

Clifford F. Thies (*Shenandoah University, United States*)

<https://orcid.org/0000-0002-9894-9761>

cthies@su.edu

REPARATIONS, HYPERINFLATION, UNEMPLOYMENT AND THE RISE OF ADOLPH HITLER¹

Abstract: This paper reviews the history of the period 1918 to 1932 mostly to clarify the connections among the Treaty of Versailles, the German Hyperinflation of the 1920s, and the Great Depression of the 1930s to the rise of Adolph Hitler. In many cases, the paper takes a fresh look at original source material; and, it incorporates much of what has been subsequently written. While there are many lessons to be learned from these events, on the matter of reparations, the lesson is strange. In spite of Germany arguably not paying one penny of the demanded reparations, the demand for huge reparation payments contributed to the hyperinflation. More importantly, the re-negotiation of reparation payments enabled, first, Ludendorff and, then, Hitler to make gains in the polls. In the case of Hitler, his rise in the polls came just prior to the Great Depression of the 1930s.

Keywords: reparations; hyperinflation; Great Depression; Hitler; Ludendorff; Hugenberg

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INTRODUCTION

Following the Franco-Prussian War of 1871 and World War I, the victors imposed reparation payments onto the losers. In the first case, the nascent German Empire imposed on France a reparation payment of 5 billion francs, equal to about a quarter of one year's French GDP; and, in the

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second, the allies imposed on Germany reparation payments of 132 billion marks, about twice one year's German GDP (for a discussion of historical estimates of German GDP, see Fremdling, 1988). The amounts of these payments relative to GDP and their consequences were enormously different.

In the case of France's reparation payment, it was relatively modest. France raised most of the funds for the payment with two issues of bonds. Subsequently, France effectively paid off the bonds by running trade surpluses. The real cost of the bonds to the people of France was a reduced standard of living while the bonds were outstanding, reflected in their trade surpluses (for more on the French indemnity of 1871, see Monroe, 1919; Devereux and Smith, 2007).

With regard to Germany's reparation payments, in *The Economic Consequences of the Peace*, John Maynard Keynes (1920) famously argued that the reparation payments demanded of Germany would bankrupt that nation. Initially a member of the British delegation to Versailles, Keynes resigned and argued that the figure being proposed was beyond Germany's "ability to pay" (Keynes, 1920: 200). He described the Treaty of Versailles as vindictive and predicted it would lead to dread consequences.

If we take the view that for at least a generation to come Germany cannot be trusted with even a modicum of prosperity, that while all our recent Allies are angels of light, all our recent enemies, Germans, Austrians, Hungarians, and the rest, are children of the devil, that year by year Germany must be kept impoverished and her children starved and crippled, and that she must be ringed round by enemies; then we shall reject all the proposals of this chapter... heaven help us all. If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilization and the progress of our generation (Keynes, 1920: 268).

Less famously, an Austrian economist, Ludwig von Mises (1919/1983: 181), far removed from the negotiations, wrote similarly. He described the reparation payments as "tribute payments of unheard-of size." And, he predicted that it would cause Germany to re-arm and become imperialistic which, should Germany win its initial confrontations, might cause that country to "fall again into that limitless and boundless madness of victory" (Mises, 1919/1983: 182).²

² Mises said Germany faced a choice, either to re-arm or to accept that it would have to work its way out of its predicament; but, in context, it's clear what choice would be made.

As to what is a country's ability to pay, it is convenient to refer to Carmen Reinhart and Kenneth Rogoff's 2009 book *This Time is Different*, that the upper limit is 90 percent of GDP. Reinhart and Rogoff found that when national debt exceeds this level, governments tend not to pay. They tend to default. Traditionally, default was explicit. Nowadays, for governments that issue fiat currency, default is implicit in inflation. Germany did both. Germany both inflated away its (nominal) domestic debt, and repudiated its (gold) foreign debt.

To be sure, the simple ratio of debt-to-GDP isn't a good predictor of problems with sovereign debt (Reinhart et al, 2003). A better single indicator would be a country's external debt (Manasse and Roubini, 2009). Better still would be a country's credit history. It is also important to consider that, in some cases, repudiation is better seen as a political event than as an economic event. That is, that repudiation is a function of a country's willingness to pay and not merely its ability to pay. William English (1996), examining the experience of the U.S. states that defaulted during the 1840s, found that those with lower debt burdens per capita tended to resume debts payments and fund interest areas, whereas those with higher debt burdens tended to settle with creditors at less than the face value of their debt or repudiate. Curiously, Mississippi had a relatively light debt burden yet repudiated, requiring a special explanation (Thies, 2014). In the case of Germany, as will be developed below, both ability to pay and willingness to pay played roles in the rise of radical parties and of Hitler.

