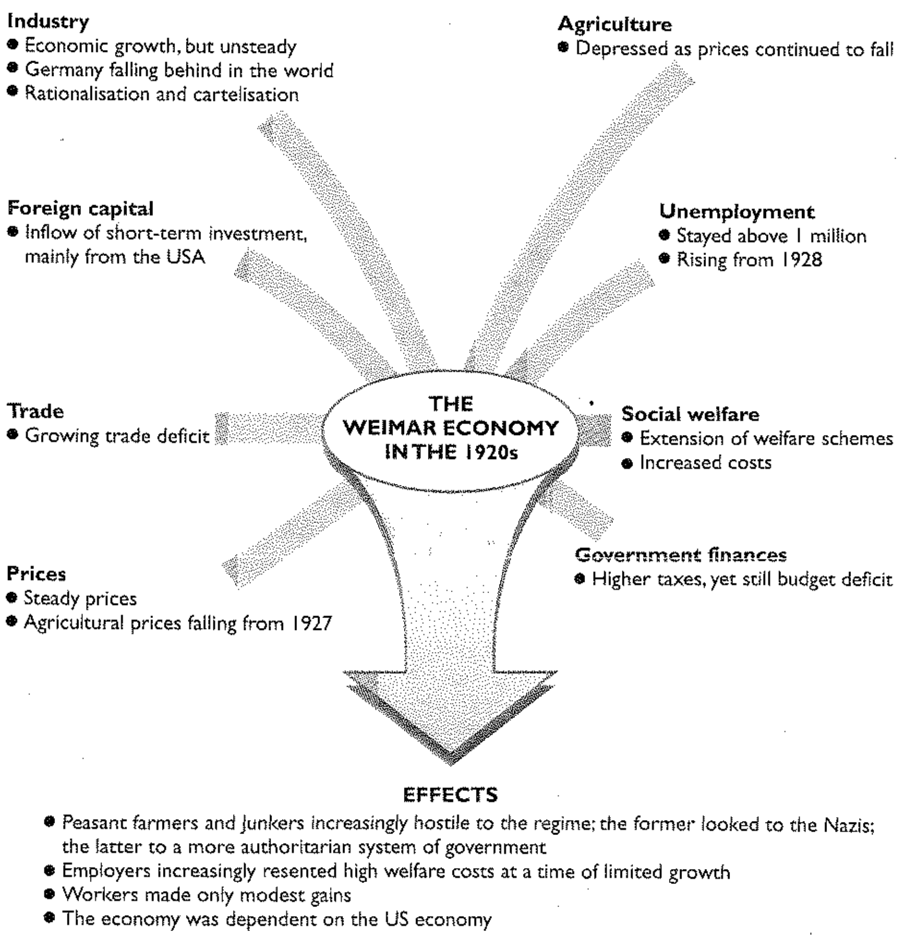
B How secure was the economic recovery?

FOCUS ROUTE

As you read pages 71–6, note down in the 'economics' section of your own copy of the table on page 60 evidence that supports the two opposing views (which you were introduced to on page 58). Use Chart 3D to check that you have covered all the relevant points.

Traditionally, the period 1924–8 has been seen as one of considerable economic advance that might have secured the future of the Weimar regime if it had not been for the catastrophic impact of the Wall Street Crash and consequent world depression. You have already read (pages 49–50) how Stresemann's policies, helped by foreign assistance, restored the stability of the currency and public confidence. The Allies wanted the German economy to recover so that reparations could be paid. The USA, in particular, which had lent millions to Britain and France, wanted economic recovery so that it could retrieve its war loans. Under the Dawes Plan of 1924 (see page 82 for fuller details), Germany received massive American loans to help recovery; and reparations were rearranged, extending their repayment period. The prospects for economic growth made Weimar Germany a magnet for foreign investment until 1929. This traditional, positive interpretation has, however, been challenged by some historians who argue that continuing, fundamental problems in the German economy were of more significance for the future of the Weimar Republic.

■ 3B The Weimar economy in the 1920s



ɜarning trouble spot

ks, Rentenmarks and hsmarks!

1923 Germany's currency was l the mark. In November 1923, bilise the German currency, ɜmann and Schacht introduced porary currency called the ·nmark. It was issued in limited ·ers. Normally currencies are ·d by gold, but the Rentenmark ased on a mortgage of any's entire industrial and ıltural resources. In theory, a nmark could be exchanged for e of land or industry. In ce, people had confidence in it, one wanted to do this. In 1924 ·ntenmark was converted into currency, the Reichsmark backed by gold.

