THE REPARATIONS DEBATE

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This paper examines the reparations question from the perspective of its role in the post-1924 period. Particular attention is paid to the work of Albert Ritschl on the reparations regimes between 1924 and 1934. He stresses the competition between Germany's public and private debts and the importance of Germany's role as a sovereign debtor that could not commit national suicide by fulfilling its obligations at any social and political price but that sought to maintain its credit by giving priority to its private obligations at the expense of reparations. There was some learning from the past after 1945. The London Debt Agreement of 1953 precluded a conflict between private and public debts by an exclusive concentration on private debts and the restoration of German credit.

This is not intended to be a research-based paper. I have not done research on reparations for some time, but preparing for this conference has given me a welcome opportunity to ponder some of the latest literature and think anew about problems that engaged me when I worked on the German inflation of the early 1920s, but also on the depression of the early 1930s in Central Europe. Also, some of the organizers of the gathering in Glasgow attended the conference on Versailles hosted by the Center for German and European Studies at Berkeley in May 1994 and also sponsored by the German Historical Institute in Washington, D.C. and viewed this symposium as something of a successor to the earlier one. The 1994 conference volume appeared as an edited volume, The Treaty of Versailles. A Reassessment after 75 Years in 1998, and I think it contributed substantially to providing new perspectives on Versailles and demonstrated the richness of the subject. In any case, I find it gratifying that some of those involved believe, as I do, that the 1994 conference was a point of departure, that yet newer perspective are possible and that there remains more to be done. Versailles, despite the dismissive attitude of some historians on the cutting edge of the great cultural abyss, remains fundamental to our understanding of twentieth century history and deserves repeated revisiting.
The reparations debate, as we have come to know and love, has been of course concentrated on the question of German capacity and willingness to pay. No one has accused the Germans of honestly and forthrightly attempting to fulfill their obligations under the Treaty, and there is a genuine consensus that the policy of fulfillment had, as its purpose, the demonstration that fulfillment was not possible. There has, however, been a debate as to whether it was economically and politically possible for the Germans to pay the reparations bill and the degree to which they deliberately pursued policies of inflation and deflation in order to undermine the reparations settlement. At the 1994 Berkeley conference, Sally Marks and Steven Schuker insisted that the Germans deliberately and consciously pursued a policy of inflation and hyperinflation to escape paying a reparations bill that had already been significantly reduced by the division of the 132 billion gold mark indebtedness into A, B, and C Bonds. My own position in the debate was, and remains, that Marks and Schuker inhabit a creditor’s utopia where nations are constantly paying their bills and doing so on time. Yet in the real world, especially the real world of Weimar Germany, social and political circumstances did not permit such a policy. Indeed the right-wing forces, who were the only ones capable of employing the dictatorial tactics necessary to implement the socioeconomic measures necessary for fulfillment, were in fact the strongest opponents of paying reparations.

An interesting twist was provided in the discussion by Niall Ferguson, who argued that the German balance of payments made fulfillment impossible but that the Germans were mistaken in thinking that inflation and dumping practices would bring the Allies to terms by producing even higher unemployment than already existed among the victors. Ferguson argued that the Germans should have taken advantage of the relative stabilization of 1920 to stabilize permanently and that this would have deprived the Allies of the German market and the advantages they were getting from the overheated German economy and its reconstruction. It is worth noting that Ferguson’s view complements the claim of Carl-Ludwig Holtfrerich that the German inflation helped to dampen and bring a speedy end to the economic crisis of 1920–1921 because there was at least one major industrial nation, namely Germany, with a high demand for goods and services. In Ferguson’s view, if the Germans had reduced this demand by a stabilization policy, then the Allies would have lost the German market and come to realize that reparations and German recovery were incompatible but also that reparations and recovery from the depression were incompatible. My own position is that German stabilization in 1920–1921 is not a credible counterfactual because there was such a strong inflation consensus in Germany in 1920–1921. The real chance came in the fall of 1922 when the inflation consensus was being replaced.
by a stabilization consensus, thereby providing at least a slight chance to avoid the Ruhr catastrophe or possibly make it less protracted. This opportunity was not taken, and we know what happened.6

While there was some mention in the 1994 discussions of the role of reparations after the stabilization and a parallel was drawn between the instrumentalization of inflation and, during the world economic crisis, of deflation in the struggle against reparations, the role reparations played in the post-1924 period was not discussed at all. It has not, in fact, received much attention until fairly recently. There are at least two good reasons, however, for taking a closer look at the post-inflation history of reparations. First, it has taken on a new significance thanks to recent scholarly work. Second, the arrangements made during the post-1924 phase had a curious and significant though quite neglected afterlife following the Second World War with the result that the entire reparations debate can be viewed from a somewhat different perspective from the usual one.

