

# Seeds of Weakness:

## The Impact of the Treaty of Versailles on the Economic Collapse of the Weimar Republic

by Sven Michael Olsen

Following the end of World War 1, Germany established a democratic republic, an experiment which was doomed to failure, not only by inherent political ineptitude within the Reichstag itself, but also by the animosity and stubborn vindictiveness toward Germany by the Allied powers. The collapse of the Weimar Republic was the culmination of 15 years of political and economic events which were so complex and confusing that historians have written books about this troubled period in German history. Most of these problems originated with the Treaty of Versailles, a document often viewed as a means by which the Western powers subjugated Germany, repressed its economic development, and exploited its former wealth. Indeed, the terms of the treaty not only reflected an Allied fear of a strong German state, but also expressed nationalistic prejudice and hatred for the Germans, particularly by France.

Because of the stringent demands of the Versailles document, which included territorial annexation, demilitarization, and war reparation, Germany's economic standing in world markets was severely undermined, which in turn led to internal economic crisis and political turmoil. While political demagoguery would weaken the effectiveness of the young Reich, the economic crises brought about by the terms of the Versailles treaty would play a major role in the collapse of the democratic experiment in Germany.

### **The Treaty of Versailles**

The first step in understanding the economic turmoil of the 1920s must be to examine the terms of the Treaty of Versailles. The German delegation to the peace conference was led by Count Brockdorff-Rantzau, and was instructed by their government as to what terms were agreeable to them. The Germans were expecting the settlement to follow the guidelines set forth in Woodrow Wilson's Fourteen Points, which seemed to take a lenient attitude toward Germany. When the delegation arrived in Versailles on April 29, 1919, they were rudely awakened by the intensity of the disdain with which they were treated. The Germans were not invited to attend the conference, and were isolated in their hotel until May 7, when the Allied terms were presented to them. The Germans were not allowed any discussion in the conference, and were required to submit any comments or observations in writing within 15 days. The callous manner in which the Germans were treated is one of the greatest injustices they were to suffer. While the terms of the treaty were exceptionally unjust, it is unconscionable that the Germans were not even given the chance to negotiate. This, when combined with the excessive demands of reparations, played an important role in the demise of the Weimar Republic, indeed, anti-republican factions in Germany, especially the Nazis, would exploit this attitude to great effect in their propaganda campaigns for years to come. <1>

The Germans were struck a severe blow when they read the terms of the agreement. First of all, some of Germany's richest industrial areas were to be annexed and distributed among the Allied powers and their satellites. Alsace-Lorraine, along with the mineral-rich Saar Basin, was to be given to France, while Upper Silesia was to be given to France's protegee, Poland. A severe decrease in German industrial production resulted from the loss of these territories. In 1918, following the end of the war, Germany produced 258,854,000 metric tons of coal. By losing its richest coal producing territories, this figure was reduced to 180,474,000 by 1923. <2> Within this same five-year period, iron ore output dropped from 18,392,000 tons to 5,118,000 tons. <3> Likewise, steel production fell from 14,092,000 tons to 6,305,000 tons. <4> Needless to say, the loss of its industrialized territories dealt a crucial blow to Germany's former industrial might.

To further complicate matters, their industrial production was crippled by Allied demands for demilitarization. The treaty called for a ban on the importation and exportation of arms, forbade the construction of military aircraft, naval vessels, and military vehicles, and demanded that the Germans surrender thousands of railroad cars, along with 90 percent of their merchant fleet. With their industrial production hampered, and without a viable means to transport what little commodities they were allowed to produce, Germany's economic standing began to look even bleaker than one might expect. Even so, the Allies were still not quite satisfied. They terminated all commercial agreements between Germany and its former consumer markets, and Germany was barred from access to Allied markets. The Allies even demanded preferred status in German markets for five years, which meant that Germany was at the economic mercy of the Western nations. <5> By now, Germany was reduced to being nothing more than a pauper nation, with little hope for an economically viable future. However, the Allies, urged on by the vindictive French, continued to bleed Germany by demanding monetary recompense for war damages. The Allies could not agree on the amount of reparations payments, however, so the treaty called for a five billion dollar "down payment," and the creation of a Reparation Commission, consisting of Allied appointees which would submit its decision on or before May 1, 1921. In effect, the Germans were asked to sign a blank check, an action reducing Germany to the status of debtor nation.

The Germans were furious at the suggestion that they should submit to such outrageous terms. They had believed that Wilson's Fourteen Points would serve as the basis for peace, yet almost every point was ignored in the treaty. Indeed, it was partly because of Wilson's promises that they had chosen to cease hostilities in 1918, even though they really had little choice. In short, the German felt betrayed, not only by the Allies, but by Wilson and the American people. <6> All German attempts at gaining concessions met with failure, and being faced with military aggression if they refused these terms, Germany reluctantly decided to sign the agreement on June 28, 1919. This action, in effect, sold the German people into financial slavery for the benefit of the Western powers. Perhaps no other political decision in German history had such tremendous impact on the financial and social security of the nation, and had such far reaching effects, not only for Germany, but for all of Europe as well.