Germany's economic performance

The effects of inflation were long lasting. Pressure groups, including a whole political party, were set up demanding the revaluation of old loans and compensation for those who had lost money. The government unwisely accepted the principle of compensation but pleaded inability to pay fully, offering various schemes. It established a lottery to decide in which order people were paid compensation. This gave creditors hope without ruining government finances. Debts were generally reassessed at 15 per cent of their original value, a compromise which upset both creditors, who got only part of their money back, and debtors, who still had to find money to pay off their debts. The long-running saga of revaluation weakened the Weimar Republic, since it kept bitterness over hyperinflation alive.

Although after 1925 the economy improved, its rate of growth was erratic. In 1926 there was a downturn and unemployment grew, but the economy then recovered. Overall, the rate of industrial growth was low. Spending was no longer financed by simply printing money. Expenditure and the circulation of money were tightly controlled. These were orthodox policies but as a result there were insufficient resources to finance the ambitious welfare state built into the Weimar constitution (see page 76).

■ Learning trouble spot

Economic not economical

These two adjectives can be confused.

Economic means to do with the economy, for example, economic policy. This is the word you will usually use.

Economical means making economies, that is, savings, or using as little as possible.

■ Learning trouble spot

Handling statistics

As a historian, you are likely to encounter many statistics, either in the form of figures or transferred into column or linear graphs.

You must be as critical of statistics as of any other source. You have to ask who produced them, and why. Statistics may be deliberately inaccurate: Hitler issued exaggerated figures for his military forces to try to intimidate opponents. They may be unavoidably inaccurate, due to lack of precise information or poor classification. The published statistics may be misinterpreted by the historian. They may be technically accurate but distorted due to careful selection by the historian to argue a case. The debate over the state of the German economy in 1939, and its connection with the outbreak of war, is a notorious case here (see page 222).

When you use statistics, bear these points in mind. There are also some other problems students may encounter.

- You must give specific dates to statistics you use as evidence; to say that the economy grew by 10 per cent means something only if you give the dates for the period.
- Be careful about base lines. Some statistics are given in absolute terms, for example production figures in Reichsmarks (RM). Often historians want to compare how the economy is doing in one year compared to another. Here they often use not absolute figures but relative ones. Thus they choose a particular year as a base line, call this figure 100, and then convert figures for other years into proportions of that base line; for example, 85 shows it has gone down 15 per cent, 135 shows it has increased 35 per cent. Such figures are easier to understand quickly, but much depends on the base line chosen.

A further problem with base lines is that if you choose a year when an industry is only just starting, for example Buna (a synthetic rubber) production in 1936, you can demonstrate very impressive growth rates; whereas if you choose a baseline when the industry was well established, the growth rate would be far smaller.

lation

nflation is when prices go up. A certain amount of inflation can e beneficial for an economy, as it normally means levels of profit ncrease, and this may encourage increased investment. Money vages may also go up, boosting demand. However, increased rices for goods purchased may outweigh the advantages for vorkers, though this is less likely for industrialists and investors vho have more surplus money.

f inflation is too great, then people may not be able to increase their income in line with rising prices. This was classically the case with investors (whose interest rate on savings might be fixed), and with groups with little economic muscle, for example tradesmen, artisans, non-unionised workers, etc.

Inflation is normally caused by a loss of confidence in the economy. This can happen for several reasons:

a) a continuing balance of trade deficit (see below)
b) a growing budget deficit (see below), and an inability of the government to pay its debts (which might also encourage the government to print money, see c below)
c) an increased amount of banknotes in circulation due to the government printing too much paper money. (This can lead to the classic inflationary problem of too much money chasing too few goods.)

eflation

Deflation is the opposite of inflation: that is, prices fall. This happens during a slump or depression when there is a fall in production and a rise in unemployment. In such situations there are normally too many goods for the demand, so prices fall to try to attract buyers. In such circumstances government income from taxes falls and expenditure on welfare rises, causing budgetary problems. Deflationary policies, as pursued by Weimar governments during the Great Depression, aimed to tackle this budgetary problem by cutting welfare benefits and increasing taxes to balance the budget in the hope that the economy would naturally recover.

eficit financing

- This is when the government spends more money than it receives in order to expand the economy. The resultant expansion should then improve the government's tax revenues which would help restore the government's finances.

