Walther Rathenau and the Weimar Republic

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Introduction:
The Background of Reparations

The idea of reparations was one of several new ideas which Woodrow Wilson was introducing to the Old World. Reparations would be appropriate to international justice under the League of Nations. Germany was not to be compelled to pay an indemnity, as defeated nations had conventionally done. On February 11, 1918, the American President had demanded a peace with "no annexations, no contributions, no punitive damages." This followed logically from the Fourteen Points, the war aims he had announced in his important address to Congress a month earlier, on January 8. Germany would simply provide restitution for the damage done to the civilian population—reparations.

It took more than three years to determine the character and magnitude of reparations. The Germans were not told what they would have to pay until May 5, 1921.

In 1918 the Allies had immediately begun to resist Wilson's ideas. On the surface the issue was simple: a generous peace that would break the endless chain of nationalistic rancor or a severe

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1 Quoted in Philip M. Burnett, *Reparation at the Paris Peace Conference* (1940), 1: 359. The two-volume work is a carefully edited collection of all the important documents relating to reparations.
peace that would force the enemy to provide full compensation for all the war costs.

Allied resistance took the form of efforts to restore the older conception of an indemnity. The United States proceeded to define reparations more precisely in a note to Germany on November 5, 1918: “Compensation will be made by Germany for all damage done to the civilian population of the Allies and their property by the aggression of Germany by land, by sea, and from the air.” The note, with the German reply accepting this definition, constituted the Pre-Armistice Agreement. Premier Georges Clemenceau of France at first tried to work with the American idea, only stipulating that compensation be mentioned in the armistice terms. At a meeting of the Supreme War Council on November 2 he had said: “All I am asking is simply the addition of three words, ‘réparation des dommages,’ without other commentary.” That phrase appeared in Article XIX of the Armistice Convention. On December 2–3, Clemenceau and Prime Minister David Lloyd George, meeting in London, tried to advance beyond that point and called for a commission to determine the “reparation and indemnity” to be paid by the enemy. This was communicated to Colonel Edward M. House, Wilson’s chief adviser in the peace negotiations, who had been absent from the conference only because of illness. House cabled Wilson on December 5 that he took exception to the word “indemnity,” and Wilson supported him in demanding its exclusion from any agreement among the Allies. Clemenceau and Lloyd George yielded and the word was never used. “Reparations” would have to serve.

The struggle over reparations continued at the Paris Peace Conference, which occupied the first half of 1919. One of the five major committees of the conference, the Committee on the Reparation of Damages, immediately disagreed within itself. At a meeting on February 13, 1919, the young John Foster Dulles, legal adviser to the American delegation, summarized and insisted upon the limits which the 1918 agreements had set to reparations. Over the next

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2 Quoted in Burnett, Reparation, 1: 411.
3 Ibid., p. 399.
4 Ibid., p. 414.
5 Cable, with House’s summary of the Clemenceau-Lloyd George decision, quoted in Burnett, Reparation, 1: 431.
two days, William M. Hughes, the Australian Prime Minister, and Louis-Lucien Klotz, the French Minister of Finances, tried to over­
ride such formal considerations by appealing, as they said, to simple
justice. Germany, they argued, stood condemned for having started
the war and should pay for all the war costs. It was the indemnity
redivivus.

Behind the Allied demands were four years of war suffering. The
speculator Bernard M. Baruch, who was one of the financial experts
of the American delegation, wrote a book, The Making of the
Reparation and Economic Sections of the Treaty, in which he tried
to defend the decisions taken. “The aroused primitive passions of
nations and of men had only in a small measure subsided,” he
wrote. “Within a few hours’ travel from the Peace Conference were
the battlefields upon which lay 900,000 dead Englishmen and
colonials [and] 1,300,000 dead Frenchmen. . . .” He did not list
the dead Germans. In Versailles, a mob stoned the German delega­
tion when it arrived in May. Back in December, 1918, Lloyd
George’s wartime coalition had exploited war hatreds and won a
great victory in the “khaki election.” Lloyd George himself had
originally suggested milder treatment of Germany, but his associ­
ates got roaring approval from the electorate when they threw off
such restraints. A Labor member of the cabinet said, “Hang the
Kaiser,” and a Conservative, “Squeeze the lemon until you can hear
the pips squeak.” On December 9, five days before the election,
Lloyd George tried to keep a qualification: “If you take the whole
of Germany’s wealth away . . .—there would not be enough. . . .”
But, he went on, “The British Imperial Committee . . . think that
the assets of Germany . . . have been underestimated in the past.
. . . We have an absolute right to demand the whole cost of the war
from Germany. . . .”