Getting back to the Treaty of Versailles, prior to any reparation payment, Germany handed over some 11.5 billion marks in commodities and capital goods. These transfers were not counted as reparations, but against the cost of occupation. Then, Germany made an initial payment, raising that money overseas, via debt issues on which it subsequently defaulted. At a later time, the United States, first under the Dawes Plan of 1924 and then under the Young Plan of 1929, essentially made payments to France and others on behalf of Germany, which payments enabled the French and others to repay their war debts to the United States. In this scheme, debts owed to the U.S. by France and others were essentially converted into debts owed to the U.S. by Germany. These debts and other foreign debts were later repudiated by Hitler, along with the remaining balance of the indemnity. So, it could be said Germany paid no part of the demanded reparations prior to WWII.

Since it could be said Germany didn't pay any part of the demanded reparations, how could it be said that reparations were responsible for the German hyperinflation of the 1920s, or for the rise of radical parties and, in particular, for the rise of Hitler?

The connections of the reparations demanded by the Treaty of Versailles ultimately to the rise of Hitler are potentially confusing for several reasons:

- the multiple re-scheduling and re-scaling of reparation payments, including the effective assumption of payments by the United States through the Dawes and Young plans,
- the repudiation of foreign debts associated with the Dawes and Young plans,
- the running of substantial trade deficits financed by yet other foreign debts, also repudiated,
- the turning of a bad fiscal situation into a terrible fiscal situation upon the seizing of the Ruhr by the French because Germany defaulted on its second reparation payment; and the resulting acceleration of inflation into hyperinflation,
- the rise of radical political parties and the fragmentation as well as shrinking of the center parties subsequent to the hyperinflation and, during the debate on the 1924 Dawes Plan,
- the catapulting of Hitler from a fringe character into a spokesperson for the disgruntled low and middle class of Germany during the debate on the 1929 Young plan, and
- increasingly bad unemployment following the Stock Market Crash of 1929 and the bank panics of 1931.

These connections are often mangled or omitted altogether in certain histories. In addition, there were issues concerning the interplay of domestic policy and reparations. Germany entered the 1920s with both a very large internal debt and a very large external debt, and with a large, on-going government deficit (Rosselli, 2014: 2-21). The vindictiveness of the Treaty of Versailles wasn't Germany's only fiscal problem.

THE WWI REPARATIONS

The Treaty of Versailles (1919) put the liability for the losses of WWI suffered by the allies squarely on the Germans. To quote from Article 231 of the Treaty:

The Allied and Associated Governments affirm and Germany accepts the responsibility of Germany and her allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her allies (*The Treaty of Versailles*: article 231).

After some haggling, the monetary amount of this liability was put at 132 billion marks. All of the liability was explicitly stated as Germany's. The amount of the liability was subsequently adjusted several times, effectively shifted from a debt to France and others into a debt to the U.S., and then repudiated. All of this is detailed in Table 1. As shown in the final two rows of the table, the story only ends with the payment of 16 million marks over a period of 57 years following WWII.

Table 1. The evolution of the WWI Reparations

Treaty of Versailles	put the liability for damages incurred by the victors on Germany; later determined to be 132 billion gold marks (about twice German GDP)
Transfer of commodities and capital goods	such as coal and wood, and also merchant ships, locomotives, industrial equipment and cattle. Valued by Germany at 11.5 billion marks. The allies counted these in-kind transfers against the cost of occupation, not as reparations
1921 London Committee	liability set at A + B bonds, equal to 50 billion marks, plus part or all of C bonds, equal to 82 billion marks, depending on Germany's future prosperity; with interest being charged on the A + B bonds at 5 percent; payments were to equal 8 billion marks per year; these 8 billion marks were supposed to be generated by a flat payment of 2 billion marks per year (for the A + B bonds), plus a tariff of 26 percent on German exports (for the C bonds)
1924 Dawes Plan	payments reduced and stretched out, starting at 1 billion marks per year, rising to 2.5 billion after five years
1929 Young Plan	payments reduced from 2.5 to 2 billion marks per year, and again stretched out
1931 Hoover's "1-year" suspension	effectively ended payments until after WWII
1953 London Agreement	West Germany accepts responsibility for half of the 32 billion marks of the outstanding WWI reparations; with payments tied to Germany's trade surplus
2010	Germany pays off its WWI reparations

Sources: own study, five rows are discussed in the text; 'Hoover Moratorium', 1931; 'London Agreement...', 1953; 'Germany Set...', 2010.

