; and second, establishing a date for the termination of the plan.

Under the Dawes Plan reparations were reduced. However, Germany was forbidden to devalue its currency and required to adopt a deflationary policy. The latter resulted in unemployment and the need to borrow large amounts of capital, and due to the economic condition of European countries, such loans could only be obtained from the United States. One can certainly sense the guiding hand of bankers and financial experts in the terms set by the committee. In particular, the efforts of Montague Norman of the Bank of England and Benjamin Strong of the New York Federal Reserve Bank. Sir Henry Clay details their efforts to solve Germany's currency problem as well as their efforts in realigning the war debt.

Clay also examines the inter-war financial and economic problems such as international capital flows, reparations, international settlements, and exchange stabilization in the late 1920s.⁶⁴ Especially revealing is the role played by the New York Federal Reserve Bank in the person of Benjamin Strong during the 1920s. It should be noted that Norman and Strong wintered together regularly either in Maine or the south of France. Of additional interest is the fact that Montague Norman was the Godfather of Hjalmar Schacht's grandchild. Indeed, a very close relationship had developed between Norman and Schacht since they

first met in 1923. This relationship, according to Richard S. Sayers, proved to be significant in the financial negotiations over the reparations and stabilization issues.⁶⁵

Regardless of relationships within and efforts without by the international banking community, the German economy was plagued by underlying instability. Furthermore, Germany was prohibited from devaluing her currency and thereby making her exports more attractive. Moulton argues that Germany's inability to obtain an export surplus led to her currency inflation in the first place.⁶⁶ In essence, Germany found herself in a precarious position. She had to borrow from foreign banks to meet her reparations payments, but she could not increase her foreign sales sufficiently to exceed imports. The combination of foreign loans and war debts contributed to the collapse of the German economy in 1931. These abnormal economic developments, Knut Borchardt insists, resulted first, from the overall weakness of the state; and second, the disastrous imbalance of distribution and production.⁶⁷ Adam Ferguson adds that even with the stabilization and deflation measures introduced by Schacht, the damages caused by the inflation could not be repaired. He proposes that this is especially true in regards to the social and political aspects of the German community, aspects that were weakened to the extent that when the depression hit a few years later, the system collapsed, thereby setting the stage for Hitler.⁶⁸

The consensus appears to be, as Harold James argues, that Germany did not enjoy a full fledged economic upswing after the war, but instead experienced industrial stagnation based on hyper-inflation, reparation payments, lack of capital formation and unifying credit restrictions.⁶⁹ James had earlier faulted Karl Helfferich as having set up the war time inflation.⁷⁰ The latter, though, argued that the depreciation of the mark was brought on by the excessive burdens thrust upon Germany and "the policy of violence adopted by France....not inflation but the depreciation of the mark was the beginning of this chain of cause and effect."⁷¹ Indeed, the theory expressed in German official circles during the 1920s was that inflation was the consequence of the depreciation of the currency.

A second problem, and ultimately a cause of the depression according to James, was the persistent policy of deficit financing from 1925-1929 and which was dependent upon continued borrowing. Moreover, the "Weimar economy did not grow quickly enough to sustain a rapidly rising level of public expenditures."⁷² This continual borrowing resulted in a scarcity of investment capital despite the infusion of foreign capital. Wages rose in both the private and the public sector in spite of the high levels of unemployment, however, the rise in wages was primarily due to political action. Industrialists were opposed to wage increases even though they had twice raised the price level of their products. At one point in 1928 the Steel-Coal combines locked out their employees in an effort to roll back a government supported Union wage increase demand. The government acquiesced to the demands of the conglomerates and lowered the wage increase from 2 to 3 percent to $1\frac{1}{2}$. Industrialists, however, preferred no increase at all, since, in their estimation, the low level of investment was a direct result of the high level of wages, and led to further declines in employment and decreased output.

To a certain degree Germany's difficulties during the inter-war period grew out of her internal social financial weakness and the obligations she incurred under the Dawes Plan. "On a more fundamental level," according to William McNeil, "Germany's dilemma illustrates the reality faced by policy makers who must pursue domestic and foreign policy objectives that are inconsistent with each other."⁷³

To be sure, Germany was not the only country faced with growing economic, political, and social problems. In her case, though, they appeared to be more pronounced. The period of relative stability from 1926-1930 was merely an illusion, and, as Gerald Feldman articulates, "Germany was in a 'crisis before the crisis' between 1925 and 1929 because wage bills and social costs were in excess of what productivity could justify."⁷⁴ In other words, this period of false "prosperity" became an enormous liability because it had never been adequately financed. Furthermore, Germany had made major foreign concessions to satisfy her domestic needs. The obligations incurred by these concessions served to undermine her desire for political stability as they soon became a focal point for renewed domestic and foreign conflict.