The American members of the Committee on the Reparation of
Damages were seriously hampered in maintaining their position
against the currents of European public opinion. Wilson returned
to the United States in mid-February to deal with domestic politics,
and he would be gone a full month during the peace conference.

7 Bernard M. Baruch, The Making of the Reparation and Economic Sections
8 George N. Barnes and Sir Eric Geddes, respectively, quoted in Czernin,
Versailles, p. 52.
9 Quoted in Czernin, Versailles, p. 52.
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Another difficulty was a half-hidden flaw in the American logic. Baruch first lied about it tactfully in his book: "Of course, it was generally recognized that the indebtedness of the Allies to the United States had no relation to Germany's reparation obligations to the Allies." A few pages later he admitted: "To have insisted ... that creditors of Germany should waive in part their ... claims ... might have encouraged the effort to reopen the whole question of Interallied indebtedness. ..." The Americans, while demanding the repayment of their war loans in full, were telling the Allies to take less than the full amount they could claim as reparation. But if American reasoning was questionable, American power was not.

Wilson communicated firmness by cable. At a meeting of the Supreme Allied Council on March 10 Clemenceau and Lloyd George once again stopped trying to claim compensation for all the war costs. But nothing had been settled.

The disagreement in the Committee on the Reparation of Damages had led to the creation of the ad hoc Special Secret Committee, with a member each from the United States, Great Britain, and France. The French member was Louis Loucheur, Under Secretary of State for Military Production and Industrial Reconstruction, and Clemenceau's chief reparation expert. In its confidential report, delivered to the Allied leaders on March 15, the secret committee recommended that the German liability be set at 120 billion gold marks. Loucheur, who knew his politics as well as his economics, had been publicly demanding as much as 800 billion gold marks, and he told his British and American colleagues that he would deny he had concurred if the report were made known. It was not made known. The Allied leaders kept it secret and rejected it. "Neither Lloyd George nor Clemenceau could afford to think in terms as small as those presented by [the committee]." Wilson, who had

10 The Reparation and Economic Sections of the Treaty, pp. 52–53.
11 Ibid., p. 71.
12 Report in Burnett, Reaparation, 1: 689–92. I.e., $30 billion. It would be appropriate here to note that the official gold mark-dollar rate was 4.2 to 1. The literature on reparation, however, has rounded this off to 4 to 1 for simplicity's sake. From this point the reader might make the mental operation of dividing by four to get the dollar equivalent for the gold-mark figures—remembering that dollars and gold marks at the time had proportional values different from the dollars and marks of today in relation to individual and national income. Chapter II examines the economic and financial questions.
13 Paul Birdsall, Versailles Twenty Years After (1941), pp. 246–47.
14 Czernin, Versailles, p. 291.
landed back in France on March 13, resisted accepting a figure above 120 billion gold marks, while the French wanted 188 billion gold marks, and the British, for the moment, had gone beyond the French and were demanding 220 billion gold marks. The disagreement got worse when reparations became entangled with another issue. On March 28, Clemenceau, having failed to move Wilson on France’s conception of a detached Rhineland under her tutelage, called him pro-German and walked out of the conference room.

Now Wilson retreated. In the midst of the quarrel his delegation proposed that a reparation commission be created to fix the amount of the debt. The negotiations over the new agency permitted him to make concessions without humiliating himself too obviously, and he yielded to the principle of compensation for war-service pensions and separation allowances. Specifically favorable to the British interest, since England could claim very little under the heading of actual damage to its civilians, it meant doubling the reparation liability, as the calculations of the Reparation Commission later demonstrated. In effect, it meant restoring the indemnity after all. On April 8 the Allied leaders composed their differences.

The Allies arrived at their compromise through one of the most tortuous sweeps of reasoning in the history of diplomacy. John Foster Dulles, given the prescription by Lloyd George, drafted a double statement that satisfied, if only verbally, both Allied demands and economic realities. The statement became Articles 231 and 232 of the Versailles Treaty, the first asserting Germany’s total liability and the second limiting it in practice by referring to her actual resources. But Article 231 contained the famous war-guilt

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15 Document 196 in Burnett, Reparation, 1: 718–19. Many other figures were mentioned in the negotiations. The French indicated a willingness to consider less than their maximum demand, and Lloyd George was alternating between those advisers calling for much and those who would be satisfied with a minimum in reparations. The point was that the Allies could not agree on any figure.