Reflation

- Reflation is the policy to counteract deflation. Reflationary policies are designed to stimulate economic growth, especially by government spending money to boost demand, leading to increased jobs, higher wages and rising prices, and so restoring confidence in the economy. Such interventionist policies were most notably advocated by the economist J. M. Keynes in the 1930s, though for a long time most governments rejected such an approach.

Budget deficit

- A budget deficit is when the government's income (from taxes, tariffs, etc.) is lower than its expenditure (for example, on welfare, defence, interest payments). If the government's annual budget stays in deficit (with the gap between income and expenditure met by increased borrowing) then the **national debt** (that is the accumulated annual budget deficits) will increase. Most governments can function with a large national debt, but it means that they will have to spend a lot of money on interest payments to their creditors. If the economy is expanding, this may not be a problem (as after 1933 in Germany), but if the economy is contracting (as between 1929 and 1933 in Germany) it can be a major concern.

Balance of trade deficit

- This is when the value of a country's exports (in goods and services) is lower than the value of the country's imports. This may mean that imports have to be obtained by using up **currency reserves**, rather than being covered by money obtained from exports. It is rather similar to the budget deficit: there the government is losing money; here the country is losing money.

Currency reserves

- The money held by a government is its currency reserves. They could be in the form of gold (normally the safest form of money), or foreign currencies (preferably one in which there is confidence, such as the pound or dollar). These reserves have been built up by trade surpluses. If they are large, then it encourages confidence in the country's economy; if they are low or non-existent, then the economy looks weak.

Gross National Product (GNP)

- GNP is the monetary value of all that is produced (normally in one year) in a country, that is the value of all goods and services. If GNP is increasing, this is the best indication of a growing, and thus healthy, economy. Historians also use GNP to analyse the comparative importance of different economic activities, for example how much of GNP comes from military production, how much from agriculture, etc.

National Income

- National Income is similar to GNP but is a measure of the overall income of all people in a country (largely dependent upon GNP). Income here covers, for example, wages for workers, investment income for savers, profits for industrialists/shareholders. Again, if it is increasing this means people on average are better off (though this needs to be related to the inflation rate). Analysing what proportion of National Income is going to particular social groups, for example workers, gives historians a good indication of which groups are benefiting most from a regime. The proportion of National Income spent by the government on various areas (for example, welfare or rearmament) can also be a useful statistic.

Money wages and real wages

- Money wages is the amount of money someone is paid; it is an absolute term. Real wages is a relative term, used to show how wages relate to prices; in other words, it is an indication of how much a worker can buy with his/her wages.
- Changes in real wages are useful indications to the historian as to how well workers are doing under a regime.

Direct and indirect taxes

- Direct taxes are taxes paid by workers/investors in money to the government, for example, income tax.
- Indirect taxes are paid indirectly to the government, for example taxes on goods. This means people pay a higher price for what they buy; then the shopkeeper gives some of the price to the government. VAT is the most famous current example. Indirect taxes are normally **regressive**, that is they hit poorer people comparatively more; and direct taxes are more **progressive**, hitting richer people more. (But it does depend upon what goods are taxed, for example food or luxury cars; and whether direct taxes are a fixed proportion of income.) The balance between the two can thus tell a historian about the nature of a regime.

Tariffs, quotas and protection

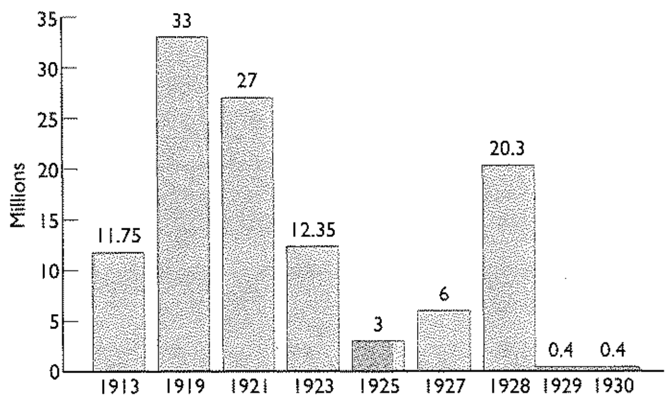
- Tariffs (or import duties) are taxes placed on imported goods. They can have two purposes: **i)** to raise government revenue; **ii)** to discriminate against imports by making them more expensive, thus reducing demand for them. This serves as a form of **protection**: that is, measures taken to protect home industries from foreign competition. This can also be done by **quotas** – formal limits on the amount of particular goods that can be imported.

