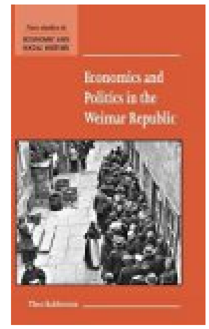
Theo Balderston. *Economics and Politics in the Weimar Republic.* Cambridge: Cambridge University Press, 2002. 123 S. $35.00 (cloth), ISBN 978-0-521-77760-5; $35.00 (leinen), ISBN 978-0-521-58375-6.



Reviewed by Roland Spickermann (Department of History, University of Texas-Permian Basin)
Published on H-W-Civ (July, 2003)

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As has often been observed, Weimar Germany served as a greenhouse for the whole experience of Western modernity; before succumbing to Nazism, Germany ran through a gamut of coalitions from Social Democratic to centrist to right-wing authoritarian, each of which failed to stabilize and manage an industrial democracy. While much of the failure had to do with the fractious nature of Weimar's political structure and culture, it would be difficult to deny that its economy, the raw material with which each political combination had to grapple, also played a key role. In this book, Theo Balderston has achieved a feat by summarizing the major historiographical issues of Weimar economic history in just a hundred pages. In many ways, though, the book functions better as a collection of essays, each its own survey of a different aspect of Weimar economic historiography. In fact, I find that they can be read independently of each other. These are united not by an overall economic paradigm as by an implicit political paradigm: each of the economic issues is addressed because of its effect on the period's political history, and ultimately from how these issues contributed to Weimar's failure. It is worthwhile, then, to describe each chapter in turn, rather than the book as a whole.

The first chapter, "Demobilization and Revolution, 1918-1919," is the most general and politically oriented chapter in the work, serving as a discussion of the basic contours of those years, and emphasizing the arrangements made between labor unions and the larger businesses as well as between the Social Democrats and the army, to produce some working stability against the chaos of collapse. These agreements, Balderston notes, essentially "bought time for capitalism," in short, setting a framework in which the market could sort out the economy and produce a more durable economic (and hopefully political) stability. Alas, too much else occurred for the market to accomplish this, and the next chapters deal with the economic issues with the greatest political ramifications: reparations, inflation, the brief stabilization, and the depression.

Chapter Two, "Treaty, Reparations and 'Capacity to Pay,' " concerns the impact of the Versailles Treaty on the German economy. Economists have debated whether the territorial and resource losses affected Germany's ability to fulfill the Treaty. Balderston argues first that the territorial losses and asset-expropriation, in fact, had little effect on Germany's balance of payments and ability to pay reparations, since postwar global markets had an excess of supply, in any case. Lack of resources was not an issue. Rather, he continues, it was "the failure of Germans to 'cut their coat to suit their cloth'–i.e. to cut their spending commensurately with their income loss, that weakened the currency, coupled with the–varying–reluctance of foreigners to lend the foreign exchange needed to finance the resultant deficit" (p. 14). But this income-loss had little to do with the loss of resources themselves. The Treaty's real costs for Germany came in the compensation for those who lost assets, rather than in lost productive capacity. This compensation, paid at a time when the state could ill afford it, weakened the currency and the economy. The capacity to pay had other effects. Balderston notes that the Treaty cost Germany somewhere between 5 1/2 and 8 percent of national income, and thus was bearable, though heavy. The question of how that level was reached, however, is a topic in itself. Most of the payments were due to the open-endedness of the clauses regarding civilian claims, which allowed the figure for reparations to climb ever higher. Balderston notes that, here too, two schools of thought are still debating the intent behind the governments demanding more reparations. Part of the difficulty of the financial aspects of the Treaty were their open-endedness. Much of the reparations were claimed under a loophole in the Treaty: civilian claims. Was the burden deliberately high because of a calculated long-term French strategy to give an excuse for French intervention in German affairs? Or was it simply irrational vindictiveness, catering to the British and French electorates' ever-increasing expectations of the compensation to be derived from the Treaty?

Balderston's discussion of hyperinflation takes up the bulk of the book, addressing the abilities of various theories to explain its course and its sudden cessation. First, Balderston discusses the money supply theory, arguing that the idea of a continuously increasing supply of money as a source of inflation has strong merits behind it, but ultimately fails: Exchange-rates between the Mark and other currencies actually were ahead of wholesale price increases, which the theory says should not have happened. Moreover, the rate of inflation surprisingly did not match the increase in the money supply.

