

# Weimar republic and the reparations imposed on it



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Following the end of the First World War in late 1918 and the German Revolution which had started in its wake, the Weimar Republic (which at the time was still known as the Deutsches Reich) was formed. During the war, France and Britain had been economically and physically torn apart by Germany, and therefore saw it fit to insist on reparations as a way of starting to recover their fiscal and structural losses. The Versailles Treaty outlined the price that Germany must pay for its destruction over the past five years. The cost of the reparations (which will be examined below), among other factors, crippled Germany, leading her into hyperinflation and thus plans were put in place to try to rectify the situation. The Dawes Plan of 1924 and its replacement the Young Plan of 1929 will be discussed below with specific focus on their efficacy.

The Treaty of Versailles, or Diktat von Versailles as it was known in Germany, was written up by the Allied Council without German input and put to Germany effectively as a *fait accompli* on 7th May 1919.[1] Germany did offer lesser amounts of reparations but all of these were refused, so it was signed on 28th June 1919. Article 231 was particularly prominent and arguably the most humiliating clause. This so-called “ War Guilt Clause” demanded that Germany acknowledged her full and undivided guilt in causing the war[2], thereby justifying the reparations demands made by the Allies. The Germans were astonished by the “ harshness”[3]of the demands of the reparations which came in many forms: territorial; military; monetary; intellectual; agricultural; and produce. As far as territory was concerned, Germany’s colonies were to be stripped of her and many of her borders changed as parts of the country were given to France, Belgium, Lithuania, former

Czechoslovakia and others. The country was to be effectively demilitarised, with the navy reduced to 15, 000 men and the army to just 100, 000.

[4]Merchant ships, one quarter of the fishing fleet, rail locomotives and rolling stock were taken from Germany by France to compensate for France's losses during the war.[5]The monetary reparations are the easiest to quantify: the original demand was that Germany signed a blank cheque to pay whatever amount the Allies deemed to be appropriate. This was later fixed in 1921 at 226 billion Reichsmarks – around £6. 6 billion. Intellectual property is probably the least recognized element of the reparations demands, but arguably one of the most damaging. Germany was to immediately give up fifty per cent of her chemicals, dyes and pharmaceutical stocks. Trademarks and patents, notably for Aspirin (which had been developed in Germany by Bayer), were also signed over to the French. Also, for the following five years the Allies were to be able to buy a quarter of these products at below market prices.[6]Agricultural reparations were also made, as Germany shipped livestock to France in order to restock their farms in war zones so they could rebuild their farming industry which had been badly damaged as large swathes of livestock were killed during the war. [7]Perhaps the most damaging form of reparations to Germany though was her loss of resources, as she handed over 75 per cent of her iron ore; 68 per cent of her zinc ore; 26 per cent of her coal production and all of the potash mines and textiles factories that lay in the Alsace region.[8]

The newly formed Weimar Republic inevitably struggled with the payment of these reparations. The border changes led to soaring unemployment rates as Germans that had been employed in the regions which now belonged to the

Allies were rendered jobless. Also, due to the large swathes of industrial Germany which had been stripped of her, it was impossible for the country to continue to manufacture all of the goods that it required. This meant that Germany began to import more than it was exporting, and the primary nation which they were importing from was France. France took this opportunity to charge massively inflated rates for its goods, meaning that Germany had no choice but to pay over the odds for goods that were being produced just miles from its newly altered borders, in factories that had formerly been German owned and run. This economic pressure that Germany was now facing ultimately led to hyperinflation, and the value of the Mark plummeted. In early 1921, the value of the Mark was relatively stable at about 60M per US Dollar. Following the London Ultimatum in May of that year which dictated that Germany was to pay annual instalments of 2 billion gold Marks (which equated to roughly 717 tonnes of pure gold), the value of the Mark dropped to 320M per 1USD by early 1922, and by the end of that year the US exchange rate had soared to 8000M to 1USD. Germany told the US that it was going to be unable to make good on its payments on the 15th of January and February in 1923, as it simply could not afford to pay them. When Germany did then default on these payments, France and Belgium marched onto German soil and occupied the Ruhr region[9] and confiscated all of the coal they found there. However, much to the disappointment of the Allies, this simply led the German government to order the miners to stop working so that no more coal was produced just to be seized by the French forces. At this point, industries across Germany started to shut down, as the coal that they required was not reaching them. This meant that yet more goods had to be imported from France, adding to

the out of control hyperinflation spiral. On 13th August 1923, Gustav Stresemann became the seventh of twelve different chancellors of the Weimar Republic and led the Republic into the so-called “Golden Era” – the only era of relative stability for the Republic. In his short-lived period as Chancellor, which lasted until 23rd November[10], just 102 days, Stresemann introduced new currency: the Rentenmark, at the point when 1USD was worth 4, 200, 000, 000M. This worked because Stresemann refused to print more money, which put a halt to the inflation which was crippling the country. Although a good start, this was not enough to get Germany out of the financial difficulties that they faced, as the reparations still had to be paid.