Certainly the most important recent scholarly contribution placing reparations center stage is the work of the German economic historian, Albrecht Ritschl, *The German Business Cycle, 1924–1934: Domestic Activity, Foreign Debt, and Reparations from the Dawes Plan to the Debt Default.*7 The book is more accessible to “normal historians” than it appears when one just leafs through it, since Ritschl has been careful to present his central historical arguments in non-econometric form. Thus, readers not versed in econometrics can understand the argument even if they must take the models and the econometrics behind them on faith or simply ignore them.

Ritschl defines three reparations regimes in the post-inflation period. The first of these, from 1924 to 1928 is characterized by a recycling of reparations payments through American credits, the famous Dawes loans. Under the Dawes Plan, Germany was obligated to make reparations payments of one billion gold Reichsmark in the first year, rising to 2.5 billion over a period of four years. The money was to be taken from the reorganized Reichsbahn, customs taxes, and excises, but transfer protection was provided should Germany be unable to pay the reparations, and the Reichsbank was reorganized with foreign representatives on its Supervisory Board. The transfers and carrying out of the plan were placed under the supervision of an Agent-General, Parker Gilbert. An initial loan of 800,000,000 Reichsmark was made to Germany and was followed by a host of commercial loans that fueled the Germany recovery. It enabled Germany, after a very brief period of austerity, to enjoy an artificial boom characterized by increased public spending, social expenditures, and high wages, or at least wages higher than what was justified by investment and productivity according to Knut Borchardt and Harold James.8 The fundamental problem, however, was that the Dawes Plan had established an
implicit competition between the private international, above all American, credits used to finance the German economy and the reparations debts that was resolved by using the former to pay the latter. So long as those reparations debts were financed by foreign credits, the private debts received priority. The Dawes Plan evaded the issue of settling a final reparations sum, and this was an obvious source of uncertainty.

By 1928–1929, however, the foreign credits were diminishing substantially, and the Young Plan, which was to be the second reparations regime, was intended to create a situation in which, on the one hand, the controls on the German economy under the Dawes Plan and the occupation of the Rhineland were ended and, on the other hand, the total reparations bill was reduced to 114 billion Reichsmark to be paid over 59 years. The Germans were obligated to make direct reparations transfers from their budget and a transportation tax according to a fixed annuity schedule, a third of which was to be paid unconditionally and the remainder of which was postponable in the event of transfer difficulties. The annuity was to rise from 748 million Reichsmark in 1929–30 to a sum somewhat under 2 billion Reichsmark per year in 1930–31 and then somewhat over 2 billion in the late 1930s until the final payment was made in 1988. The Bank for International Settlements was set up in Basel to manage the payments and provide for Central Bank cooperation. The second reparations regime, therefore, was the Young Plan regime in which reparations payments had priority and, unhappily, came at a time when the economy was in a slump and doubly burdened the German balance of payments since the Germans had to cover both the obligatory reparations payments and the servicing of their foreign private debt. They also lacked the type of fiscal arrangement available to the British so that a genuine crisis developed each month when they had to pay the civil service and make transfers to the federal states. It was this triple bind, according to Ritschl—joined by Theo Balderston and Ulrich Bachmann, who have also worked on the fiscal crisis—that imposed an austerity policy on Germany and made it impossible to fight the depression with borrowing and public expenditure and required the austerity policy pursued by Brüning instead. Just as the Dawes regime created the basis of what Knut Borchardt defined as the “crisis before the crisis” so the Young Plan regime deprived Brüning of freedom of maneuver, the other important thesis of Borchardt concerning the fatal situation of the Weimar Republic.

