Dealing with the Reparation Commission

For a year the Reparation Commission acted as the chief agent of the Allied will in Germany. The period began in January, 1922, when the commission, meeting in Cannes, was permitted to announce the preliminary decision to grant Germany temporary reparation relief. It ended when French and Belgian troops occupied the Ruhr the following January. Throughout 1921 the Allied leaders had frankly accepted the responsibility for enforcing the Versailles Treaty. The Genoa Conference, in the spring of 1922, might have meant resuming this style of European leadership. Instead, the conference increased the Reparation Commission’s importance by officially excluding reparations from its agenda. During a whole year “horrible and girning . . . sentencing and spurning,” the commission was “connoisseur of all transgression”\(^1\) for Germany.

Originally created because of Allied divisions, the commission won its central position in 1922 because of the new character of these problems. Poincaré’s rise to the premiership meant that the divisions had become much deeper. Besides disagreeing on reparations, France, supporting the Turks, and Great Britain, supporting the Greeks, were competing for power in the Middle East. If the

\(^1\) Canto V of Dante’s *Inferno* in the translation of Dorothy C. Sayers.
Allied leaders did not propose to let it happen, their rivalry might nevertheless pass on to others the power to make the great decisions on Germany and reparations. There was always the danger that they would postpone a decision so long that the delay itself would constitute one. This was the Reparation Commission's opportunity.

The character of the commission's authority can be suggested by an episode occurring at a British cabinet meeting. John Bradbury, as Britain's chief representative on the commission, defied Prime Minister and cabinet. The cabinet was discussing reparation policy on May 23, 1922, and Lloyd George asked Bradbury to confer with a cabinet member about a note to France. Bradbury objected that the issue "might come before him in his judicial capacity on the Reparation Commission." At that, according to the record, "the Lord Chancellor [Lord Birkenhead—F. E. Smith] resented the language and attitude taken up by Sir John Bradbury toward the Cabinet." In the end, Lloyd George having reacted with great forbearance, Birkenhead had to accept a compromise formula that narrowed British sovereignty. Bradbury agreed to "listen to the views of the Solicitor-General... and derive any advantage he could from them, while expressing no definite or definitive view of his own." Bradbury would not have insisted upon his formal powers if some substance were not behind them.

For Germany the commission was all the more dangerous because of the period's conventional economic thinking. Although the Allies knew that reparations were a great burden, doctrinaire economics persisted in placing great emphasis on the balancing of budgets. Germany, with her huge deficits, must be in a state of sin. She was undeserving of mercy until she made a sincere effort to correct matters, and the commission was her judge.

In the first half of 1922 the commission represented both an overwhelming threat and a small hope for Germany. The threat, of course, grew out of the discharge of its responsibility for collecting reparations; it might demand so much that she would go bankrupt immediately. In their inconsistent way, however, the Allied governments were admitting that their old enemy needed help, and they charged the commission with arranging that as well. Help would take the form of a loan that might permit real stabilization.

2 Cabinet Conclusions, PRO, CAB 23/30.
This was the hope. The commission manipulated both threat and hope actively.

The threat was given its precise form by the character of the relief temporarily granted in January. If Germany failed to fulfill a series of conditions, it would be withdrawn. The Allies, however, were tacitly admitting that this relief was not enough, that Germany was still being required to pay too much in reparations. A loan might give her the necessary supplement of aid.

The Allies articulated the idea officially in March, reviving the objective that Rathenau had vainly pursued in London toward the end of 1921. The British had learned to appreciate the loan idea under the impact of German distress upon their own economy. A conference of Allied Finance Ministers had been held in Paris to deal with various reparation matters. The conference communiqué, drafted on March 11, recommended that the Reparation Commission help arrange a loan for Germany. It had been the proposal of Sir Robert Horne, the Chancellor of the Exchequer. Then, on April 4, the commission passed a resolution calling for a committee of experts to explore the question. The commission wanted more than experts; it wanted men with money. It persuaded the banker J. Pierpont Morgan to help, and organized a group called the Loan Committee around him. This was an unofficial but thrilling connection to the United States and its immense resources.