Industry did make some advances, but the picture in agriculture was far worse. There was a world surplus of grain and prices fell dramatically, affecting both large estates and smaller farms. Indebtedness and bankruptcies grew and there were outbreaks of peasant violence against evictions. In 1928, in what has been called 'the farmers' revenge', many farmers voted for the Nazi Party. Other groups who did not benefit from the so-called prosperity were state employees, savers and tradesmen, the urban MITTELSTAND, who now saw organised workers making gains, diminishing the crucial gap between the middle class and the proletariat. They too were soon to express their resentment politically.

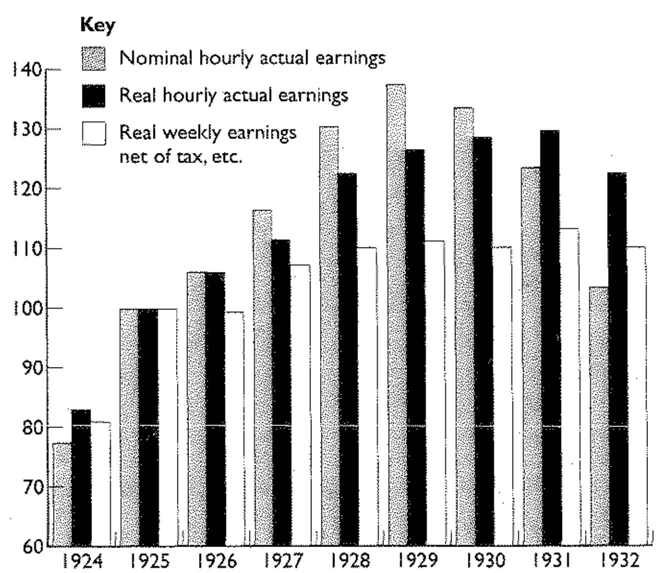
Overall, Germany's economic performance during this period was mixed. Prosperity and confidence returned for many but others harboured resentments at their loss of savings and felt insecure. Most crucially, economic recovery was fuelled by foreign, short-term loans and, when these were withdrawn, the economy was to plunge into crisis. As Kolb argues, in *Weimar Republic* (p. 165), 'It is generally accepted that the economic situation in Germany was highly

■ 3D Comparative statistics for the Weimar economy

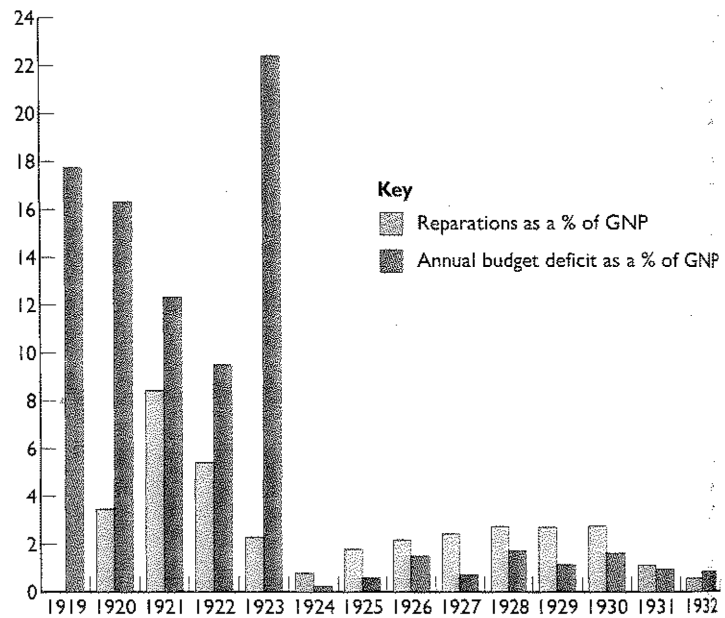
SOURCE 3.14 Working days lost in strikes. (Working days lost = the number of people involved multiplied by the number of days they were on strike)