Ritschl, however, gives the discussion of Brüning’s policies an interesting interpretative turn by stressing the dilemma of Germany as a sovereign debtor. States that do not pay their debts cannot be taken to court and thus present a special problem for creditors, a situation of which we have become very conscious since 1945, particularly with respect to
Third World countries. Indeed, in its fiscal organization and financial condition between 1929 and 1933, Germany may in fact be compared to a Third World country. Ritschl, of course, is not the first person to note the constraints on German domestic borrowing and expenditure and the domestic battle over, for example, urban borrowing during the 1924–1928 period. William McNeil’s book on *American Money and the Weimar Republic* of 1986 discussed these issues, but the specific role of reparations and the problems created by pushing reparations to the forefront under the Young Plan have, as far as I know, not received attention as a problem in sovereign debt. Needless to say, refusal to honor the conditions of the Young Plan could have led to sanctions against Germany, but as Ritschl points out, there is a limit to the costs in welfare that a sovereign debtor can tolerate through such sanctions. This limit is reached at the point where the costs of fulfillment and maintaining one’s status as an acceptable credit risk, be these costs in actual economic welfare, be they in political destabilization, are deemed to exceed those entailed by “dropping out,” that is, retreating from the international economic order altogether and pursuing a policy of debt repudiation and autarchy.

This was, of course, the option favored by the extreme right and left, and it was an option of which Brüning was well aware and which, according to Ritschl, he viewed as an undesirable but real alternative to his own policy of trying to reintegrate Germany into the world economy by fulfilling Germany’s obligations but working toward an international settlement involving the revision of the Young Plan and basically the liquidation of reparations. If commercial debts could once again be given primacy, then Germany would hopefully be in a position to borrow and pursue a more expansive financial policy at home. This goal was not always consistently followed, however, because of Brüning’s need to pacify the right. A prime illustration was the ill-timed and ill-fated Austro-German customs union scheme that was launched in March 1931 and probably had more to do with the strategy of the German foreign minister Curtius and the Foreign Office than the Brüning programme. It was nonetheless a gesture to the right-wing programme, and the reaction to it by the Allies only reinforced Brüning’s recognition that the end of reparations would have to be worked toward by this continued deflationary policy and be realized when the political constellation was favorable in the United States and in Europe.

In Ritschl’s view, the traditional charge against Brüning that he deliberately made the depression deeper in order to end reparations is the reverse of what actually moved Brüning, namely, that deflation became ever more necessary precisely because he could not end reparations in 1931. This argument seems to be born out by the evidence from
the Cabinet protocols. As Brüning put the matter to his cabinet on May 7, 1931:

Two things are necessary: Domestically, it is necessary that with the issuance of the emergency decree the impression is created among the people that the revision is already on its way; abroad, however, one must create the impression that we are striving to fulfill the plan. The entire complex must be kept in motion until the beginning of 1932. Until then Germany must not allow there to be decisive negotiations.¹¹

Brüning feared that if things moved too quickly, it would have the reverse effect of what was desired and that sedation at home and abroad was necessary. The banking crisis and the Hoover Moratorium changed the situation, but even then the domestic political situation in France remained a source of concern and the Germans were uncertain as to how far they could go. The standstill agreements with Germany’s commercial creditors, however, did give a priority to commercial debts despite French objections, and by October the Germans were prepared to talk about the need for a “final solution” to the reparations question. This was not, it should be emphasized, some purely German reaction to the situation, but rather the reflection of growing consensus that reparations had to end. Thus, in August 1931, a member of James Warburg’s staff reported back from Berlin: “I don’t believe anybody over here thinks that after six months foreign debts can be paid, nor could anybody guess when, if ever, the foreign current indebtedness of Germany can be repaid. The thing that makes it seem so hopeless to me is that the recovery of Germany seems . . . to be fundamentally based on a cancellation of reparations and it seems to be universally believed, both in Germany and elsewhere, that it is just a question of time before reparations will be cancelled.”¹² Probably the major obstacle to this was the unwillingness of the United States to cancel the Anglo-French debts.

In mid-May 1932, just prior to the Lausanne Conference, that situation was no better, and the primary problem was preventing the conference from being a total failure. The French were formally maintaining their position that the unconditional portion of the Young Plan payments had to continue, while privately becoming increasingly willing to accept some compromise in the form of a lump payment of three billion Reichsmark or a lien on railroad profits in return for agreeing to end reparations. As the well-connected Warburg reported, the banker Carl Melchior from the Warburg Bank who had been there back in Versailles and was now a member of the Wiggins Committee, and international committee set up to deal with the world economic problems, was invited along with Schwerin von Krosigk, a ministerial director in the Finance Ministry and later
Finance Minister under Hitler, to meet with French officials in Geneva to “see if they can find a solution for the Lausanne Conference along the lines of some single, final effort to be made by Germany in consideration of being freed once and for all of reparations payments.” As Warburg reported,