The Reparation Commission, manipulating threat and promise, could torture Germany in a very precise way. The situation had been fixed into a rhythm of demand and response reaching climaxes on three dates. When Wirth and Rathenau went to Genoa in April they had already withstood the first two climaxes—those of January 13 and March 21. On the first date the commission had drawn up the arrangement providing for temporary payments every ten days. Its note of March 21 thereupon granted the provisional moratorium, which required payments of 720 million gold marks in cash and 1,450 million gold marks in goods in 1922, while setting conditions which had to be fulfilled by May 31. The penalty for failing to

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3 Specific purpose of the conference was to allocate future reparation payments among the Allies, arrange for compensation for military occupation costs, etc. The Ministers also set certain limits to the moribund Wiesbaden Agreement. The loan proposal, which was an afterthought, had more life than anything else the conference decided.
comply would be the loss of the provisional moratorium and a return to the terms of the London Payments Plan. Even though the German leaders did not think the commission would be so harsh, they knew that it could drive the country into bankruptcy with much milder sanctions. The May 31 deadline was suspended over the heads of Wirth and Rathenau as they were conducting their Genoa negotiations.

The total of the conditions was formidable. Besides demanding the tax increase of 60 billion paper marks, the commission ordered Germany to increase future taxes in proportion to the loss in value of the mark, raise an internal loan equal to the budget deficit (including the reparation costs), permit the Committee of Guarantees, the commission's agency charged with assuring German compliance, to place officials at the various levels of the tax administration and see to it that the promised taxes were collected, submit a plan by April 30 for preventing capital flight, and pass a law giving autonomy to the Reichsbank by May 31. The commission really wanted a fraction of all that. Bradbury had been the note's principal author, and the German reaction had grieved him. He told Bergmann that he had been "obliged to use a harsh tone to get some concrete concessions" from the French. "He . . . had hoped that the German government would understand the situation and give the note the appropriate reception." Bradbury was hinting that the promise was as important as the performance.

The workings of German domestic politics had defeated the commission's purpose, obliging Wirth and Rathenau to make their intransigent speeches of March 28 and 29. As they anticipated, the convocation of the Genoa Conference inhibited the commission's response, but it had no such restraint after Rapallo. Wirth tergiversated all that he could. On May 3 he sent a telegram to the commission's president, Louis Dubois, in which he regretted his failure to answer its notes of the past six weeks. The German government had been busy in Genoa and he was sending Bergmann the next day to give more details, Wirth explained. Moreover, Finance Minister Hermes would go to Paris the following week for extended talks. The Chancellor would be grateful if the commission would

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4 Bergmann's telegram from Paris to Rathenau and Hermes, April 5, Ausführung, BA, R431/26.
5 Copy (in French) as sent to Ebert by Rathenau to inform him of Wirth's action, Ausführung, BA, R431/28.
postpone discussing the important questions until then. On May 13 Hermes arrived in Paris.

Before his Paris trip Hermes had been active in Genoa and Berlin—and in a manner that caused Wirth some unpleasantness. At a cabinet meeting in Genoa on April 18 Hermes had objected to the Rapallo Treaty: "It is more important ... to create the right atmosphere for settling the reparation issues than to make a treaty that will have unpredictable results for Germany." Then, back in Berlin, Hermes opposed the Wirth-Rathenau policy direction in talks with leaders of the important parties. Edgar von Haniel, State Secretary in the Foreign Ministry, passed this information on to Rathenau and urged him to return to the capital to clear up the "diskrepanz." Rathenau could not leave Genoa, but Hermes got little support beyond that of the Socialist Vice-Chancellor, Gustav Bauer. It was just enough to bend government policy into a slightly different direction. Bauer, a labor leader, had been an uninspired Chancellor in 1919 and early 1920, and a generally disregarded member of the Wirth government. Remaining in Berlin, he took advantage of the situation to attempt to increase his influence. Bauer had supported the Hermes mission to Paris.