Several historians concern themselves with the amount of the indemnity “actually” paid by Germany. Sally Marks (1978: 254), for example, puts the figure at about 20 billion marks. Accordingly, as shown in the penultimate row of the Table 1, after World War II, Germany was found owing about 20 billion marks less than the original A + B amount. These estimates of “actual” payments miss the fact that the payments Germany made were with borrowed money, which debts were later repudiated. Furthermore, the calculation of payments actually made by Germany ignores that human action depends on prospective, not retrospective amounts.

The amount of 132 billion marks was divided into three parts: A + B and C. Parts A + B, totaling 50 billion marks, was fixed; and, part C, 82 billion marks, was contingent on future German prosperity. According to historians, the fixed part was based on an estimate of ability to pay. Not exactly. It represented a compromise between the French and the English estimates of ability to pay. Moulton and McGuire (1923) estimated Germany’s ability to pay at about half the agreed upon A + B amount.

The French were determined that Germany pay “to the utmost limit of Germany’s capacity” (Loucheur, 1923: 4). Stephen Schuker (1988: 16) says 50 billion marks (the A + B part) was only 25 percent higher than Keynes’ estimate of Germany’s ability to pay.³

The French, as described by American negotiator Bernard Baruch (1920: 2–4), were anxious to put the cost of the war on Germany. The English were concerned with restoring trade and financial stability as well as securing a meaningful indemnity. The Americans, while denying a connection, sensed that repayment of war debts by France and the United Kingdom to the U.S. was effectively tied to Germany paying meaningful reparations. Accordingly, the Americans – like the British – were concerned with securing a meaningful indemnity as well as restoring trade and financial stability.

Certain historians claim that part C was “chimerical,” “entirely unreal,” and designed solely for domestic consumption (Marks, 1978: 237). Others relegate part C to a footnote; and, yet others don’t mention part C at all.⁴ The word “chimera” has two inconsistent meanings. The first mean-

³ Keynes’ estimate of Germany’s ability to pay included the in-kind transfers. 50 billion marks (the A + B part) is 50 percent higher than Keynes’ estimate of Germany’s ability to make future cash payments.

⁴ It should be noted that later writers, relying on prior work, might have innocently accepted that part C was merely an illusion, thinking this was a decided matter.

ing, as just used, is an illusion. The second meaning of chimera is impossible. If part C wasn't an illusion, reparations were clearly impossible.

The second law of welfare economics suggests that a fixed indemnity (i.e., a lump-sum transfer) of moderate size would not much change incentives or behavior. History had demonstrated this with the French indemnity of 1871, briefly discussed above, and also with the French indemnity of 1815 (White, 2001) and the Chinese indemnity of 1895 (Dong and Guo, 2018). But, the size of the fixed amount of the German indemnity (the A + B bonds) relative to GDP was several times as large as any prior indemnity. Plus, the contingent amount (the C bonds) was worse than a lump sum transfer. Being contingent on future exports, it destroyed the incentive for Germany to recover.

THE TRANSFER PROBLEM

The transfer problem involves the connection of reparation payments to a country's trade balance. To earn the exchange needed to make the payments, a country would have to run a trade surplus. The problem should be obvious to anyone trained in economics,⁵ and was known, more or less, by at least some of those who crafted the Treaty of Versailles. As stated by Baruch (1920: 49), "The amount of reparation thus becomes the measure of the amount of service which the world is willing that Germany should render to it."

According to Baruch, there was some concern that large reparation payments would force Germany to become like a workhouse. Germans would become used to working for modest wages. Then, when the reparation payments were completed, Germany would emerge as an industrial powerhouse. Of course, no such things happened because the scheme of reparation payments decided at the 1921 London Conference broke down almost immediately.

The schedule of reparation payments was anticipated by F.W. Taussig (1920). While he begins by saying the burden of making the payments is "not necessarily an impossible one" (Taussig, 1920: 33), by the time you get to his conclusion, you know what he means when he asks, "Who can say

⁵ The definitive work on the transfer problem is Bhagwati, Brecher and Hatta (1983).

what sort of world we shall find ourselves in ten years hence?" (Taussig, 1920: 49) If, somehow, the schedule of reparation payments had not almost immediately broken down, he foretold depreciation of the (paper) mark, lower wages in terms of their purchasing power, rising exports, and protectionist reactions by other countries. Many but not all of these things happened even with the modifications of the schedule of reparation payments by the Dawes and Sullivan Plans to be described below.

Keynes (1929a) noticed that, paradoxically, Germany was running a trade deficit during the 1920s, not a trade surplus, and attributed the trade deficit to an unwillingness of Germans to accept a lower standard of living. Bertil Ohlin (1929, see also Keynes 1929b) stated the obvious answer to this paradox; namely, that Germany was borrowing more from abroad than it was paying in reparations. The connection of the transfer problem to borrowing had already been made by Fritz Machlup (1928/1964, see also 1930/1964 and Williams, 1922: 495–498).