The first post-war period can be characterized as a time when an impulsive optimism prevailed; an optimism about a regenerated society where prosperity and peace would be the norm. However, it was also a time that witnessed the refusal to directly confront the problems growing out of the war crisis. In Europe, as in the United States, there was a desire for "Normalcy," where it would somehow be possible to return to pre-1914 conditions, but nothing would be the same as it was before.⁷⁵

The guns of August may have been officially silenced at 11 a.m. on November 11, 1918, the pens of historians, however, have never ceased to fight. As is evidenced by recent historiography of the inter-war period, there is still no consensus on the motives and behavior of those involved in this sometimes sinister and diabolical plot, or at other times liberal and benevolent scheme, to reshape Europe. As new archival material becomes available one would hope to have some of the controversies laid to rest. Alas, they give rise to new interpretations which themselves soon become enshrouded in a mist of controversy, much to our consternation but not so, perhaps, to Clio the muse.

¹ Tom Kemp, *The French Economy, 1913-1939, The History of a decline* (New York: St. Martin's Press, 1972), p. 66.

² John Maynard Keynes, *The Economic Consequences of The Peace* (London: Macmillan, 1920).

³ Etienne Mantoux, *The Carthaginian Peace; or the economic consequences of Mr. Keynes* (Pittsburgh: University of Pittsburgh Press, 1965).

⁴ Sally Marks, "Reparations Reconsidered: A Reminder" *Central European History*. 2 (1969) :364.

⁵ Charles P. Kindleberger, *The World in Depression 1929-1939*, (Berkeley and Los Angeles: University of California Press, 1965). Charles Kindleberger

⁶ W.H. Dawson, *Germany Under The Treaty*. (1933)

⁷ David Lloyd George, *The Truth About Reparations and War Debts*, (London: William Heineman, 1932), p.14.

⁸ Mantoux, *Carthaginian Peace*, esp. pp.45, 144, 152; Mantoux argued based on international transfers during the War, that the reparation transfer was possible. David Felix, though, argues that the source of war time transfers "was the American economy with its great reserves of productive capacity." David Felix, *Walther Rathenau and the Weimar Republic, The Politics of Reparations*, (Baltimore and London: Johns Hopkins Press, 1971), p.13.

⁹ Gerald Feldman, "Weimar from Inflation to Depression: Experiment or Gamble?" in *Die Nachwirkung der Inflation auf die deutsche Geschichte 1924-1933*, pp. 399-400.

¹⁰ Marks, "Reparations Reconsidered," p. 364.

¹¹ *Ibid.*, p. 365.

¹² Jon Jacobson, "Is There A New International History of the 1920's" *American Historical Review* (1983) :617-645.

¹³ Walter McDougal, *France's Rhineland Diplomacy 1914-1924: The last Bid for a Balance of Power in Europe* (Princeton: Princeton University Press, 1978), p. 361.

¹⁴ Walter McDougal, "Political Economy versus National Sovereignty: French structures for German Economic Integration after Versailles," *Journal of Modern History* 51 (1979) p. 12.

¹⁵ McDougal, *France's Rhineland Policy*, p. 35.

¹⁶ Stephen A. Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the adoption of the Dawes Plan* (Chapel Hill, N.C.: University of North Carolina Press, 1976), p. 173.

¹⁷ *Ibid.*, pp. 173, 232-233, 262, 299; see also Jacobson "Is There A New International History of the 1920's?" p. 84.

¹⁸ Fritz Fischer, *From Kaiserreich to Third Reich: elements of continuity in German history, 1871-1945* (London: Allen & Unwin, 1986), p. 97.

¹⁹ Henry Ashby Turner, *Stresemann and the Politics of the Weimar Republic* (Princeton: Princeton University Press, 1963).

²⁰ Charles S. Maier *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the decade after World War I* (Princeton: Princeton University Press, 1975).

²¹ *Ibid.*, p. xi.

²² *Ibid.*, p. 10.

²³ Sally Marks, "The Myths of Reparations" *Central European History* 11 (1978) :231-255.

²⁴ Gerald Feldman, "Weimar from Inflation to Depression: Experiment or Gamble?" in *Nachwirkung*, p. 399.

²⁵ Marc Trachtenberg, *Reparation in World Politics: France and European Economic Diplomacy 1916-1923* (New York: Columbia University Press, 1980), p. 63.

²⁶ Jaques Bariety, *Les Relations franco-allemande, apres la premiere guerre mondiale* (Paris: Editions Pedone, 1977), pp. 28, 62, 53, 109-115.

²⁷ *Ibid.*, p. 28. "La raison, pour laquelle le gouvernement français s'intéresse à la ligne du Rhin à l'automne 1918, est d'ordre stratégique et l'auteur en est Foch."