Due to the extreme hyperinflation that Germany was suffering, the fiscal reparations became increasingly worthless to the Allies, as the value of the Mark continued to drop. However, following the success of the Rentenmark, a permanent currency was introduced: the Reichsmark. At the same time, a committee was set up by the Reparation Commission to reassess the reparations situation as it had all but stalemated (because the Allies were demanding large sums of Marks which was becoming less and less valuable). By the time a plan had been discussed and finalised though, the currency had already been stabilised. Nevertheless, the committee and plan were crucial to Germany's economic recovery. The committee was headed by Charles Dawes, a banker from Chicago who was also the American Secretary for the Treasury and later became the Vice-President[11] and the plan, which was agreed and signed by the Allies and by Germany on 16th August 1924, was named after him. The Dawes Plan was an arrangement for the

repayments of the reparations and consisted of four main points, each of which will be discussed in turn. The first was that the Ruhr area was to be completely evacuated by Allied occupation troops. This meant that the mining and factory activity in the area could be resumed and resources could start to be produced and used within Germany once again. With regards to reparations payments, the total amount to be paid was not reduced and was left undetermined, but the instalments were reduced. Payments were to begin at one billion Marks for the first year and to increase to two and a half billion Marks by 1928[12] as the economy improved. The third point of the plan was that the Reichsbank was to be reorganised under Allied supervision, meaning that the German economy could be rebuilt and restructured. Whilst the Allies were responsible for the system they did not change the currency, and the Reichsmark continued to be issued until 1948. Finally, it was decided that the reparation money would be sourced from several areas, which were to include taxes from transportation, excise and custom. A major stipulation of the Dawes Plan was that America lent money to Germany, in order to enable it to make good on its reparations payments. This money was then given to Britain and France who gave it to the USA to pay back their war debts to them. The USA lent \$200million to Germany[13] and continued to lend more over the coming five years. This helped the German economy, as they were being provided with more money from the loan than they needed to pay off the reparations, meaning they could put money into reconstruction, rationalisation and expansion of the industrial sector.[14] Despite this, Ruhr mine owners and organised farming were bearing the brunt of higher costs and, according to Arthur Mohrus of the Dresdner bank, they were the ones “ paying off the Dawes Plan”[15] and <https://assignbuster.com/weimar-republic-and-the-reparations-imposed-on-it/>

the industries were heading for bankruptcy. By 1927 though, just three years after the plan was put in place, Germany was producing at pre-war rates, and by 1929 Germany was the world's second industrial power after the USA.[16]

By mid 1928, it was starting to become clear that Germany would not be able to continue to pay the high levels of reparations indefinitely. As a result, in August of 1928 another committee was set up with the aim of agreeing a final settlement of the reparations issue.[17] This new committee was chaired by a member of the Dawes Committee, Owen D. Young, who proposed that the reparations amount be set at 121 billion gold Marks, equivalent to about \$29million, which was to be paid back over the next 58 years with the help of another foreign loan of \$300million.[18] The main proposal was that an international bank of settlements be set up to handle the reparations transfers and to be responsible for “ arrangements for discharging reparations obligations”.[19] As such the Bank for International Settlements (BIS) was set up, and still exists today. Also agreed upon by the committee was that international controls and intervention on the German economy, railways and Reichsbank would be withdrawn,[20] giving Germany back her sovereignty over her own finances. The plan was signed on 7th June, but between the discussions and agreement of the plan and its eventual adoption, the world economy was thrown into turmoil by the Wall Street Crash. In order to improve the American financial situation, President Hoover was forced to recall the loans that made the Young Plan possible, but he also called a moratorium in 1931.[21] This called for a one year halt in reparations payments from Germany to the Allies by way of trying to stabilise the central

European economy. It also allowed Britain and France to not pay their war debts to the US for a year. However, this did not stop the economic downturn in Europe, and Britain even deserted the gold standard.[22]At the Lausanne Conference in 1932, it was decided that Germany was too deep in economic crisis to continue to pay her reparations. As a result it was agreed that Germany was no longer to be pushed for payments, and the reparations would be cut by 90%, reducing the debt from \$32.3 billion to \$713 million. Hoover made it clear to Britain and France that this did not mean that they were free of their war debts and, when the moratorium ended, the terms of the Young Plan were readopted. The system collapsed however, and Germany did not resume payments. In fact, all debtor nations defaulted on their American loans except for Finland, and refused to pay them back.[23]

Although founded on good intentions, it seems from the above discussion that the Weimar Republic was somewhat doomed from the outset, as it was saddled with horrendous debt and reparations costs which it simply could not pay. These reparations damaged the Republic beyond repair, as the currency became worthless and their resources were depleted. The Dawes Plan helped the struggling Republic a lot, as it lowered their payment instalments and also got them money from the US. However, this simply meant that they now owed money to the US as well as France and Britain, which would come to cause more serious problems and damage the economy even more than it already had been when the American economy collapsed. Had it not been for the Wall Street Crash, it seems that the Young Plan would have assisted Germany in a great many ways, as it gave control back to the country. As with countless historical debates, study of the Weimar Republic is full of “

what if?" questions, but we are simply left to conclude that this ill-fated era was, albeit well intended, battered by numerous factors and had it not been for one or many of them, this experiment in democracy may have become the model on which contemporary politics would have been based.