Mises (1944/2010: 214–216) described the transfer problem as not a problem at all. By taxing the public to make reparation payments, the standard of living of a nation would be reduced; and this reduction of consumption releases production for export. The transfer problem only became a problem, according to Mises, because of the mercantilist inclinations of the allies, which wanted reparations and which also didn't want Germany to have a trade surplus. "The allies," said Mises (1944/2010: 216), "were at once eager to make Germany pay and not to get the payments. They simply did not know what they wanted. But the Germans knew very well what they wanted. They did not want to pay."

Part C was contingent on German exports, making the terms of trade unfavorable for that country. As Roselli (2014: 13) shows given the available data, Germany's trade balance was in deficit from 1919 to 1923.

To briefly comment on the broad trends of trade preceding and during the period under investigation: During the hundred years from the end of the Napoleonic era until WWI, trade had been rapidly increasing (Jacks and Novy, 2019: 4). Then, with the war and following, there was a substantial slump in trade. But, trade rapidly recovered during the 1920s even in the face of tariff increases in several countries.

Following 1929, there was a second great slump in trade, this time involving an outburst of protectionism. Trade not only shrank, it was diverted to trade blocs through tariff increases, quantitative controls and other barriers (Roselli, 2014: 110). In Germany, the rise of trade blocs tied-in with Hitler's idea of lebensraum (expansion to the east, to Ukraine

and the Caucasus, to enable Germany to become self-sufficient in grain and oil), as it tied-in with the idea of an East Asian Co-Prosperity Sphere in Japan.

THE GERMAN HYPERINFLATION OF THE 1920S

Following years of increasingly draconian rationing, manifested in deaths due to hunger and the diseases that attack those who are famished and exhausted, due in large part to the British blockade, support for WWI collapsed in Germany. Losses at the front, and the return of severely-wounded soldiers also contributed to this collapse of support for the war. Soldiers deserted or easily surrendered. Men resisted conscription. Workers went on strike. There were mutinies and riots. The Social Democrats grew in strength, and their more radical kin, the Independent Social Democrats, even more so. While England and France were also suffering from exhaustion, the arrival of increasing numbers of American troops made the outcome of the war obvious, especially upon the faltering of General Erich Ludendorff's spring offensive of 1918.

In November 1918, Kaiser Wilhelm and all the princes of Germany resigned, and a republican government was formed under Friedrich Ebert of the Social Democrats. Ebert served as President for five years, initially with another Social Democrat as Chancellor, and then with a Chancellor from the Center Party. It was under Ebert that Germany signed the armistice bringing the fighting to an end, and then accepted the Treaty of Versailles. It was also under Ebert that Germany suffered the hyperinflation of the 1920s and, subsequently, stabilized the mark.

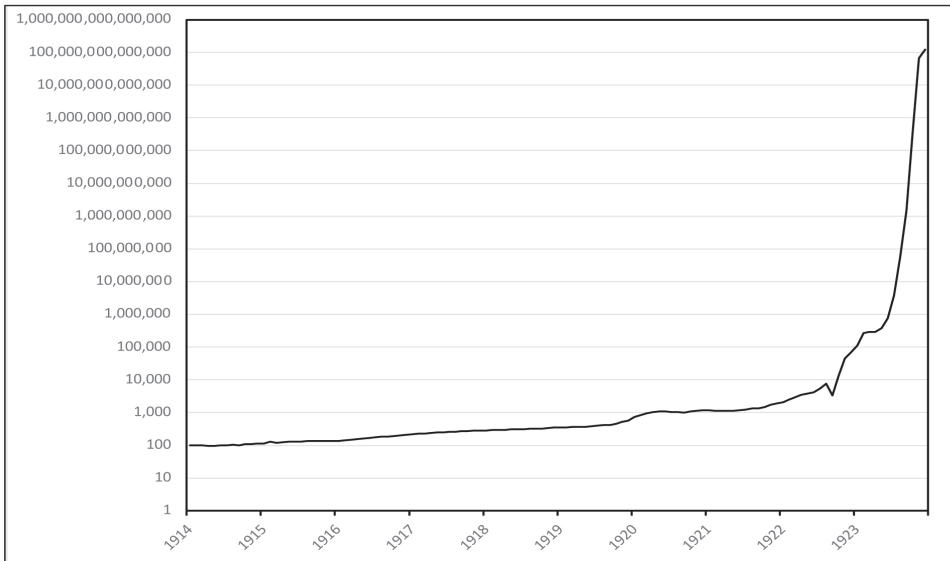
During the war, the government budget was badly in deficit, mostly financed by domestic saving ("war bonds") and the issue of paper currency. And, in spite of price controls, Inflation was already getting underway.