²⁸ *Ibid.*, p. 53. "Non pas sans doute que Clemenceau ait eu la volonté délibérée et arrêtée de mener un politique rhénane active; mais, tout en cédant aux Anglais et aux Américains (provait-il faire autrement?), il a tenu, avec le maintien de Tarrard en place, à préserver l'instrument d'une éventuelle politique rhénane." Bariety cites "note 2927 en date du juin 1919, Foch avait demandé à Clemenceau que le président de

la H.C.I.T.R. fût un Français, sans pour autant avancer le nom de Tirard. Vincennes, SHA, Fonds Clemenceau 6 N 73/2." n 50a p.53.

²⁹ Trachtenberg, *Reparations in World Politics*, p.262-263.

³⁰ Marc Trachtenberg, "Reply," *Journal of Modern History* 51 (March 1979) :81-82

³¹ Trachtenberg, *Reparations in World Politics*, p. 377 n 49, Haguenin's correspondence with Albert Petit dated April 16, 1920. 'Note importante: pour la politique secrète à faire là, éviter avec le plus grand soin l'entremise des militaires, et aussi l'intrusion...d'agents provocateurs ou dilettantes indiscrettes. La Bavière est fort excitée contra la Prusse. Éviter de découvrir ou tout au moine fédéraliste se desine, bientôt en Bavière - à condition qu'on n'y voie pas notre main.'

³² Bariety, *Les Relations Franco-Allemande*, p. 62 "Nous aurons le droit de réoccuper ou prolonger, si nous ne sommes pas payés. Je fais une prédiction: L'Allemagne fera faillite et nous resterons où nous sommes, avec l'alliance. Notez cela pour me le rappeler sur mon tombeau, quand je serai mort."

³³ *Ibid.*, p. 101-102, 120.

³⁴ McDougal, "Political Economy versus National Sovereignty," p.15; McDougal, *France's Rhineland Diplomacy*, p. 167.

³⁵ Felix, *Walter Rathenau and the Politics of Reparations*, p. 189. The major portion of this work details with the tortuous history of reparations and transnational debts. Particularly useful are the insights into the Stinnes-Rathenau dispute at Spa, negotiations with the Soviet Union at Rapallo, Rathenau's negotiations with the British in 1921, and the Cabinet crisis in 1922 over the Paris agreement of French Finance Minister Hermes.

³⁶ Feldman, "Weimar from Inflation to Depression: Experiment or Gamble?" in *Nachwirkung* p. 399.

³⁷ Harold James, *The German Slump: Politics and Economics 1924-1936* (Oxford: Clarendon Press, 1986), p.12.

³⁸ Stephen A Schuker, "Finance and Foreign Policy in the Era of the German Inflation: British, French, and German Strategies for Economic Reconstruction after the First World War," in *Historische Prozesse der Deutschen Inflation 1914-1924* (Berlin: Colloquium Verlag, 1978), p. 356.

³⁹ Felix, *Walther Rathenau*, pp. 184-185.

⁴⁰ Hermann Josef Rupieper, *Politics and Economics: The Cuno Government and Reparations 1922-1923* (The Hague, 1979), p.76.

⁴¹ Feldman, "Weimar from Inflation to Depression: Experiment or Gamble?" in *Nachwirkung* p. 399.

⁴² Rupieper, *Politics and Economics*, p. 27.

⁴³ Alfred Sauvy, *Histoire Economique de la France, Entre les Deux Guerres, Tome I: 1918-1931*. p.131-132 "La prochaine fois que nous gagnerons une guerre contre la France, nous exigerons de lui payer indemnité...Au cours d'un dialogue, à l'époque, entre deux diplomats allemand et francais, parlant des réperations de 1871-1875, le premier aurait dit: Ces milliards, nous ne nous sommes pas aperçus que nous les avions recus et la réponse aurait été: ni nous de les avoir payés.

⁴⁴ Rupieper, *Politics and Economics*, p.199.

⁴⁵ Salomon Flink, "The German Reichsbank and Economic Germany" (*Ph.D. Dissertation* Columbia University, 1931), pp. 66 and 67; Carl Bergman, *The History of Reparation* (London:Ernest Benn, 1927), p. 184; Frank D. Graham, "Exchange, Prices and Production" in *Hyper-Inflation: Germany, 1920-1923* (New York: Russell and Russell, 1930), p. 10.

⁴⁶ Gordon Craig, *Germany 1866-1945* (Oxford: Oxford University Press, 1978). This is a lengthy and monumental work with an entire chapter devoted to the crisis of 1923. The account of the Weimar period is excellent, especially his treatment of the inflation of the 1920s and his portrayal of Stressemann and Brüning.

⁴⁷ Maier, *Recasting Bourgeois Europe*, pp. 357-358.