The commission handled Hermes roughly. Louis Dubois, whom he saw on his first evening, was cold and rigid. Three days later Dubois told Bergmann, who was describing Germany's situation: "You cannot convince me, and if you could, I could not convince public opinion in France." John Bradbury was more encouraging, but for a price. On May 20, Lloyd George, returning from Genoa, stopped off in Paris and added his persuasions to those of the British delegate. The two men convinced Hermes that only substantial concessions would get the moratorium confirmed at the end of the month and provide the conditions for a loan. Hermes, in a report of that day to his government, defended the concessions he had made. He argued that the tax proposals embodying them need not be introduced into the Reichstag until the fall. In response to the commission demand for 60 billion paper marks of new taxes,
Hermes agreed to a tax increase of 30 billion paper marks and a forced loan of 40 billion paper marks. Both the original tax plan and the tax-cum-forced loan were more imaginary than real, and the difference between the two represented additional fantasy. Yet as a statement of intent, however insincere, the plan would have certain effects in domestic politics. The government would have to discard the laboriously achieved tax program and persuade the political parties to agree to a new allocation of greater sacrifices. The sacrifices might be only paper sacrifices—tax increases wiped out by inflation—but no one could be sure, and meanwhile the parties would struggle ferociously to protect the interest groups they represented. Still in Paris, Hermes sent a deputy, Ministerial­direktor von Brandt, to Berlin to defend his action. At a cabinet meeting on the morning of Monday, May 22,\textsuperscript{11} three days after the end of the Genoa Conference, Wirth listened to von Brandt explain how unhappy the Reparation Commission had been about Germany's earlier failure to give satisfaction. Unhappy himself, Wirth refused to believe in the need for such great concessions. He accused the absent Hermes of presenting the cabinet with a \textit{fait accompli}. Rathenau, also distressed, wondered if the government might not be obliged to repudiate the Hermes agreement. Wirth continued to talk. Reacting with more and more heat, he went on to make a number of negative and irrelevant comments. He argued that the idea of going to Paris had originated with Hermes. He seemed to be trying to dissociate himself from his own responsibility as the head of the government. It did not make sense: Wirth had approved the trip and indeed could not have avoided sending Hermes. Helplessly, Wirth remarked that "two completely unconnected governments had been going their own directions." He threatened to resign.

It was a governmental crisis. Bauer defended Hermes and himself redundantly, and then went over to the counterattack: Wirth and Rathenau "had been making policy on their own" in Genoa. The lines were drawn, Wirth-Rathenau against Bauer-Hermes.

The crisis lasted for five days—from Monday, May 22, to Saturday, May 27—in a form acute enough to halt all important decision-making. It was nevertheless not a true crisis and it was rather

\textsuperscript{11} Kabinettsprotokolle, BA, R43I/1376.
Bauer and Hermes were presenting themselves as truer fulfillment than Wirth and Rathenau, the authors of the fulfillment policy, but the chief figures gave the impression that they expected nothing to change. Moreover, the Socialist Bauer, committed to labor, and the Centrist Hermes, oriented to agriculture and business, had little in common. Before the first cabinet meeting of May 22 was over—there were two meetings that day—Rathenau had moved away from his negative position. While remaining personally close to Wirth, he agreed with the thinking of Bauer and Hermes. He convinced the cabinet that it would be dangerous to quarrel with the Reparation Commission. At the second meeting on May 22, beginning at 6 P.M., Wirth was silent and Bauer was aggressively unpleasant: “If the Genoa delegation has such an enormous success in its pocket, then we could perhaps go so far as to reject the agreement.” Rathenau coolly returned: “The delegation . . . has no such guarantee. We shall have to accept the agreement because it is more bearable than an acute crisis.” More talking in cabinet meetings twice a day and in meetings with party leaders; the return of Hermes on May 25; and a restrained debate between Hermes and Wirth—all led back to Rathenau’s conclusion of the evening of May 22. On Tuesday, May 23, Rathenau masterfully got the cabinet to suspend its sense of reality. Again supporting the Hermes concessions, he suggested that the government try to avoid new taxes—as if the new taxes were not essential to the concessions! He soothed Wirth. The passage in the cabinet minutes, in indirect paraphrases, reads: “[Rathenau] is under obligation to him personally and politically, and he understands his position, but he begs him to continue to serve his country . . . .” Supported by President Ebert and the other leaders, Rathenau had the last word at the Saturday cabinet meeting, when he said that the Hermes agreement had to be accepted essentially as it stood. The minutes conclude: “Upon this the difference of opinion within the cabinet was resolved.”

The arguments for the agreement had been too strong. On the one hand the Reparation Commission could cause the economy to collapse by withdrawing the provisional moratorium on the May

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12 Ibid., R431/1376.
13 Ibid., R431/1376.
14 Ibid., R431/1376.
31 deadline. On the other hand, the Loan Committee was coming into being—J. P. Morgan having arrived in London on May 20—and it would begin meeting officially on June 1. The Reparation Commission’s power to punish or reward was overwhelming.

Wirth’s conduct was a classic exercise in the Weimar Republic’s game of responsibility. Throughout its history, the republic’s leaders had been forced to accept sacrifices and to admit to defeats—the Armistice, the Versailles Treaty, and now, the fulfillment policy. Wirth had borne the burden for a year, and he was human enough to have found it unbearable for a moment. He had only recently gotten through the exhausting negotiations for the tax compromise. Now he would have to return to the Reichstag and demand much more. It was an appalling prospect even if he did not have to begin the struggle until next September. Wirth was, however, too resilient to break down, and Rathenau’s understanding of the man and the politics helped to provide a saving formula.