With the end of the war, the government budget continued in deficit. The difference was that instead of spending money on war, the government was spending money on social insurance and public works, in keeping with the priorities of the Social Democrats. During the years 1919-1922, the unemployment rate fell, and then remained low; and, the inflation rate picked up.

As Figure 1 shows, it was in 1923 that the rate of inflation skyrocketed. The German government, which had borrowed overseas to make the first reparation payment, did not make the second payment. The French thereupon sent an army to occupy the Ruhr, the industrial heartland of Germany, to hold it as ransom so as to force Germany to resume reparation payments.

The German government responded to the French seizure of the Ruhr by calling for a worker strike there, and by paying the workers there to not work. The loss of tax revenue from the Ruhr and the payout of strike benefits made the bad situation of the government deficit worse. Also, with increasingly high rates of inflation, the purchasing power of government revenue eroded while the revenue was in the process of collection. Thus, in terms of purchasing power, revenue collapsed, and the hyperinflation got underway.

Figure 1. Cost of Living in Germany, 1914–1923 (1913 = 100)



Source: Bry, 1960: pp. 440–445, Table A-41.

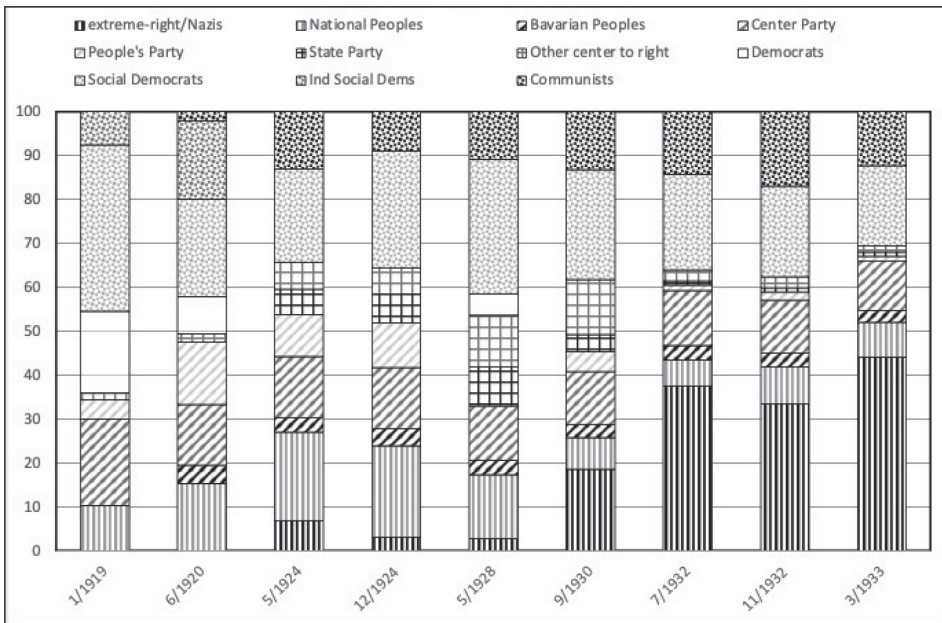
Opinion differed as to the extent to which reparations caused Germany's fiscal imbalance. Costantino Bresciani-Turroni (1931/1937: 93) thought reparations "contributed to the deficit ... in the financial years 1920–1923, but ... they were not the only cause and never the most important." Bresciani-Turroni (1931/1937: 94) thought inflation had already re-

duced the domestic WWI debt, so that on-going deficits financed by paper currency were mostly to blame for the acceleration of inflation.

According to Frank Graham (1930/1967: 5), Germany’s fiscal position at the end of the war was “not markedly inferior to that of most of the other countries involved in the struggle.” But, “the burdens laid upon Germany by the Treaty of Versailles went far to establish the difference between success and failure in the restoration of financial order” (1930/1967: 8–9). In particular, Graham thought reparations ruined Germany’s credit and, so, disabled it from financing a transition to a sustainable budget.

Following WWII, certain historians reached a different conclusion regarding reparations and the German hyperinflation; namely, there was no connection (Marks 1978: 239; Ringer 1969: 90–91; Schuker 1976: 16, 22). The original position that reparations made a difficult fiscal position impossible was negated.

Figure 2. German Federal Elections, 1919–1933 (parties qualifying for the Reichstag)



Source: *Das Deutsche Reich Reichstagswahl (1919–1933)*.