### **The Inflation 1918-1923**

In May 1921, the Reparations Commission set Germany's liability at 32 billion dollars, over and above the original 5 billion agreed upon in the treaty. After heated debates in the Reichstag, the German coalition government adopted a policy of fulfillment, but was unsure of how to meet this enormous responsibility. Their knowledge that increased taxation would be unpopular among the people, regardless of social standing, coupled with their refusal to reduce social service expenditures, left only one alternative in their minds: they must borrow money to pay their debts, and to do so, they decided to print more currency. The latter option was taken to extremes and resulted in one of the most terrifying cases of inflation in modern history.

In 1917, Germany had circulated about 18,246,000 paper marks, but by 1923, 133 printing offices with 1783 presses were printing approximately 1,295,228,000,000 marks for circulation. <7> The currency, which was valued at 8.9 marks to the dollar in 1918, had plummeted to 25 billion marks to the dollar by 1923. Prices skyrocketed to the point where the bartering of goods replaced the practice of exchanging worthless currency for needed commodities. <8> Wholesale price statistics reflect this inflationary spiral in graphic detail. Based on an index where 1929 is used as a base equaling 100, wholesale prices rose from 152 in 1918 to 11,634,000,000,000 in 1923. <9> A similar trend occurred in the Cost of Living Index, in which cost of living rose from 196 to 10,324,000,000,000 during the same five-year period. <10> The Germans attempts to meet this rise in the cost of living led to increased wages. On an index based on 1913, weekly industrial wages rose from 200 in 1918 to 86,200,000,000,000 by December of 1923. <11> Subsequently, this inflation, coupled with decreased industrial activity, led to a rise in unemployment from 1.2 percent in 1918 to 9.6 percent in 1923. <12> All of these trends point to an economy which is in dire need of fiscal reform. Faced With such grim statistics, the government had to do something quickly.

### **Stabilization: The Dawes and Young Plans**

Near the end of 1923, with the German floating debt somewhere around 191 trillion marks, the need for economic reform reached a critical point. A scheme devised by Hans Luther, the Minister of Finance, and Hjalmar Schacht, President of the Reichsbank, went into effect on October 15, 1923 with the establishment of the Rentenbank. The Rentenbank opened on November 15, and issued a new currency whose value depended on its ability to assimilate the trillions of worthless paper marks already in circulation. This new currency, the Rentenmark, had a value of 1 billion paper marks, and had an exchange rate of 0.24 dollars, a rate which was comparable to the gold mark's value in 1914. Because of the limited amount of Rentenmarks available, people chose to save their money, which was now actually worth something, rather than spend it on commodities. Luther and Schacht scheme worked, and Germany's economy slowly began to recover. The Rentenmark served as a transition back to a gold-based currency, the Reichsmark, which was introduced at the same value in 1924. <13> Once this was accomplished, Chancellor Gustav Stresemann asked the Allies for a new plan for paying reparations. A committee of international experts was formed under the leadership of American financier Charles G. Dawes, and met in Paris on January 21, 1924. This

committee was to examine Germany's economic situation, then submit a report to the Reparation Commission.

On April 9, 1924, this committee submitted a proposal which came to be known as the Dawes Plan, which suggested that Germany be restored to full economic sovereignty by adopting certain measures, primarily the French evacuation of the Ruhr. Additionally, it was decided that reparation payments would rise from 1 billion to 2.5 billion Reichsmarks over a four-year period, and would be frozen at that level until an unspecified future date. <14> To help them meet this responsibility, an international loan of 800 million RM would be afforded to Germany, an amount raised by purchasing German railway and industrial bonds. As William McNeil points out:

American banks bought the bonds at 87 (the English at 87.5); the bonds were sold to the public at 92, and were to be redeemed at 105. Germany, to receive 800 million RM, had to issue bonds with a face value of 11.027 billion RM. <15>

With such a lucrative chance at gaining huge profits, American and British investors bought up all of the bonds, oversubscribing the issue of the bonds numerous times, drove up the price, then sold them for profit. In their mad desire for wealth, they constantly, and without any conscience, exploited the hapless German's desire to make ends meet. <16>

As an indirect result of the Dawes Plan, there arose a sort of rotating global economy, where everyone, with the possible exception of the Germans, was pleased. The U.S. investors were making money, Germany was receiving foreign loans, France and Britain were receiving reparations payments, and France and Britain were paying war debts to the United States. Germany, while happy to be receiving foreign aid in meeting their reparation payments, was guarded in its reaction to the Dawes Plan. Basically, Stresemann pointed out, the German government was pleased that the Allies had tried to sympathize with Germany's economic situation, but was unhappy that they had to submit to foreign administration of their railways and industries. They would accept the terms of the Dawes Plan, however, only if the Allies continued to recognize the Reich's economic, fiscal, and administrative sovereignty. The Germans apparently received a satisfactory reply to this appeal, for they accepted the Dawes Plan on April 15, 1924. <17>

In 1928-29, many U.S. and British officials believed that a new global economic crisis was around the corner. While the British believed that all debts should be suspended, the Americans hoped to be able to avoid this impending collapse by renegotiating reparation settlements. A plan devised by Owen Young, a member of the Dawes Committee, called for annual payments of 1.7 billion RM, which would rise to 2.43 billion RM, then decline until all reparations would be paid off by October 1968. <18> While payments under the Young Plan were lower than those under Dawes' proposal, the Germans felt that they were not only too steep, but that it was unrealistic to continue paying for almost 60 years. Indeed, it was the German government's capitulation to these terms which fostered animosity between industrialists and the Weimar system, and led the radical right to open denunciation of the apparent weakness of the republican government.