The thinking and actions of the British government—the Germans simply could not resist the British—argue for the tactical wisdom of the Hermes agreement. At a meeting during the German government’s week of crisis—on May 23—the British cabinet agreed that Germany had to make substantial concessions. Bradbury and D’Abernon had been brought back to London for a review of the situation, the sense of which, as summarized by Arthur Balfour, was: “Germany ought to be pulled up but on the snaffle and not the curb.” Balfour added drily: “The misfortune was that we had an ally who at one and the same time wanted a Germany rich enough to pay indemnities, and also a Germany that was ruined.” Great Britain might try to keep the contradiction from being fatal to Germany, but her government would not extend itself too far. It was indicative of the situation that Germany no longer enjoyed Churchill’s sympathy. In an access of nationalistic resentment he remarked that she could not very well complain of her burden while Great Britain, with unemployment at two million, had to pay a far greater sum to the United States. Lloyd George was willing to face the eventuality that Germany would suffer “a terrific collapse.” He went on to mention Herbert Asquith’s idea of canceling reparations completely. While it was entirely reasonable in

15 Cabinet Conclusions, PRO, CAB 28/30.
his opinion, it was out of the question because of the British war debts owed the United States: "The position would be quite different if the United States were to forgive us our debts as we forgive those of our debtors." The cabinet comforted itself with the hope, but only the hope, that the loan was possible and would save the situation.

The German government, even if it could not read the minutes of British cabinet meetings, had a good sense of what Great Britain wanted. British opinion had been a factor in Wirth's return to reason. Having accepted the Hermes agreement at the cabinet meeting on May 27, Wirth despatched a note to the Reparation Commission the next day. Accompanying the note was a budget plan for the new fiscal year (April 1, 1922, to March 31, 1923). Together, note and budget plan had the character of the German government's official response to the commission's note of March 21 and the various demands contained in it—as modified and elucidated by the Hermes agreement. Wirth tried to qualify everything he was granting. He insisted, first, that his concessions were contingent on a foreign loan. Having established that point, he promised to hold the floating debt to the level of March 31, 1922, cooperate with the Committee of Guarantees to permit the financial supervision of the country—provided there was no violation of national sovereignty, introduce a law to prevent capital flight, and assure the autonomy of the Reichsbank. Wirth's budget began with an original figure of 115.5 billion paper marks as an estimate of tax revenues, to be increased by 39.2 billion paper marks of new taxes, plus supplementary receipts of 40 billion paper marks through the forced loan. This produced 194.7 billion paper marks in total government revenues—equivalent to nearly 3 billion gold marks at the May rate. With expenditures at 123.9 billion paper marks, there would be a surplus of 70.8 billion paper marks—about 1 billion gold marks—for reparations. The surplus depended on a number of eminently remote possibilities: stabilization of the German economy, control of steadily increasing government expenditures, willingness of the interest groups to accept extraordinary burdens, and the

16 Note and budget are reprinted in a report by Rathenau and Hermes entitled Nachtrag zu dem Weissbuch, "Aktenstücke zur Reparationsfrage von Mai 1921 bis März 1922" (hereafter cited as Nachtrag), in Ausführung, BA, R43I/29. Also reprinted in the Nachtrag are major communications between Germany and the Reparation Commission from April 13 to June 10.
elimination of such negative factors as an annual deficit equivalent to a third of a billion gold marks in the railroad system and the postal services. The Reparation Commission officially believed almost all that Wirth claimed. Obliged, however, to demonstrate that Germany could not make a complete fool of it, the commission refused to accept Wirth's surrender immediately. It demanded that the 40-billion forced loan be collected not in the fiscal year, but by the end of the calendar year 1922. Another note of Wirth's, on May 30, made that promise, too, and on the deadline the next day the commission confirmed the moratorium.

In Paris, on June 1, the Loan Committee held its first formal meeting—and began with discouragement. Germany was in its desperate situation because the reparation loss had destroyed financial stability. The Reparation Commission had just now confirmed relief in reparations, but in a way that actually meant a continuing deficit. Nothing had been changed in Germany's economic position. John Bradbury was hoping to arrive at a general arrangement that could lead to a resolution of the whole reparation problem. Since such an arrangement would include war debts as well, it made an assumption about the American position which nothing justified except Bradbury's stubborn will. Rathenau judged the situation somewhat more objectively. Certain that Bradbury was unrealistic, he wanted a small loan—some 4 billion gold marks—that might relieve Germany through 1923. On May 7 Rathenau described his conception in a cable to Otto Wiedfeldt, whom he had assigned to Washington a few weeks earlier as Germany's first postwar Ambassador. He hoped that Wiedfeldt would communicate the idea to Morgan before the banker came to Europe. Rathenau explained: "The English conception of dealing with the whole reparation problem [has] very little prospect of success." Wiedfeldt did not get the opportunity to see Morgan, but it made no difference. Enormous problems encumbered any loan that would be substantial enough to give real relief. The problems were forcefully present at the Loan Committee's first meeting.