THE RISE OF RADICAL PARTIES

It might seem obvious that the German Hyperinflation of the 1920s gave rise to Hitler. But, the story is complicated. Figure 2 tracks the political consequences of the hyperinflation. Prior to the hyperinflation, the Social Democrats were the largest single party, and formed ruling coalitions from among the liberal and center-right parties. Subsequent to the hyperinflation, such a coalition became difficult.

Following the hyperinflation, radical parties emerged or grew both on the left and on the right. Not only did the centrist parties shrink in the aggregate, they fragmented. The striped and squared portions of the columns for the May 1924 election and following include small parties of peasants and the urban middle-class seeking salvation from the hyperinflation and associated economic chaos. Even with the use of a catch-all category (“other center to right parties”) the chart becomes difficult to read. Because of the shrunken and fragmented center, it became difficult for a majority coalition to be formed. Eventually, Ebert’s successor as President, Field Marshall Paul von Hindenburg, declared an emergency and ruled by decree through appointed governments.

But, if you look at the elections of December 1924 and ’28, you will see that the vote of the extreme right-wing party was only 3 percent, less than the 7 percent that the extreme right-wing party got in May 1924.⁶ It was only in 1930 that the Nazi Party emerged as a major party. Why did the extreme right-wing party do relatively well in the early election of 1924, and do poorly in the subsequent two elections; and, why did the Nazi Party surge in 1930?

⁶ In the December 1924 election, the vote for the Communist Party also shrank. Subsequently, the vote for the Communist Party grew more or less as the vote for the Nazi Party grew. As to why the Nazis came to outperform the Communists, one argument is that low- and middle-class voters were more receptive to national socialism than to international socialism; and, that these voters and/or the industrialists that provided financial support to the Nazis wanted some form of private property to go along with a centrally-planned economy.

THE DAWES PLAN

During the immediate post-WWI period and the hyperinflation, radical parties, paramilitary organizations and political violence proliferated, both left- and right-wing. Yes, Hitler's movement was in the mix, but at the time his movement was merely one of several. According to his own account, Hitler's (1923: 4) movement began with seven people, nobody of any stature, and grew to several hundred thousand by 1923. But, as to how many party members could actually be mobilized for confrontations with the police or with the communists, isn't clear.

In 1923, Ludendorff joined with Hitler in a fanciful scheme. They would proclaim Ludendorff military dictator, and the German army – they supposed – would support them. When the military remained loyal to the government, all that was left was for local police to put an end to their Beer Hall Putsch. After a brief confrontation with the police, Hitler's paramilitary organization fled and Hitler and Ludendorff were arrested.

In 1924, Charles G. Dawes, one of the U.S. representatives to the reparations committee, was instrumental in bringing an end to the crisis besetting Germany. His proposal, which came to be known as the Dawes Plan, provided (a) a new payment schedule for Germany, (b) loans from the U.S. to make the initial payment, (c) a French withdrawal from the Ruhr, and (d) an end to passive resistance to the French occupation. (For more on the Dawes Plan, see Moulton, 1924, and Moulton and Pasvolsky, 1932). The next year, 1925, Dawes received the Nobel Peace Prize. Also in 1925, Germany resolved its domestic debt. Currency bonds of Germany and its states were mostly revalued at 2.5 percent; and, private bonds, mortgages and insurance claims at 25 percent (Moody's, 1926: 495–500).

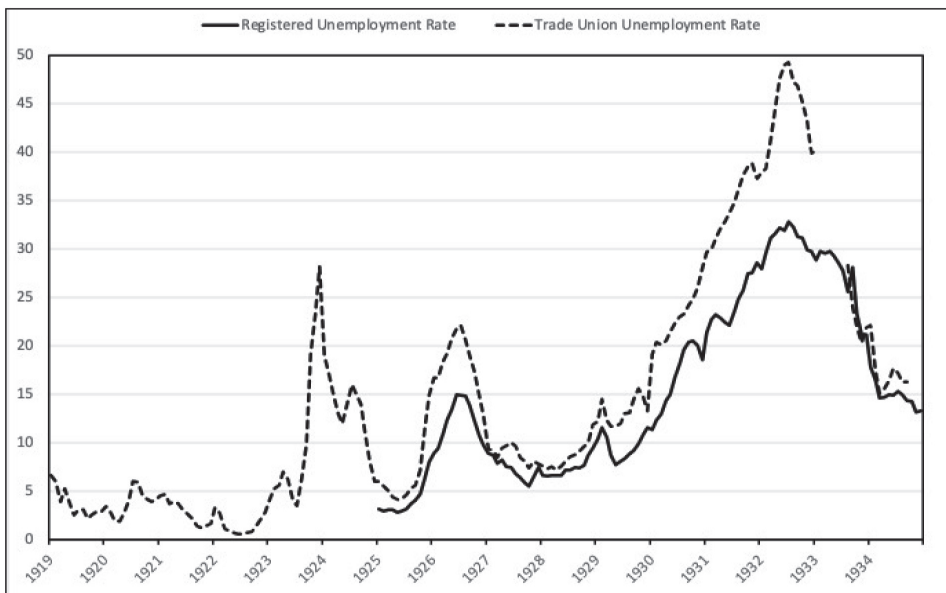
As stated above, centrist parties shrank and extremist parties of the left and right emerged or grew in the May 1924 election. On the right, Ludendorff's extreme nationalist party entered the Reichstag with 7 percent of the vote. Ludendorff's party, along with the Communist Party on the extreme left, opposed the Dawes Plan.⁷ Fortunately, the National

