2

The Reichsmark: Stabilization and Foreign Loans

1 The mark stabilization of 1924

Germany’s political situation worsened in 1923. Passive resistance in the Ruhr meant that whenever Allied troops moved into a factory, a mine or an office, everyone stopped working. Government payments to finance passive resistance in the region fuelled further printing of money and subsequent inflation. The government made huge amounts of credit available to firms in the region while funding welfare and unemployment benefits, wages for unproductive work, and subsidies to railroads and postal services. The economic importance of the Ruhr meant its loss had significant consequences for the entire national economy. Real wages started to decline, and industrial unemployment, until then fairly subdued, leapt from 1.5 per cent in 1922 to 10.2 per cent in 1923. National solidarity was severely strained as interest groups vied to belittle one another’s suffering. In 1923 hyperinflation reached its peak, with prices increasing by 29,525 per cent in a month. The political unity of the Weimar Republic started wobbling.

The vice president of the Reichsbank, Otto von Glasenapp, wrote in alarmed terms to the governor of the Bank of England, Montagu Norman, observing that ‘the extraordinary devaluation of the mark is in large measure and to an essential part the result of the growing effect of the occupation of the Ruhr’. High inflation, ‘called forth by the measureless devaluation [is in turn preparing] the ground upon which the seed must ripen and mature which the communists are increasingly sowing. A communist rebellion is certainly to be supported by the French. It admits no doubt that such a communist rebellion would lead to the complete ruin of the country’. This mention of the supposed French interest in communist subversion in Germany is a clear indication of the extreme tensions between the two countries.

Keynes again spoke out for moderation in the matter of German reparations payments. He advocated a reduction of the debt to 50bn gold marks (which was in fact the same net amount determined by the Reparation
Commission, after subtraction of the 82bn of C bonds), accompanied by a cancellation of the inter-Allied debt.

In August 1923, Wilhelm Cuno’s centre-right government resigned and President Friedrich Ebert appointed as chancellor Gustav Stresemann of the German People’s Party, who formed a new coalition government that included the socialists. The velocity of price increases was such that Stresemann had to convince peasants to bring to the markets the products of their harvest: paradoxically, a catastrophic famine threatened to occur, and with it a hunger revolt, at a time when granaries were full. The autumn saw revolts break out in the Rhineland, Saxony and in Bavaria, where the insurrection culminated in Hitler’s abortive Munich Beer Hall Putsch.

In a conciliatory gesture towards the Allied powers, the Stresemann government stopped subsidising passive resistance in the Ruhr. The new American president, Calvin Coolidge, moved towards closer involvement for the United States in finding a solution to the reparations issue, albeit using private American bankers, rather than diplomatic channels, as a conduit. The Baldwin government in Britain began to feel that a more interventionist policy was necessary. The idea of holding an international gathering of experts to overcome the current impasse gained ground and, in October 1923, the French attitude finally started to soften: Poincaré accepted in principle the proposal of setting up an advisory committee, on which the United States was also to be represented.

Meanwhile, the worsening domestic situation in Germany demonstrated the urgency of creating a new means of payment with a stable value. It was at this point that the necessity of currency stabilization started to converge with Germany’s need for foreign financial assistance. Various projects to stabilize the mark were proposed. They can be divided into three groups: The first was based on the use of fiscal and foreign exchange measures, along with a credit freeze, to stop further depreciation of the paper mark, which would remain the German currency. The second advocated a return to gold convertibility. The third was based on the adoption of a new currency, backed by mortgages on real assets. The second and third plans were viewed more favourably: It was felt that the bank of issue needed a ‘real’ collateral that could be handed over in the event of its failure. During Cuno’s government, food and agriculture minister Hans Luther and finance minister Rudolf Hilferding proposed the establishment of a bank that would issue ‘rye’ marks: deposits redeemable in rye. It was noted, however, that the ratio between the new monetary unit and the price of rye would float according to the variability of rye harvests, and this was a critical point that led officials to favour a real asset that could maintain a stable relation with the new currency. The collaboration and financial support of foreign powers was necessary for any project to work, and both Britain and the United States preferred for Germany to return to the gold standard.