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Demobilisation and revolution, 1918–1919

Big historical changes often happen in irregular leaps. Such a leap occurred during the months from September 1918, when the German High Command recognised that its war effort had collapsed, and the summer of 1919. During this time the institutions embodying politico-economic power relations in Germany were in flux, and the shape in which to set them was violently contested by opposing forces. The contest was resolved in a matter of months, partly by the forcible suppression of forces on the far left, partly by deals and compromises between the moderate left and the bourgeois centre-right. The voice of the conservative right was little heard in this period. These deals were driven by the short-run anxieties and strategies of the time, chief among them uncertainty about the peace treaty and fears of a bolshevik revolution. These resulted in the political strategies that sought to maximise the chances of encouraging Allied leniency and to strengthen the moderate left. These two strategies came together because it was believed that the Allies, and US President Wilson in particular, would welcome extreme governments of neither left nor right. Germany became a parliamentary democracy with a ‘welfare capitalist’ political economy – in which private enterprise was morally legitimated by welfare measures and strengthened rights of labour.

But once the left had been quelled – essentially in the first three months of 1919 – and the Versailles ‘Diktat’ in May 1919 had dashed German hopes of a peace they considered ‘moderate’, political strategies changed. The business consensus immediately began to regret the compromises made with the moderate left, and the conservative right began to revive. Germany as a whole shifted markedly to the right between the National Constitutional Assembly elections

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of 19 January 1919 and the **Reichstag**¹ elections of 6 June 1920. Weimar's 'welfare capitalism' may appear bland to early twenty-first-century European eyes but it offended powerful forces at the heart of capitalism and on the political right, and alienated huge numbers of workers on the left. To both it remained an object of bitter contest.

Moreover, as chapter 2 will show, the events of 1919 also saddled Germany with a reparations regime that Allied disunity thereafter permitted her constantly to try to revise. Internally and externally, then, the main politico-economic 'fixtures' of 1919 were contestable for the rest of the Republic's short history. The uncertainties of this state of affairs affected the credibility of economic policy. In the atomised financial markets, the external political disequilibrium gave rise to huge, shifting waves of speculation. In the politicised labour market the internal disequilibrium rigidified the opposing fronts, as each side feared that any slight concession might have incalculable consequences.

This short book is about the interaction of economic policy and market calculation, in the context of these political uncertainties, in shaping the economic history of the Weimar Republic. This chapter is particularly about the economic consequences of the internal political convulsions of post-defeat Germany.

It is hard to understand the complex, contradictory character of 'the German revolution' without reading an authoritative narrative (Ryder, 1967; Carsten, 1972; Kolb, 1988). Here only some of the main strands can be identified:

- There was a revolution from above. When the Army High Command foresaw the inevitability of defeat in September 1918, it demanded the appointment of a parliamentary government, in order to placate President Wilson's preference for negotiating with a democratic Germany. A government formed by the Reichstag parties and requiring legislative sanction not merely for its domestic civilian policies (this was already mainly the case in the **Kaiserreich**) but also for its foreign and defence policies, was a novelty in Germany.
- On the other side, since mid-1917 the liberal parties, the (Catholic) **Centre Party**, and the more right-wing socialist **MSPD** had

¹ Words in bold show the first occurrences of terms explained in the Glossary.

exerted a growing *parliamentary* claim on power ‘from below’. In October 1918 leaders of these parties joined the last imperial cabinet under Prince Max von Baden.

- The war had also strengthened organised labour. Before the war **trade unions**, despite a membership of about 3 million, had enjoyed little official or workplace recognition. Collective wage negotiation was the exception, not the rule, except in some south German trades. During the war, the military’s short-term interests in production had taken precedence over the entrepreneurs’ interest in a workplace regime for maximising long-run profits; and a tacit alliance between the State and the unions had set up machinery, involving the unions, for controlling wartime wage-setting and other conditions of employment (Feldman, 1966). The unions had an interest in perpetuating these wartime gains.
- War weariness had proved a hospitable culture for left-wing socialist agitation on behalf of socialist revolution, the Russian revolution supplying inspiration. Such socialists operated on the left wing of the **USPD**. Spontaneous protest movements at the beginning of November 1918, starting with a sailors’ mutiny in Kiel, sparked a ‘Soldiers’ and Workers’ Councils’ movement throughout Germany. Mass demonstrations in Berlin on 9 November led, at last, to the Kaiser’s abdication, and to the proclamation of a German Republic by a leading MSPD politician, Philipp Scheidemann (to forestall like action by the USPD left wing). The same day a Council of People’s Representatives, consisting of three MSPD and three USPD members was announced as Germany’s government under the chairmanship of the MSPD leader Friedrich Ebert, the bourgeois parties having retired to the margins.
- Cutting across these political fronts there was a widespread reaction against the irksomeness and perceived inefficiency and inequity of government controls on consumption, industrial and especially agricultural prices and production, and deployment of labour. The phrase ‘compulsion economy’ (*Zwangswirtschaft*) expressed this revulsion.
- Yet, contrarily, there was also an emergent, radical right-wing critique of unfettered profit-seeking by business in disregard of ‘national’ objectives and interests. From our post-Cold-War standpoint of capitalism triumphant, it is hard to recollect the