⁷ While the Dawes Plan eliminated the part C bonds, and lowered and stretched out payments on what had been the part A + B bonds, it could be argued those adjustments weren't enough. That the payments were still beyond Germany's ability to pay. But, in fact, the appeal of Ludendorff was emotional. He argued that Germany was a great nation that had been "stabbed in the back."

Peoples Party was neutral, and the Reichstag approved the plan, including a provision requiring a two-thirds majority (Graper 1925: 363).

As Figure 3 shows, the unemployment rate rapidly fell in 1924. (For a discussion of the union unemployment rate in Germany, see Galenson and Zellner, 1957: 531. In particular, they say these figures “represent good measures of the level of unemployment.”). With a strengthening economy and a tenuous majority, the government called a new election. Both Ludendorff’s party and the Communist Party faltered in the December 1924 election,⁸ and the center increased its majority.

Figure 3. Unemployment in Germany, 1919–1934



Source: Data for 1919–1923 – Bresciani-Turroni, 1937: 448, Table X; 1924 – Schmidt, 1934: 68, Chart 1; 1925–1934 – Bry, 1960: 398–401, Table A-28.

During the next several years, German credit strengthened. For example, German bonds rose from a Moody’s rating of C in 1921 to a rating of AA in 1925. And, Germany went on a borrowing spree both to finance its government deficit and to finance private-sector investment. The U.S. essentially paid Germany’s foreign debt (to France and others), enabling those countries to pay their war debts to the U.S. In the proc-

⁸ Ludendorff withdrew from politics after his humiliating performance in the 1925 Presidential election (which is when Hindenburg was elected).

ess, the U.S. accumulated claims denominated in gold against Germany. During these years, the German economy enjoyed vigorous economic growth, albeit with a short recession and a slowly-growing unemployment problem. In the election of 1928, Hitler's National Socialist German Workers Party or Nazi Party, replaced Ludendorff's party on the extreme right. The Nazi Party replicated the poor performance of Ludendorff's party in the December 1924 election.

As just stated, from 1924 to 1929, Germany enjoyed vigorous economic growth. But, contrary to the implications of the transfer problem, Germany wasn't running a trade surplus, nor was the government budget in balance. Germany was borrowing from foreigners more than it was paying to foreigners, and it was maintaining a standard of living in excess of its production. It wouldn't be wrong to characterize the Germany of this time as a decadent nation, living beyond its means, with growing hatred of Jews and other members of vulnerable communities. And, the trend of indebtedness wasn't sustainable.

THE YOUNG PLAN

During the late 1920s, the extreme right suffered poor showings in successive elections. Then, in the first election of the 1930s, the extreme right was propelled into second place. Two events were instrumental: (1) the onset of the Great Depression, and (2) the approval of the Young Plan.

Following the Stock Market Crash of 1929, Germany was hard-pressed to make the payments required by the Dawes Plan. Not that Germany had been making those payments by running a budget surplus, or by running a trade surplus. Germany had been borrowing in excess of its payments. But, the disruption of international trade and finance associated with the Stock Market Crash meant that Germany would not be able to continue borrowing, and that it would not be able to earn exchange by running a trade surplus. To deal with this situation, the reparations committee offered Germany what came to be known as the Young Plan. This plan involved (1) a further reduction of the outstanding principal, (2) reduced and further stretched-out payments, and (3) an option to make a minimum payment in times of distress (for a more complete description, see Schwarzschild, 2020: 5-6).

The right-wing and extreme right-wing parties (viz., the German National Peoples Party or Nationalist Party, and the Nazi Party) used the occasion of the Reichstag approving the Young Plan to, once again, attack the Treaty of Versailles.