Melchior’s position, with which I entirely agree, is that he is quite willing to undertake this mission if desired, but that he consider it futile for two reasons: first, Brüning having stated categorically that no further payments would be made, it is inconsistent for Germany now to make any overtures before the Lausanne Conference, particularly in view of the Nazi flare-up which would undoubtedly occur if he now backed down; second, if the mission is merely to reiterate Brüning’s statement that Germany will not pay another penny, it would seem better either not to embark upon the mission at all, or else to go to Paris to make this statement as politely as possible rather than have the French come to Geneva to be kicked in the face. I have no idea how the matter will develop but it is significant because it shows that, in spite of Brüning’s drastic utterances to the contrary, he realizes that the Lausanne Conference is foredoomed to failure unless Germany makes some concession. Last night I met the Belgian Ambassador…and he expressed exactly the same view, namely, that Germany must make some nominal concession in order to accomplish the desired result.\(^{13}\)

Brüning was not, at this point, prepared to make such concessions but, in his last cabinet discussion on reparations on May 27 before his resignation on May 30, Brüning argued that they had to demand an end to reparations, but that “this demand will to be sure hardly be possible to realize immediately, at least not at this conference. The other side will not be prepared to recognize that Germany in the future will not be in a position to attain surpluses with which to pay reparations.”\(^{14}\) Indeed, Brüning was prepared to argue that the 1.5 billion interest burden on the existing private foreign debt was a consequence of having to pay reparations and was getting ever more burdensome because of the continuing deflation. Brüning hoped, however, to avoid Germany being blamed for a failure at Lausanne by stressing the second goal of the conference, which was to find solutions to the world economic crisis. In general, Brüning’s behavior before his departure from office and, indeed his desire to continue the policy of emergency decrees, which Hindenburg now refused him, would appear to confirm the Ritschl argument that he did not pursue deflation to end reparations but rather because he needed to end reparations in order to change the situation internally while maintaining Germany’s participation.
in the international economic order, or what was left of it. The tragedy, of course, was that reparations were eliminated at Lausanne after Brüning had left office, while Brüning’s reliance on emergency decrees had paved the way for a right-wing rule that would eventually lead to the third phase of reparations history, namely, the blocking of transfers and the autarchy policy pursued by Schacht after the Nazi takeover. Ritschl suggest that Brüning, if he had stayed in office, might have used success after Lausanne to pursue an expansive economic policy at home while seeking German reintegration into the world economy.

There are a number of aspects to Ritschl’s study, which I find particularly refreshing. He insists that Brüning’s deflationary policy was not motivated by cyclical considerations, that is, a belief that a pro-cyclical policy was the most appropriate course to pursue as a matter of economic principal, but rather that it was a political policy required by the goal of retaining Germany’s place in the international economic order. In this connection, Ritschl in no way argues that the Germans were economic victims of reparations but rather that they were victims of their constant efforts to evade reparations and putting off taking measures to pay until they had no other choice but to agree to the young Plan which came just at the time that Germany entered the Great Depression. Similarly, while he cannot find any possibility of Germany pursuing a successful policy of fulfillment, he does not think this is because Germany was incapable of paying reparations: “Had Germany possessed a political culture after the First World War that might have made the fulfillment of reparations obligations thinkable without inflation, political murder, street battles and, in the end, dictatorship and a war of revenge, then the German reparations after the First World War would probably be little more than a footnote in history, a curiosity of financial history like perhaps Britain’s horrendous state debt after the Napoleonic Wars.”

While there is a bit of exaggeration in suggesting that reparations would have been a footnote in history, Ritschl’s entire work is based on counterfactual propositions that seek to discover ways in which a satisfactory solution might have been found, and he finds none. The most convincing argument in the book in any case pertains to the competition between reparations payments and commercial debts and the problems of the sovereign debtor. Ritschl does not pay sufficient attention to the role of the Allies, by skirting not only around the American practice of intervening and then withdrawing from international economic issues, but also the failure of the French to find a suitable policy, this a product in large part of its domestic political conflicts, and Britain’s increasing preoccupation with the Far East, its own nationalistic tendencies, and its growing tendency to appease Germany and drag a dependent France along what was to become a very dangerous road. For an exploration of these aspects
of the problem, one must turn to the recent study of Lausanne by Philipp Heyde.\textsuperscript{17}