⁴⁸ Adam Ferguson, *When Money Dies: The Nightmare of the Weimar Collapse* (London: William Kimber, 1975), p. 17, 21; Eric Roll, *Spotlight on Germany* (London: Faber and Faber, 1933, rep. 1975).

⁴⁹ Gerald Feldman, *Iron and Steel in the German Inflation 1916-1923* (Princeton: Princeton University Press, 1977), p. 378.

⁵⁰ Ferguson, *When Money Dies*, p.21.

⁵¹ Constantino Bresciani-Turroni, *Economics of Inflation: A Study of Currency Depreciation in Post War Germany* (London: George Allen & Unwin, 1931), p.370.

⁵² Carl Ludwig Holtfrerich, *The German Inflation 1914-1923: Causes and Effects in International Perspective* (Berlin and New York: Walter de Gruyter, 1986), p. 105.

⁵³ Kindleberger, *The World in Depression*, p. 44; Richard Sidney Sayers, *The Bank of England 1891-1944*, 2 vols. (London: Cambridge University Press, 1976), 1: 110-119.

⁵⁴ François Caron, *An Economic History of Modern France*, (New York: Columbia University Press, 1979), p. 249; Kemp, *The French Economy*, ch. 6.

⁵⁵ Schuker, "Finance and Foreign Policy in the Era of German Inflation," p. 351.

⁵⁶ Holtfrerich, *The German Inflation*, p. 137; Heinz Haller, "Die Rolle der Staatsfinanzen für den Inflationsprozess," in Deutsche Bundesbank ed. *Währung und Wirtschaft in Deutschland 1876-1975* (Frankfurt am main. 1976), pp. 140-141.

⁵⁷ Karl Hardach *The Political Economy of Germany in the Twentieth Century* (Los Angeles and Berkley: University of California Press, 1980).

⁵⁸ Maier, *Recasting Bourgeois Europe*, p. 359.

⁵⁹ Patrick Renshaw, *Nine Days That Shook Britain, The 1926 General Strike* (Garden City, New York: Anchor Press, Doubleday, 1976), pp. 57, 90.

⁶⁰ Marks, "The Myths of Reparations," p. 246.

⁶¹ Harold G. Moulton, *The Reparation Plan: An interpretation of the Reports of the Expert Committees Appointed by the Reparation Commission, November, 30, 1923* (New York: McGraw Hill, 1924).

⁶² Harold G. Moulton, *Germany's Capacity to Pay, a Study of the Reparation Problem* (New York: McGraw Hill, 1924).

⁶³ Moulton thought the transfer committee to be the most important part of the plan.

⁶⁴ Sir Henry Clay, *Lord Norman* (New York: Macmillan, 1957).

⁶⁵ Richard S. Sayers, *The Bank of England 1891-1944*, 1: 162, 178, 179, 184, 188, 336, 354.

⁶⁶ Moulton, *Reparation Plan*, p. 22.

⁶⁷ Knut Borchardt, *Wachstum, Krisen, Handlungsspielräume der Wirtschaftspolitik* (Göttingen, 1982). pp. 165-205; see also Josef Becker and Klaus Hildebrand ed, *Schriften der Philosophischen Fakultäten the Universität Augsburg* . Nr. 18 (1980) The emphasis of the essays contained in this volume is on the relationship and economic policy of the Brüning government during the 1920s and early 30s. Examined are such topics as reparations, disarmament, attempts at restoring the eastern frontier, the election of 1930 and the attempted customs union with Austria. Other topics include the Tardieu Plan or French response to Brüning. This compilation of essays also offers an insight in British foreign policy in Europe

and also Soviet Foreign relations. Finally there is a useful contribution by Borchardt in which he analyzes the rapidly changing economic situation of the late 1920s, especially the economic constraints within which foreign policy and domestic policy had to be shaped.

⁶⁸ Ferguson, *When Money Dies*, pp. 240-248.

⁶⁹ Harold James, *The German Slump: Politics and Economics 1924-1936* (Oxford: Clarendon Press, 1986).

⁷⁰ Harold James, *The Reichsbank and Public Finance in Germany: 1924-1933* (Frankfurt am Main: Fritz Knapp, 1985), p. 11.

⁷¹ Bresciani-Turroni, *Economics of Inflation*, p.45.

⁷² James, *The German Slump*, p. 108.

⁷³ William C. McNeil, *American Money and the Weimar Republic, Economics and Politics on the Eve of the Great Depression* (New York: Columbia University Press, 1986).

⁷⁴ Feldman, "Weimar from Inflation to Depression: Experiment or Gamble?" in *Nachwirkung* p. 391.

⁷⁵ Barbara Tuchman, *The Guns of August* (New York: Macmillan, 1962), ch. 1. The old order was passing, and Tuchman demonstrates that with this passing nothing would ever be the same again.