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degree to which capitalism was a contested idea before 1914, not just for socialists but for others concerned at the seemingly inexorable trend to monopoly – for Catholic social thinkers, for conservatives opposed to speculation, etc. The successes of the war economy impressed many on the right, too, with its apparent vindication of the superior efficiency of State planning over market anarchy in harnessing national resources to national ends. These ‘common economy’ (*Gemeinwirtschaft*) theorists, notably Walther Rathenau and W. von Moellendorf, advocated establishing compulsory **cartels** of key industries under the direction of boards including representatives of the State and consumers as well as owners, which were to effectuate some sort of moral revolution, and set output and prices at levels serving the public rather than the private good (Maier, 1975, pp. 140–6; Barclay, 1986).

- Amid the swirling currents created by the above forces, professional civil servants in the **Reich** Business Ministry and the Labour Office were trying to work out an orderly demobilisation of troops and the economy, that would minimise disruption to civil peace and production. Their plans involved continued reliance, for the time being, on the extensive wartime apparatus of controls (Feldman, 1970).

The prospect of radical socialism was averted by the astute tactics of the MSPD (which could still count on the overwhelming support of socialist voters). Right from the outset, it had seized the initiative. It was less internally disunited than the USPD whose only real bond of union was opposition to the war. The MSPD was quickly able to set the switchpoints towards a parliamentary republic by fixing elections for a constitutional National Assembly for 19 January 1919. It sidelined calls for **socialisation** of the ‘commanding heights’ of the economy as early as 18 November by securing the appointment of a ‘Socialisation Commission’. Socialisation seemed untimely to the MSPD because it could seriously disrupt production and demobilisation. They could field the argument that socialised industries were more likely to suffer exactions at the hands of the rapacious reparations-seeking Allies. Their earliest ‘socialist’ measures were welfarist. Worried that demobilisation problems could erode political stability, the new government decreed a general unemployment benefit on 13 November and retained wartime ceilings on rents

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and prices of necessities, and controls on dismissal of labour. The government established its power on the streets against the radical left by negotiating the support of the Army High Command (the ‘Ebert–Groener Pact’ of 10 November); and it also managed to dominate the proceedings of an All-German Congress of Soldiers’ and Workers’ Councils in December. At this stage many workers probably supported the revolution more in order to get rid of a war-mongering autocracy than to overthrow capitalism. The decision of the USPD to leave the Council of People’s Representatives at the end of December (its inner disunity would hardly stand the strain of government) eased the MSPD’s management of power.

On the other hand the government had to surrender the initiative in the management of economic demobilisation to a surprising shotgun alliance of business and labour leaders, who hastily concluded the so-called Stinnes–Legien Agreement of 15 November 1918. Stinnes was a buccaneering heavy industrialist whose initiative in this matter was supported by a group of other self-selected big-business leaders. Legien was the General Secretary of the Commission of the Free (i.e. Socialist) Trade Unions. Under this agreement business undertook to:

- Negotiate **collective labour contracts** with the unions, covering wages and other conditions of work.
- Reform the (often powerful) employer-controlled recruitment agencies so as to end the blacklisting of union members.
- Stop supporting ‘yellow’ or ‘company unions’ and establish works councils in all larger workplaces.
- Concede the eight-hour day – a central demand of unions throughout western Europe since the 1870s. The employers’ private reservations – that the implementation of this should be conditional on its introduction throughout the industrial world – were swept aside in the published declaration.