## The Great Depression

On Wednesday, October 23, 1929, the New York Stock Market collapsed. One of the first effects of this disaster was the calling in of short-term loans and a halt on new lending. This proved to be a disaster for Europe as well as the United States. U.S. money was no longer being funneled into Germany, hence, reparation payments fell behind. England and France, without these payments, were no longer able to repay their war debts. The rotating global economy, which was so beneficial in the 1920s, collapsed upon itself and began a series of economic crises throughout Europe. The Great Depression served as the final blow to the floundering German government. Unemployment suddenly rose once more, and industrial production fell drastically. In 1932-33, German industrial production dropped by 50 percent from its 1928 level, and capital goods production fell to one-third of its former standing. Unemployment, which had enjoyed a decline since 1924, suddenly rose to 13.3 percent -- approximately the same level as in 1924 at the height of the inflation crisis. The ineffectual policies of the Brüning government did little to help the situation, so that by 1932, as Hitler was making his final bid for power, 43.6 percent of German workers were unemployed. It has been estimated that as many as 6 million Germans were out of work, but this figure is extremely conservative when one considers that many had been unemployed for years and were no longer receiving state aid, and therefore were not included in the statistics. <[19](#)>

Such depressing events as these would lead to the failure of the bourgeois parties in the Reichstag. With its constant history of economic upheaval, the government was faced with increasing pressure from the radical parties. The Communists saw this as the great collapse of capitalism that had been predicted by Marx, while the National Socialists claimed that it was a testimony to the ineffectual policies of the undisciplined leadership to which Germany had been subjected ever since the Social Democratic government betrayed the German people at Versailles in 1919. Indeed, as the Depression wore on, the specter of capitulation and fulfillment policies toward the Versailles Treaty arose once more, bringing an increase in anti-republican propaganda which branded the Versailles document as nothing more than a contract by which the Allied powers had conspired to enslave the German people.

The Nazis came into their own during the Depression years, and gained power as the Depression wore on. After Hitler was named Chancellor in 1933 and began his plans to revitalize Germany, the economy slowly came back to an even keel. Regardless of the lack of ethical and moral attitudes on the part of the Nazis, their massive rearmament policy, public works programs, and government subsidies to industry created jobs, gave the people a sense of national pride, and pulled Germany's economic fat out of the fire.

Some historians have viewed the years of the Weimar Republic as nothing more than a bridge between imperial Germany and the Nazi Regime. However, when one considers that the democratic experiment could have worked if it had been given a fair chance, this statement loses its validity. Indeed, had the Allies treated Germany with more respect, and had they been more conciliatory during the peace negotiations, things might have been totally different. It seems a shame that ignorance, stubborn pride, and nationalistic

prejudice on the part of the Western democracies should plant the seeds of weakness which would destroy any hope of a lasting democracy in the one country where it was needed most.

### Notes

1 S. William Halperin, *Germany Tried Democracy: A Political History of the Reich from 1918 to 1933* (Hamden: Archon, 1963), p. 138.

2 B. R. Mitchell, *European Historical Statistics: 1750-1970* (New York: Columbia University Press, 1976), pp. 363-66.

3 Mitchell, pp. 388-89.

4 Mitchell, p. 400.

5 Halperin, pp. 139-40.

6 Thomas A. Bailey, *Woodrow Wilson and the Great Betrayal* (Chicago: Quadrangle, 1963), p. 358.

7 Mitchell, p. 676.

8 Halperin, p. 252.

9 Mitchell, p. 736.

10 Mitchell, pp. 743-745.

11 Mitchell p. 186.

12 Mitchell, p. 167.

13 David B. Southern, "The Impact of the Inflation: Inflation, the Courts and Revaluation," in *Social Change and Political Development in Weimar Germany*, ed. Richard Bessel and E. J. Feuchtwanger (London: Croom Helm, 1981), pp. 56-57.

14 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), p. 27.

15 McNeil, p. 33.

16 McNeil, p. 33.

17 Halperin, pp. 287-288.

18 McNeil, p. 233.

19 Dietmar Petzina, "Problems in the Social and Economic Development of the Weimar Republic," in *Towards the Holocaust: The Social and Economic Collapse of the Weimar Republic*, ed. Michael N. Dobkowski and Isidor Wallimann (Westport: Greenwood, 1983), pp. 42-43.

[Return to 1988-9 Table of Contents](#)