16 Accounts, including a statement Dulles made to Burnett in 1937, in Burnett, Reparation, 1: 66–70, and in Birdsall, Versailles, pp. 241–63. At one stage Lloyd George said: "We must in some way justify the action of the British and French governments, which find themselves obliged to accept less than full war costs. We must make it thoroughly clear that, if we do not exact it, it is not because it would be unjust to claim it, but because it would be impossible to obtain it" (Birdsall, Versailles, p. 253). On this subject Burnett also gives the minutes of two meetings of Clemenceau, Lloyd George, and experts on April 5, 1919, in 1: 825–29 and 831–35.
clause. It said: "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 a war imposed upon them by the aggression of Germany and her Allies." Article 232 admitted: "The Allied and Associated Governments recognize that the resources of Germany are not adequate, after taking into account permanent diminutions of such resources which will result from other provisions of the present Treaty, to make complete reparation for all such loss and damage." It was natural for the Germans not to pause until Article 232 might calm their outraged sense of justice and exacerbated apprehensions. Made guilty of all the war horrors, they reacted accordingly. The Germans resisted for several weeks, changing their government in the process, but they were helpless. They signed the Versailles Treaty on June 28, formally countersigning the statement of guilt, the reparation liability, and many other unhappy things as well.

Wilson left Paris on June 28. He went home to fight for his treaty, especially for the League of Nations, trusting that the league would make up for all the defects of the treaty. In September he made thirty-seven speeches in twenty-nine cities in twenty-two days. He collapsed in Pueblo, Colorado, on September 25 and suffered a stroke on October 2. His opponents in the Senate had made so many reservations to the treaty that Wilson opposed ratification in that form, and the treaty arrangements were twice voted down, on November 19 and, in 1920, on March 19. Within all the confusions of its domestic politics, it was clear that the United States had withdrawn from its international responsibilities.

The Allies attempted to reestablish their world as best they could. Their leaders proposed to mollify public opinion and ease their financial situation by getting as much money as possible out of the Germans. A series of conferences followed. The Reparation Commission commenced its work as soon as the Versailles Treaty went into effect on January 10, 1920, but the issue was too important to be left to it. In 1920 the commission's most important work was to calculate Germany's liability, which it fixed at 226.4 billion gold marks ($56.6 billion).17 At the beginning of 1920 Clemenceau

17 Étienne Weill-Raynal, Les réparations allemandes et la France (1938), 1: 323.
fell permanently from power as a consequence of French disillusionment and political intrigue. Alexandre Millerand succeeded him as Premier and met with Lloyd George at San Remo, on the Italian Riviera, from April 18 to 26, 1920. They discussed various uncompleted parts of the peace settlement, including the reduction of the German military forces, and Millerand suggested that Germany begin paying 3 billion gold marks annually, pending a definitive reparation plan. The two leaders recognized, however, that many difficulties were in the way of even a provisional agreement—Allied public opinion wanted more and Germany's postwar conditions promised less—and they set their experts to working on various plans and schedules. The leaders continued their talks at Hythe, on the English coast near Dover, on May 15–16 and June 20. On June 21–22, after crossing over to Boulogne, they agreed at least on how they would divide reparations when they got them: 52 percent for France and 22 percent for Great Britain. A meeting of experts in Brussels on July 2–3 filled in some of the details. With all of the major questions still unresolved, Millerand and Lloyd George then invited the Germans to Spa, in Belgium. The Spa Conference, meeting from July 5 to 16, 1920, ranged over many matters and regularized a delivery schedule for coal, which Germany was shipping to the Allies as part of her reparation payments. Allied public opinion, however, wanted cash, and the leaders and all their experts had still failed to show how they could procure cash. A later meeting of experts, beginning in Brussels in December and resuming in Paris in early January, produced another version of Millerand’s proposal for annual payments of 3 billion gold marks, but nothing came of it. Millerand himself had become President of France, glad to dissociate himself from the political dangers of the reparation issue. His successor as Premier was driven from office on January 12, 1921. The French had become increasingly angry and dissatisfied about reparations. The British were losing their war hatred, but the reparation matter still irritated them. In 1921 both peoples, whatever the differences between them, demanded action on reparations.