In return for these and some more immediate undertakings, business secured trade-union participation in the *Zentrale Arbeitsgemeinschaft* – the ‘Central Co-operating Partnership between Business and Labour’ that was to manage the demobilisation process and facilitate co-operative crisis management in industry in the longer run. It was to be supported by a substructure of similar bodies at the industrial and regional/local interfaces between capital and

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labour, which failed to materialise in the event (Feldman, 1970; Kocka, 1984, pp. 159–61; Bessel, 1993, pp. 103–11; Feldman, 1993, pp. 93–5, 106–12). The government subsequently enacted various points of the Stinnes–Legien Pact as law – notably the eight-hour day. Legislation of January 1920 required firms employing more than fifty persons to arrange election of a works council, with a mandatory workers’ director to be appointed to the **supervisory boards** of all larger companies. To the left, the works councils seemed derisory successors to the revolutionary councils of 1918. But they were a significant breach in the ‘Master-in-his-own-house’ standpoint of the pre-1914 heavy industrialists. Some of these social-policy initiatives were enshrined in the new Weimar constitution as basic rights of labour (Preller, 1978 [1949]).

Many employers, especially from medium and smaller firms, felt rather railroaded by the agreement concluded by Stinnes and his group, but for the moment it stuck. But why did the previously self-assured, autocratic German big-business community concede so much so rapidly? The revolution certainly panicked them into concessions to strengthen the hand of the moderate labour leadership with its rank and file, lest they soon be at the mercy of the Spartakists (proto-Communists). But both business and labour also shared an eagerness to ‘get the State off their backs’ and manage demobilisation without bureaucratic regulation and interference. Already, on 7 November business and labour had jointly persuaded the government of Max von Baden to transfer responsibility for economic demobilisation from the Reich Business Ministry to an independent agency headed by Lieutenant Colonel Joseph Koeth, and to involve labour and capital in the decision-making of this agency. Koeth’s strategy was practical and short term: to minimise unemployment during the demobilisation transition. One of the best guarantors of this, he believed, was the promise of profit. To this end he resisted regulatory proposals that threatened business autonomy (Feldman, 1993, pp. 93–5, 109–22).

In fact the double demobilisation – of servicemen and of businesses – proceeded amazingly smoothly, thanks to the silent retraction of women from war employments, to a dose of inflationary demand, to the concessions to capitalist autonomy in the pursuit of profit, and to the moral and legal pressures on employers to hire and keep workers. In the short run the market-based success of

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demobilisation satisfied returning soldiers and most workers, and this preoccupation with ‘making ends meet’ shaped the early months, at least, of the revolution (Bessell, 1993). However, in early 1919 the mood changed. In January the MSPD government brutally suppressed an ill-organised proto-Communist uprising in Berlin, with the aid of bands of volunteer ex-officers known as *Freikorps*, and continued forcibly to suppress uprisings and workplace occupations in the Ruhr and elsewhere in the early months of 1919 (Kolb, 1988, pp. 14ff).

The elections of 19 January 1919 left the MSPD and USPD jointly in an unexpected minority, but gave the ‘peace coalition’ parties of 1917 (MSPD, **DDP**, Centre) a smashing majority. A liberal, parliamentary constitution for the Weimar Republic was hammered out over the next six months. Ambitious plans to give the Reich government centralised control of direct taxation (hitherto direct taxation had been customarily reserved to the federal states) were ultimately realised in autumn 1919 to spring 1920 under the dynamic Centre-Party leader Matthias Erzberger. He introduced a steeply progressive income tax, which, coupled with the wartime turnover tax, became one of the twin pillars of Reich taxation. He also introduced a capital levy, with swingeing rates on larger fortunes, to help meet the enormous national debt problem – a measure discussed in all European ex-belligerents in 1919 but enacted nowhere else (Moulton and McGuire, 1923, pp. 161ff; Feldman, 1993, pp. 160–4; inflation subsequently reduced the levy to insignificance). These reforms aroused amazingly little controversy, maybe because of the threat of reparations, maybe because of the contradictory tax interests of war debt-holders and other wealth-holders.

In the spring of 1919 the ‘Common Economy’ Plans of the right gained the unlikely adherence of the MSPD Reich Labour Minister, Rudolf Wissell. But they came to little against opposition in the rest of the cabinet (Barclay, 1986). Reich Coal and Potash Councils were, however, set up in 1919, and a short-lived ‘Iron Industry Federation’ was established in March 1920 (Feldman, 1977; 1993, pp. 138–55). In time the Coal and Potash Councils were ‘captured’ by the owners. A ‘provisional’ Reich Economic Council was also established, a ‘talking shop’, supposed to examine economic legislation before its submission to the Reichstag. It provides a rich source for historians of economic policy, but had no teeth.

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Anxieties about demobilisation are regarded by Feldman and others as the principal influence on the economic and social policies of the day (Feldman, 1975; 1993, pp. 120f, 126–8). The ‘economic order’ it established has been judged in two slightly different ways by historians.