Morgan put the issue simply and absolutely: Germany had to have a reduction in reparations before any one would risk lending her money. Jean Sergent, a financial expert representing France on

18 Reports on all the meetings given in telegrams from Bergmann to the government, in Ausführung, BA, R431/28. Loan Committee report in Nachtrag (n. 16).
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the Loan Committee, refused to discuss a reduction. The Reparation Commission, he argued, had stipulated that reparations were inviolable when it had drawn up the resolution calling for the Loan Committee. The majority of the Loan Committee then put the question to the Reparation Commission: would it nevertheless consider a loan plan implying a possible change? In the Chamber of Deputies the next day Édouard Herriot, the Radical Socialist leader, was rather feebly advocating more understanding of the German situation. Poincaré interrupted him to say he opposed “dangerous attempts to amputate” French claims. André Tardieu, demanding a harder line toward Germany as usual, balanced off Herriot. Poincaré was again the center of a substantial consensus, and the government won a vote of confidence by 436 to 96.19 On June 3 Rathenau called in the French Ambassador to press him to use his influence upon his government. How could a telegram from Berlin change Poincaré’s policy? Rathenau’s actions had almost no effect upon events by this time. On June 3 Le Temps got to the point, saying that a reparation solution was dependent on a war-debt solution. The point was American policy.

A small and useless detour wound through the Reparation Commission. On June 7 the majority of the commission gave this reply to the Loan Committee’s question: “Nothing should preclude the Committee from examining any one of the conditions.”20 This said that the Loan Committee could consider reducing reparations, but it meant nothing of the sort. Louis Dubois had refused to sign the commission answer, thus destroying the majority affirmative with a French liberum veto. If France opposed a decision by the commission, the decision had no force. Carl Bergmann, who was a Loan Committee member, was desperately suggesting a loan of the kind Rathenau had imagined, namely one large enough for real relief but small enough not to mean bringing up the question of a general reparation settlement. But this was false theory: if the loan were large enough to help Germany, it would have reopened the whole reparation issue. The Belgian chief delegate in the commission, Léon Delacroix, was proposing a loan of 1 billion gold marks to cover reparations and clearing debts for one year. It was another illustration of the impossibilities in the situation. Morgan said there was no market for such a loan in the United States, and the French

19 Le Temps, June 3.
20 Quoted in Loan Committee report, copy in Ausführung, BA, R431/29.
and British governments had other objections. On June 9, while awaiting news from the Loan Committee's last meeting that day, Wirth and Rathenau both made speeches in Stuttgart and warned the audience to expect nothing favorable. The Loan Committee agreed that the credit situation was hopeless and submitted a report in that sense the next day. The report criticized France for refusing to permit a rational solution: "The lending public" needed the "assurance that the obligations of Germany . . . [were] within her capacity. . . ." Failing that, the Loan Committee anticipated a "collapse of German finances" and "a social upheaval." The "General Observations" of the report, however, went beyond France. They suggested studying the problem of the "international indebtedness." The point was American policy.

Through the Loan Committee, the Reparation Commission had given Germany another victory in the logic of reparation relief. The committee had expressed an important truth so well that an editorial in The Times of June 12 protested: "The bankers have said just a little more than they need have said as a purely financial body." It granted this victory to Germany instead of real help. Within a month Germany would again be begging for relief, and her situation would be so persuasive that she would get it. She would, however, get it under circumstances that compounded within themselves several varieties of disaster. One disaster, the decline of the mark, was arriving swiftly. The mark went from 272 on June 1 to 318 on June 12, and the Wirth government could forget its promises of May 28 and May 30 to the Reparation Commission. By mid-June not even the French were serious about seeing them carried out. Communication between the Reparation Commission and Germany would continue to be vigorous, but it would be irrelevant.

Wirth and Rathenau could do absolutely nothing of consequence. They had to expend their energies defending the government against rightist attacks and the mark against the effects of the Loan Committee failure. The German government had pursued one solution after another at Wiesbaden, Cannes, and Genoa. It had sought a reparation reduction, a moratorium, a loan. Everything was used up.

21 Wirth, Reden während der Kanzlerschaft, pp. 365–79; Rathenau, Gesammelte Reden, pp. 404–18.