What Difficulties Were Experienced By The German Economies In The 1920?s Essay, Research Paper

The German economies were beset with difficulties throughout the whole of the 1920s. The huge expenditure of the First World War had exhausted Germanys economic strength. The need for manpower had reduced industrial production along with grain production. Outputs in all areas were severely reduced. The subsequent loss of the war resulted in demands for reparations by the victors. These demands were harsh to say the least and the problems Germany faced in paying it contributed to what was arguably the most difficult period in the decade, the ?great inflation?. The governments attempt at resolving this led to radical reforms in the economy. This led to what some have called the ?golden years?. However this only lasted four years and precipitated the Great Depression.

In the aftermath of the First World War, Germany lost under the Versailles Peace Treaty ten per cent of her population and thirteen and a half per cent of her pre war territories, in particularly, Upper Silesia and Lorraine as heavy industry and coal and iron ore deposits lay there. The allies also demanded ninety per cent of her merchant navy, all her military navy and armament materials whilst also paying for the cost of all occupied troops in Germany. Also due to the end of the war 10 million soldiers were flooding the labour market looking for work in a time when agricultural and industrial production had been reduced. This had a detrimental effect on the economy.

One of the main problems that were affecting the economy was the reparation demanded by the allies. After a lot of indecision the Allied reparations Reparation Committee in April 1921 decided on the sum of 132 thousand million marks (roughly 33 billion dollars) to be shared out in differing amounts to the allies. This figure had a six per cent interest charge and the initial payments were set at two billion marks per annum along with twenty six per cent of the value of her exports. This amount was mammoth and experts such as John Maynard Keynes suggested it was an unfeasible sum. At the end of the 1921 the German government realised it was unable to meet the instalments and asked for a reduction, which they received in March 22 and were also given a suspension for six months.

The problem for Germany, was the difficulty of paying goods, imports far exceeded exports. To raise the value of the reparation the government had two options, they could either increase taxation or borrow continually from the Reichsbank. Due to the widespread social unrest throughout the country the government believed it was unwise to increase taxation and therefore turned to enlarging its borrowing at the bank. This resulted in rising prices and a decline in the value of currency. To make matters worse a dispute between the actual value of the goods received by the Allies had arose. The Allies only credited ten billion gold marks whilst the Germans believed it was worth 42 billion.

Even if managing to raise the finance, it then had to be given to the Allies. This transference was just as difficult as raising it. To be able to do this, the only possible way seemed to be increasing exports without trade barriers on industrial goods. As the Allies had similar industries it caused, as Karl Hardach suggests ?a paradoxical situation.? (Hardach p25) This was because the Allies were demanding reparations but loathe to take it in this form, fearing the increased competition. As the Germans could not meet the demands in January 1923 French, Belgium and Italian troops took control of the Ruhr and its important industries. The consequence of this was the swift decline of the German currency. This along with the government financing the German people to give passive resistance in the industries, contributed to the Great Inflation.

The period of 1923 can be seen as the most difficult economic period of the decade for Germany and one of the most devastating inflationary crisis ever. Some of the causes of the inflation were due to the amount of money being borrowed from the Reichsbank. As already stated this resulted in higher prices, but a deprecation of currency. (decline in value) Also Allied reparation demands depressed the exchange rate and raised import and domestic prices which again increased the supply of money. Another factor could be seen to have resulted from the wage increases beginning in 1918 due to social unrest and trade union power. As prices soared the value of the mark decreased so much the 2000 printing presses were continually making money everyday. The German people began to exchange goods for goods and big industries started using their own currency, which had more worth than the mark.

The end of 1923 put methods into place to combat inflation, the end to passive resistance in the Ruhr and the creation of a new currency the rentenmark. This was valued at one pre-war gold mark or one trillion marks. To make sure inflation did not start again a limit of 3.2 million rentenmarks was set. The Dawes plan in April 1923 also helped in the stabilisation progress as it reformed the reparation payments to one billion rentenmarks and an annual payment linked to price goods like sugar and coal. By August 1924 the Reichsbank became independent of the government and the reichsmark was introduced. This was equal to the rentenmark but backed by gold instead of mortgaged land. The currency and the Dawes reforms helped to stop the Great Inflation and from 1924 to 1929 the economy started to grow.

These years have been termed the ?Golden Years?. Production of industry steadily grew and there became a focus on rationalism, the use of technical advances and more efficient use of labour energy and materials or organisation of production. This led to outside investors lending heavily to to the German government which helped stimulate the growth of the industry. However a lot of this credit was based on short term loans which the government put into long term projects. If investors asked for a sudden withdrawal the economy would be thrown into a crisis. So as Derek Aldcroft writes ?Germany was living on borrowed time.? (Aldcroft p60) This could be seen when in 1929 foreign banks called in their loans due to problems in their reparation payments. This was an indication of what was going to happen in the years of the Great Depression.

Therefore it can be shown the German economy was in difficulties from start to finish of the decade. This was due to the crippling cost of the war, the displacement of its people namely the homecoming soldiers, and also in restarting the growth of production in areas such as industry and agriculture. This was impeded by the huge reparation debts. Their failure to address this (although who could?) in turn pushed upon them the period of hyperinflation. From this they had to try and instil stability, which to some extent they succeeded but only to head into the next dark period of the Great Depression.

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