The Nationalist Party had previously been a member of a four-party, center to right-wing ruling coalition that excluded the Democratic Socialists as well as the Communists and the Nazis. But, having faltered in the 1928 election, the Nationalist Party was replaced in the ruling coalition by the Social Democrats. At this point, Alfred Hugenberg, the leader of the Nationalist Party and a well-established businessman, thought to use the Young Plan to characterize the political spectrum as right-wing versus left-wing, not as a continuum. This decision turned out to be a huge tactical error for his party with terrible consequences for the world.

Hugenberg organized a committee to oppose the Young Plan, and raised money mostly from industrialists to finance the efforts of the political parties and other members of his committee. Four million signatures were collected to force a referendum, and six million people voted against the Young Plan. The six million votes represented 15 percent of registered voters, well short of the required 50 percent of registered voters needed to win. But, this 15 percent showing didn't mean the effort was a failure from Hitler's perspective.

The referendum propelled Hitler from the leader of a fringe party, desperate for money, into a leader of the disgruntled lower and middle-class. The Nationalist Party fractured, and the Nazi Party vaulted over what remained of the Nationalist Party. As stated by Klaus Schwabe (2014: 878), "until 1929, despite some local successes, the Nazi movement was viewed as a more or less local Bavarian phenomenon. This changed ... with Hitler's participation in the propaganda campaign against the Young Plan." While the referendum propelled Hitler to being the leader of a major political party, the referendum doesn't fully explain Hitler's rise to power. For that, you have to bring in the Great Depression.

THE GREAT DEPRESSION

The four horsemen of the German apocalypse of the 20th Century were hyperinflation, unemployment, war and genocide. The second of these four horsemen fell upon Germany following the Stock Market Crash of 1929. In the election of 1930, the Nazis emerged as the second largest party in the

Reichstag, with a slightly larger percent of the vote than was the percent of the yes vote relative to registered voters in the 1929 referendum. Then, in the two elections of 1932, as the economy collapsed and the unemployment rate rose to over 30 percent (see Figure 3), the Nazis finished first. What is more, the Nazis and the communists together totaled more than 50 percent of the vote of parties qualifying for representation. Hindenburg then began to rule by decree under the emergency powers granted him by the German constitution, through appointed governments.

Attempting to resolve the historical controversies regarding the cause(s) of the Great Depression is beyond the scope of this paper. But, something must be said. The Keynesians suppose that, were policy makers quicker to devalue their currencies in terms of gold, or to abandon gold altogether, much of the depression would have been avoided (Eichengreen, 1996). The monetarists suppose that the U.S. Federal Reserve System had sufficient flexibility to maintain the money supply, had it the will to use that flexibility (Friedman and Schwartz, 1963). Murray Rothbard (1963/2000) connects the expansion of money and credit during the 1920s to an unsustainable boom, that would lead inevitably to a bust. In the case of Germany, tight money in the United States, combined with immunization of gold flows there and in France, along with the rise of protectionism, made the German situation impossible (Hetzl, 2002: 12-18).

CONCLUDING REMARKS

There are many lessons to be learned from the Treaty of Versailles, the German hyperinflation, the Great Depression and the rise of Adolph Hitler. But, on the matter of whether the reparations demanded of Germany caused the hyperinflation, the lesson is strange. In spite of Germany arguably not paying one pfenning of the demanded reparations, the demand for reparations contributed to the hyperinflation. Certainly, the occupation of the Ruhr upon Germany's failure to make its second payment turned a bad fiscal situation into an impossible one.

Perhaps more important than the contribution of reparations to the hyperinflation was the opportunity provided by re-negotiation of reparation payments to radical politicians. Re-negotiation enabled both the radical right and the radical left to make gains in the polls. On the radical right, initially, Ludendorff and, later, Hitler. The radical right's appeal to the

disgruntled low and middle class of the country did not so much involve Germany's ability to pay, but that Germany only lost the WWI because it had been "stabbed in the back." In the case of Hitler, his rise in the polls came just prior to the Great Depression, which gave new impetus to his appeal. The confluence of events can be taken to mean that the vindictiveness of the Treaty of Versailles, even if a necessary cause, was not a sufficient cause of Hitler's rise to power.

The string of events leading eventually to Hitler's rise to power may have been impossible to predict. Still, there are the haunting prophesies of Keynes and Mises. "Vengeance," warned Keynes, "will not limp." Which, should Germany win its initial confrontations, might cause that country to "fall again into that limitless and boundless madness of victory," said Mises.

Clifford F. Thies, Ph.D., Eldon R. Lindsey Chair of Free Enterprise and Professor of Economics and Finance. Author or contributor to more than a hundred books, encyclopedia entries and articles in scholarly journals. His *Global Economics: A Holistic Approach* is available from Lexington Books.

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