Second, he then turns to other explanations. For instance, the "balance-of-payments" theory argues that the rate of exchange between the Mark and other currencies caused hyperinflation because it was impossible to balance Germany's imports and exports (especially reparations) due to the loss of territory and resources. Balderston dismisses this argument, noting that it would simply have led to a different exchange rate unless the money-supply was also increasing. Third, "expectational" theories of the inflation: how to square a steady increase in the money supply with erratic increases in prices? Allegedly, people did not raise prices to match the increase in the money supply because they did not expect the money supply to increase. Likewise in the opposite direction, expectations could by themselves lead to inflation. Balderston concurs that "the interaction between rising monetisation of State debt and falling real demand for money" created the hyperinflation, at least for the years leading to 1922. Thereafter, inflation came from the state acquiring resources through printing money. Fourth, he states that wage and structural theories of the inflation also exist, based on attempts to avoid higher levels of unemployment through increasing the money supply.

But Balderston tends to dismiss these, noting that labor tensions could be just as much a consequence of the inflation as its cause. Nonetheless, those seeking political explanations of the inflation tend to prefer such structural theories. What is to be made of the political consequences of the inflation? Balderston notes that, in addition to the redistributive effect of shifting value from creditors to debtors, the inflation also wiped out the war debt, thus benefiting taxpayers. Pay differentials also were reduced. Significantly, longer-term effects included the decline of investment in Germany. Curiously, inflation theories often have as much difficulty explaining the sudden cessation of inflation as they do explaining its onset. Quantity-theory, which accounts for the rise of inflation so poorly, does much better with its cessation: no more increase, so no more inflation. On the other hand, the "expectations" school, which explains inflation so well, cannot account for the fact that there was little reason to think in November 1923 that inflation would cease. The years 1924-1929 are rendered as the years of stabilization and stagnation in the German economy. Stabilization occurred, in part, as a result of German banks borrowing money from American banks, and the willingess of American banks to lend this money. Conventional wisdom, until the 1960s, was that stabilization contributed to economic growth. More recently, however, other interpretations have emerged. While businesses at the time believed strongly in rationalization and economic concentration as a means towards growth (even cartels were viewed sympathetically), more recent scholarship has noted that the investment-ratio in the late 1920s actually was below that of the years before 1914. Likewise, other scholars have noted that, in fact, not much rationalization actually occurred during this period. This has brought the debate about this period to focus on wages–whether they were too high relative to investment, thus theoretically reducing productivity.

Balderston also looks at the scholarship on the level of innovation in German companies during this time. He notes that Germany at one point had been a global leader in innovation, but now had been reduced to local innovation, in short, to getting local industries to catch up with the global standard. The German response was not more research into productivity, but into cartelization and securing markets. Though stabilized (temporarily, as it turned out), this was unlikely to solve stagnation. Implicitly, the long-term political prospects were poor as a consequence. Finally, Balderston has a chapter on "the slump after 1929," discussing both its causes and governmental ameliorative measures. He notes, in contrast to the conventional wisdom that the American crash of 1929 brought on the German crash, that the German slump had its own, domestic roots: German "fundamentals" were already turning downward as early as 1927. (Balderston himself has written extensively on this topic.) Much of this helps to explain why German banking did not recover after 1929 and why it hit Germany more severely. He also notes the contribution of political factors. Fear of both non-payment of German reparations and of the Nazis' 1930 electoral victories scared away investment and exacerbated the slump, making for a self-fulfilling prophecy. Fiscal policy in the German slump has also been a historically hot issue, since economic recovery almost certainly would have forestalled Weimar collapse. Thus the effectiveness of contemporary fiscal policy has received much scrutiny, especially with regards to then-Chancellor Brüning's goals, and Balderston covers this well. While Brüning wanted to stabilize finances, and required emergency decrees to do so, he never quite succeeded, since the economy and state revenues kept contracting faster than he could cut spending. At the same time, as a Catholic centrist, he refused to rely on socialists to build support for his efforts, so that he had to implement his policies using authoritarian measures. Brüning also was more interested in a fulfillment policy (trying to get rid of reparations by scrupulously fulfilling its terms, and thus showing their unfeasibility) than in employment-generation. In this, he succeeded, since reparations did cease, but the policy generated far too little support to compensate for the alienation of unemployment and did nothing for Weimar politically or economically.

For a book whose title stresses both economics and politics, the domestic political gridlocks which undermined both economic and political confidence are underemphasized. But, given space limitations, one could scarcely have included much more, and Weimar politics is amply described elsewhere. Balderston, instead, has focused on the economic issues with the greatest political ramifications and written what functions as a thorough *Handbuch* on economic historiography. While one might hesitate to assign it to students without backgrounds in either Weimar or economics, it is ideal for those already grounded in the topics. Advanced undergraduates, graduates and scholars generally will profit from it greatly.

Citation: Roland Spickermann. Review of Balderston, Theo, *Economics and Politics in the Weimar Republic.* H-W-Civ, H-Net Reviews. July, 2003.

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