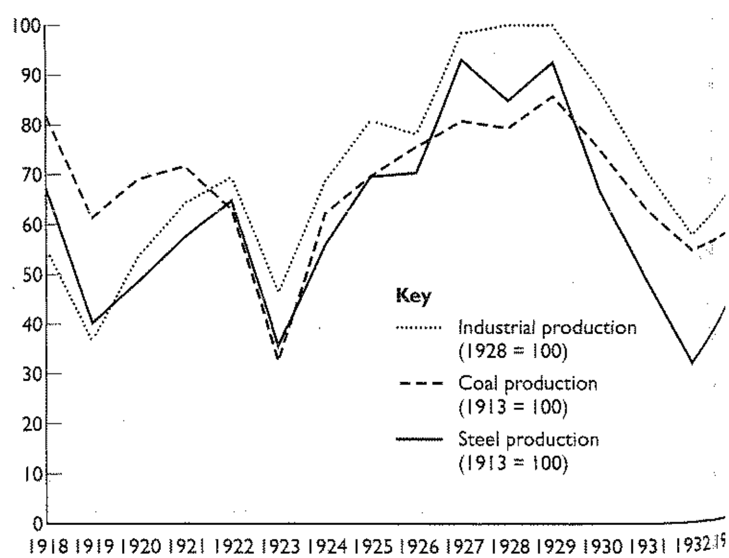
SOURCE 3.15 Wages 1924–32 (1925 = 100)



SOURCE 3.16 The burden of reparations and annual budget deficits as a percentage of GNP (Gross National Product)



SOURCE 3.17 Industrial production



precarious even before the world depression.' Even Stresemann admitted in 1928: 'Germany is dancing on a volcano. If the short-term credits are called in, a large section of our economy would collapse.'

Who was responsible for the problems in the Weimar economy?

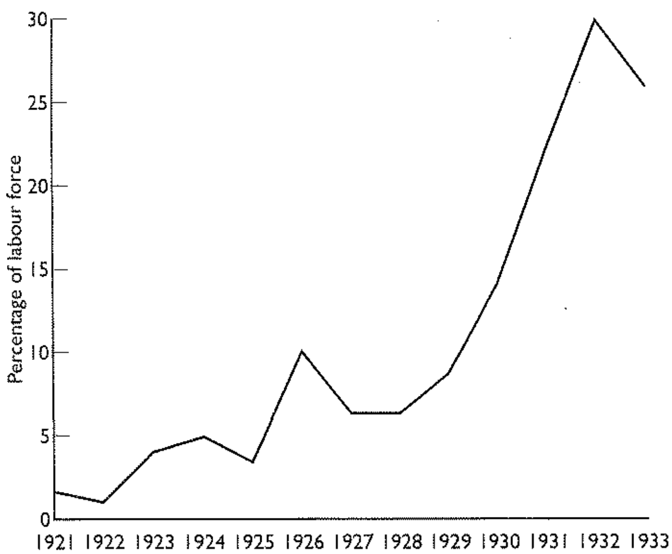
A conservative view

The German economic historian Borchhardt is critical of Weimar Germany's economic performance in the 1920s. He argues that the state was living beyond its means, with both subsidies and the redistribution of wealth harmful to economic growth. He argues wages increased unrelated to productivity, due to the strength of trade unions and state arbitration. Profits and thus investment income were therefore squeezed which led to low internal investment, with growth lower than might be expected. He stresses the persistence of high unemployment (over 1 million). Recession began at different times, in different

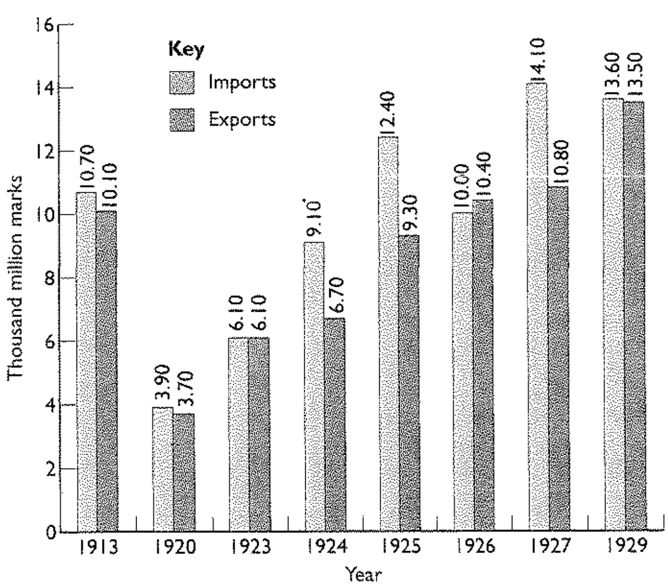
ACTIVITY

1. Do the statistics (especially Source 3.15) support the view that the Weimar Republic favoured the working class at the expense of the elite?
2. Study Chart 3D and identify optimistic and pessimistic trends.