Witt (1982b) judged that the ‘integrated economic, social and financial policy’ of the 1919–20 governments was capable of delivering economic growth, stability and distributional equity, via its employment policy (as witnessed in the demobilisation strategy), welfare and unemployment policy, active promotion of statistical knowledge of the economy (Tooze, 1999), and progressive taxation. But the attempt was subverted by business non-compliance and by tax evasion by wealth-holders, which drove the economy into inflation. However, even if it failed at the time, this experiment pioneered the consensus economic and social policies which have underpinned economic crisis-management in continental western Europe since 1945.

Writing outside the Keynesian tradition, the great Austrian economist Joseph Schumpeter (1939, vol. 2, pp. 714f) reached a less favourable verdict. He concluded that German economic policy in this era simply fell between two stools, being neither capitalist nor socialist. It created a kind of limping capitalism, or ‘labourism’ which could not deliver prosperity and undermined the attempt of Germany’s first republic to legitimise itself. Business found itself saddled with the concessions it had been panicked into in the ‘Stinnes–Legien’ agreement.

Whichever view is correct, the postwar economic settlement was inherently unstable, always revisable if ever the power-balance that had shaped it shifted. The boldness and diversities of the futures imagined in 1918–19 by the several groups on the left and the right were submerged, but they did not die. Right-wing opposition to the Republic revived with the publication of the Versailles ‘Diktat’ and assisted the growth of the **DNVP**. Reduction of top marginal direct tax rates, and reintroduction of tariffs, both in 1925, were insufficient to modify their association of the Republic with its revolutionary origins. On the other side, the MSPD’s suppressions of left-wing uprisings in 1918–20 alienated many of its supporters and drove an irreparable divide between right- and left-wing socialism. The latter solidified into the anti-republican German Communist

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Party. The fierce competition between the two socialist parties at times forced the **SPD** into more anti-capitalist and anti-bourgeois stances than it might otherwise have adopted.

The result was a tense political stalemate because only a coalition of most larger parties other than the **KPD** and the **DNVP** could command a Reichstag majority. The main problem was the difficulty of including both the **SPD** and the **DVP** (for short spells in 1925 and 1927 the **DNVP** joined non-**SPD** coalitions). The stalemate made one party – the **Centre Party** – a member of all governing coalitions and cabinets of the Republic. The Centre Party consisted of a delicate balance between its business and labour wings. Its own latent inner contradictions embodied, and helped to sustain the ‘welfare capitalist’ compromise that characterised the Republic (McNeil, 1986, pp. 12ff; Ferguson, 1997, pp. 267–73).

Meanwhile, in the short run, Koeth bought time for capitalism. He had succeeded in ‘degrading the revolution to a wage movement’ as the ‘revolutionary shop steward’ Emil Barth had warned in November 1918. This strategy, of securing wage concessions but resisting the political demands of labour, would have spelled rising unemployment but for an accommodatory monetary policy. Koeth’s policy was thus one source of the postwar inflation (Ferguson, 1995, pp. 180–97).

2

Treaty, reparations and ‘capacity to pay’

The Treaty of Versailles had a huge economic impact on the Weimar Republic. In the early 1920s this impact extended beyond the actual expropriations to the indirect effect of the ongoing ‘cold war’ between Germany and the Allies on the German **terms of trade**, and on the financial markets’ calculations of the stability of the German currency. This chapter provides a summary history of the Treaty and particularly of reparations, and seeks to develop an integrated political and economic framework for analysing the effects. It focuses on the early 1920s. Chapters 4 and 5 include discussions of the effects after 1923.

The Treaty was negotiated between January and May 1919 among the leaders of the ‘Allied and Associated Powers’ without German participation. It was presented to Germany as a *fait accompli* on 7 May. German counter-proposals that sought to trade smaller territorial and colonial losses for a ‘100bn goldmark’ (gm) reparations offer, were refused, and after a severe German political crisis, the Treaty was signed for the German government on 28 June 1919. (Lentin, 1984; Sharp, 1991).

The Treaty redrew German borders, some of them unconditionally (as in the case of restoring Alsace–Lorraine to France and of part of the eastern border with the reconstituted state of Poland), others on the basis of plebiscites to be conducted (the new border with Denmark and the borders of East Prussia and upper Silesia with Poland). It placed the Saar valley and its coal-mining enterprises under French administration for fifteen years to compensate France for the destruction of French mines in the war zone. It prohibited the union of Germany with the new ‘rump’ Austria, and took away her former colonies and spheres of influence