In any case, what the recent historiography does suggest is that there is much work to be done toward the creation of a new and more comprehensive and international treatment of the reparations question since there are a great many unanswered questions. However, the perspective of such studies can no longer be the old debate’s about the transfer problem and capacity to pay. I would like in conclusion to argue briefly that some attention should be paid to the implications of what happened after the Second World War. The creation of the Federal Republic of Germany, which considered itself and was regarded as the legal successor to the Weimar Republic and the National Socialist regime, involved among other things its progressive reestablishment as a sovereign state that was obligated to repay old debts and could undertake sovereign debts. I am referring, of course, to the fact that the Dawes loans and the Young Plan loans as well as the lesser known Krueger and the Lee-Higginson-Credit had by no means passed into oblivion after the war and were ultimately subject to repayments negotiated at the international London Debt Agreement meetings in 1951–1952 and ratified in 1953.

While the subject of some investigation by Christoph Buchheim, the entire arrangement has largely been neglected in the literature with the exception of a book and other writings by Hermann Josef Abs, who was the chief German negotiator and who always preferred to write his own history. In 1991 Abs produced a study, \textit{Decisions}, that framed the London Debt Agreement and his own role very much in the context of the alleged mistakes of the past.\textsuperscript{18} It should be noted, however, that this was very much in the spirit of German opinion back in the 1950s. Although the situation in 1951 was obviously very different from that of the interwar period, Germany having been the beneficiary of the Marshall Plan and of the western interest in her recovery generated by the Cold War, it is remarkable how aggressive the Germans were in stating their position and the extent to which the Germans were able to use the history of the interwar period to press for what they considered an acceptable settlement. In March 1952, for example, the \textit{Spiegel} reported: “Many experts in West Germany fear that in the wood-paneled chambers of Lancaster House a historical period will be repeated. Also, after the First World War the representatives of the creditors and those entitled to reparations pressed for ‘the greatest possible German payments.’” \textit{Spiegel} quoted Hjalmar Schacht on the Dawes Plan, when he argued that Germany did not have enough of an export surplus to pay for food and raw materials, let alone to pay for reparations and \textit{Spiegel} went on to claim “that the situation today is hardly better. But in London the delegations from 30 countries have in the next weeks the chance to avoid the gross mistakes of the reparations
policy after World War I, through which whose overburdening of the Germany economy significantly contributed to the world economic crisis of 1931.” Hermann Abs believed that a fair settlement for both sides was to be achieved “though moderation on the creditor side and courage on the debtor side.”

Exactly what kind of courage was meant is, of course, somewhat ambiguous. Did he mean the courage to accept appropriate burdens, or did he mean the courage to say “No,” a type of courage in which the Germans had become well practiced? Whatever the case, just as in 1932 there was a consensus between Germany and the Anglo-American powers that the competition between reparations and commercial debts had to end by getting rid of reparations, so in 1951 there was a consensus—unsuccessfully contested only by the Netherlands and Norway—that a competition between reparations and commercial debts had to be excluded from the start. Claims, for example, for the payment of forced labourers in German plants during the war as demanded by the Dutch would simply have to be put off until Germany was unified, as would interest payments on the interwar loans. As it turned out, they were not put off to eternity thanks to the unification of Germany, and Germany has been paying off the interest as well as struggling successfully to settle with claimants to restitution and reparation at a price well below those damages for which it was responsible. Abs rated the significance of the London Debt Agreement to be the equivalent of that of the Marshall Plan, and argued that it was the linchpin in Germany’s effort to become credit-worthy again. He went on to note that it never achieved the kind of role in the public consciousness that reparations did, and concluded that its successful and unnoticed implementation was in fact a measure of its success. Another measure of its success can be found if one uses one’s search engine to find the London Debt Agreement on websites, where it appears endlessly in connection with the debt restructuring of underdeveloped countries as a kind of model of how deciding to do the politically possible and necessary can create credit-worthiness and sustain the world economic and capitalist system.

From this perspective, the reparations debate during the interwar period and the historical debate that followed seem beside the point because the politics of the interwar period appear as nothing but a formula for inevitable disaster. Whether debtor’s utopia for sovereign debtors is any more desirable than the creditor’s utopia advocated by the few remaining stalwarts who do so is another question. Whatever the case, reparations was a matter of politics, and the Germans, by combining the London Debt Agreement with an agreement with Israel and this with equalization to burdens legislation to satisfy domestic demands certainly demonstrated that Bonn was not Weimar.
NOTES