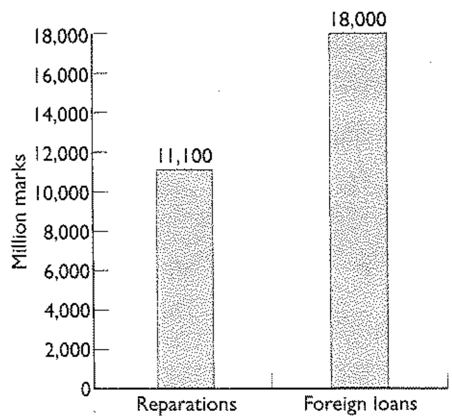
SOURCE 3.18 Unemployment 1921–33



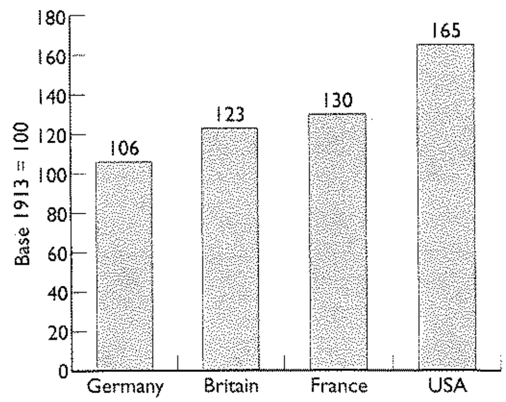
SOURCE 3.19 Balance of trade 1913–29



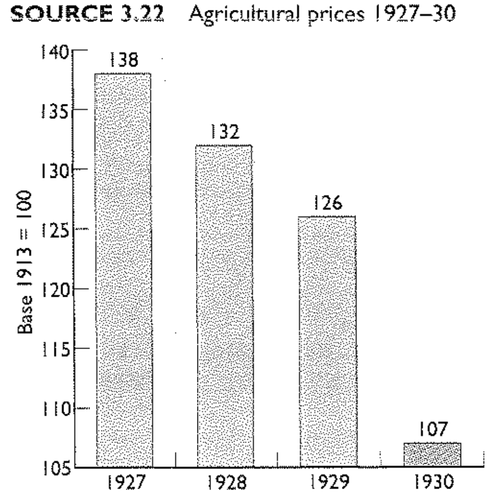
SOURCE 3.20 Flow of money into and out of Germany 1924–31



SOURCE 3.21 Economic growth 1913–29



SOURCE 3.22 Agricultural prices 1927–30



sectors, but set in well before the October 1929 crash. He points to an 'abnormal, in fact a sick economy, which could not possibly have gone on in the same way even if the world depression had not occurred'.

An alternative view

Other historians, such as the left-wing Holtfrerich, reject what they see as Borchhardt's stress on working-class greed and argue that the main reasons for Germany's limited economic performance lay with a lack of entrepreneurial attitude and inadequate investment from the industrial elite. Low productivity was primarily caused by government subsidies, and by industrialists' formation of cartels which reduced entrepreneurial spirit. Thus failures were the responsibility more of cautious and cosseted industrialists than of hard-pressed workers who were striving to maintain their position.

You will often come across disagreements between historians during your course. How do you decide what you think? Do you simply assume the correct answer lies part-way between the two views?

If historians' views over the reasons for Weimar Germany's poor performance reflect their political outlook, does this discredit their analysis?

A synthesis

Recent research, partly fuelled by new work in local archives available after the collapse of the east German state, the German Democratic Republic, in 1989, suggest that both workers and employers contributed to economic weakness. Both groups sought to defend their position and were unwilling to co-operate with each other. Wages did rise, but this was due more to local shortages of skilled labour than to greedy workers and overpowerful trade unions. Low investment was caused by savers' lack of confidence in lending their money and by the government's priority of trying to balance the budget.

C Did the Weimar welfare state strengthen or weaken the regime?

Another area of debate for historians is the impact of the developing welfare state on support for the Weimar Republic. The principles of a welfare state had been written into the constitution (see page 27) and so expectations had been high amongst the poorer classes. Early success came in November 1918, when workers won agreement from employers to an eight-hour working day and a system of industrial tribunals. Considerable advances were made in social services. State governments, often using foreign loans, improved hospitals, schools, housing, roads and electricity supplies. In addition, approximately 40 per cent of federal government expenditure went on war-related pensions to invalids, widows and orphans, in all over 2.5 million people. A further major advance in welfare provision was made in 1927, when the social insurance scheme was extended to protect over 17 million workers in the event of unemployment. Although such measures probably strengthened support amongst many ordinary Germans, the regime also suffered from exaggerated expectations. The competing demands on welfare could not be met, even before the slump ruined the economy. This was especially the case with unemployment insurance which, introduced just before the slump, had its financial basis ruined by mass unemployment.

FOCUS ROUTE

As you read pages 76–7 complete the social policy section on your copy of the chart on page 60.

SOURCE 3.23 Development of welfare during the Weimar Republic

Unemployment insurance		Introduced in 1927, financed by a levy, half paid by employers, half by employees. It was viable unless the total of unemployed went above 800,000		
Social expenditure		**1913**	**Late 1920s**	
		15% of GNP	26% of GNP	
Public spending on housing (compared to 1913 level)		**1913**	**1925**	**1929**
		100	2,525	3,300
Tax burden (as % of income)		**1919***	**1925**	
		9%	17%	
Health		**1913**	**1928**	
Deaths per 10,000	TB	143	87	
	Pneumonia	119	93	

* There was progressive taxation for the first time and a general increase in taxes.

Welfare reforms also affected the elite's attitude to the Republic. The resulting high taxation and comparative redistribution of resources away from the elite reinforced its suspicions of the new democratic system. Some employers sought to pull back their earlier concessions. Before the slump, the eight-hour limit to the working day was changed to a ten-hour limit to help employers. There were also attempts to cut wages. The arbitration system set up under the Weimar Republic protected workers but it aroused the resentment of employers who complained at 'political wages', that is wages set by arbitrators appointed by a government wanting to win working-class votes. In 1928, Ruhr industrialists rejected an arbitration award and locked out 250,000 workers in a clear attempt to break the power of the unions and defeat compulsory arbitration. The government did eventually arrange a compromise, but the original award had been undermined. This typified the growing tension between employers and workers that was to become acute with the impact of the Depression. The historian Abelshauser, in *German History since 1800* (ed. Fulbrook, p. 250) concluded that 'the Weimar Republic was an over-strained welfare state', as the economic growth of the recovery period was insufficient to meet growing aspirations, and, arguably, served to retard industrial advance, and to increase the elite's alienation from the new democratic regime.

ACTIVITY

In what ways and for what reasons do historians disagree on the causes of the weaknesses in the German economy of the 1920s?

D Review: Did political and economic developments between 1924 and 1929 make the Weimar Republic more stable?

You have studied how there were both promising and worrying aspects of the political and economic history of the period. This pattern will be repeated as you study the diplomatic and cultural developments of this time.

ACTIVITY

'Economic developments were more encouraging for the Weimar regime than political ones.' Do you agree with this statement?

KEY POINTS FROM CHAPTER 3: Did political and economic developments between 1924 and 1929 make the Weimar Republic more stable?

1. The success of democratic parties in the Reichstag elections in December 1924 and May 1928 was an optimistic sign, though middle-class liberal parties remained small.
2. Political calm was restored to Germany and there were no attempts to overthrow the system, but there was continued governmental instability.
3. The election of Hindenburg as President in 1925 put great power in the hands of someone not committed to the parliamentary system.
4. Influential groups failed to foster commitment to democratic values.
5. Inflation was cured in 1924, never to return.
6. Reparations were reorganised on a more reasonable level in the Dawes Plan and later the Young Plan, but they still caused great nationalist resentment.
7. The economy was heavily dependent on short-term American loans.
8. By 1929 production was back to 1913 levels, but growth lagged behind that of other countries.
9. Unemployment remained around 1 million, and farmers became increasingly harmed by low food prices.
10. The welfare state was extended and the working class made gains, but this alienated powerful groups in the elite and aroused expectations that could not be met.