

Nr. 5.1.2.01

The Economic Situation in Germany (25.01.1919)

Brief

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Fundort: National Archive London Kew, F.O. 608, File 869/2/3 to 907/1/2

Formalia:

Maschinenschriftliches Briefdokument

Regest:

In diesem instruktiven Memorandum an James Headlam-Morley, Mitglied der britischen Delegation bei den Pariser Friedensverhandlungen, beschreibt "A.B.M." (die Identität des Briefschreibers war nicht zu klären), die wirtschaftlichen und sozialen Zustände in Deutschland direkt nach der Revolution vom November 1918. Der Autor zeichnet ein düsteres Bild der deutschen Lage, wobei soziale Unruhen, ökonomische Schwierigkeiten und politisches Chaos die Hauptrolle spielen. Die Zahlenangaben sind angesichts der mit Ende des Krieges dynamisch fortschreitenden Geldentwertung kaum nachprüfbar.

Mr. Headlam Morley,

I enclose a report on the economic situation in Germany. I have read the German papers up to January 16, and this report, therefore, covers a period of several weeks. I hope to send shorter reports in future at more frequent intervals. The most important matter for us to watch is the crowding of the country population into the towns to draw the high unemployment benefit. This is a matter[handschriftlich: material] which will no doubt engage the attention of the Allied Council of Supply and Relief if, and when, it comes to deal with Germany.

A copy is, of course, going as always to Mr. Tilley.

25/1/19

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Jan 25./1919

THE ECONOMIC SITUATION IN GERMANY

The economic situation in Germany continues to be most critical and in spite of the marked improvement in the political outlook consequent upon the successful holding of the elections for the National Assembly, the prospects for the coming months must be regarded with great anxiety. There is no possibility for the moment of a return to anything like normal conditions, either materially or morally, and the chaos and uncertainty of the existing situation are rapidly bringing matters to a point which will greatly delay and even endanger the ultimate recuperation.

The central factor in the present economic situation is the widespread and increasing unemployment. Both in the occupied district west of the Rhine and in the great cities of the interior there are a large multitudes of men who are either unable or unwilling to find employment and are drifting into a demoralized condition in which they fall already prey to Bolshevik agitators. In Greater Berlin alone the number of unemployed was estimated at the end of the year to be already as high as 400,000, whilst in Cologne it is understood that they were recently estimated at 67,000. Their numbers have grown rapidly since November, and especially since the beginning of the new year, when many works were closed down.

The main causes of this widespread unemployment are, of course, the demobilization of the Army, of which only three or four classes still remain more or less completely mobilized, and the cessation of work in industries

employed upon the war. Some of the larger munition factories are, it is said, still remaining at work, producing munitions which are destroyed as soon they are made; but such cases are exceptional and the general outlook for the munitions industry, which played so[3] large part in Germany's pre-war prosperity is best shown by the fact that the Krupp works, which contemplated distributing a dividend of 4%, or ten million marks, decided at a recent meeting to pay no dividend at all.¹

Another factor which makes for unemployment, or rather impedes employment, is the lack of transport. Workers who live some distance from the scene of their labours are finding it harder and harder to make the journey, whilst the distribution of labour from one part of the country to another is becoming increasinly[sic!] difficult. These difficulties have been particularly acute on the frontiers of the occupied district and the neutral zone, which coincide in part with a thickly populated industrial centre.

Another cause of unemployment which seems to be becoming increasingly manifest is the widespread spirit of excitement and unrest. The revolution of November was more than the fall of a dynasty and the end of an epoch; it was a complete psychological break in the minds of millions of Germans. Coming as it did on the top of more than four years of intense strain and anxiety it produced among the order-loving and habit-ridden working population an abnormal reaction against their daily routine. This was noticeable even in the case of the Army, especially among the troops on the lines of communication where the work was more mechanical and monotonous; but is has been still more marked among the civilian workers, who seem to have been seized with a growing fever of excitement during the 2 months since the revolution, and to have temporarily lost a great deal of their normal balance. In this state of mind the workers, both men and women, are easily attracted by propaganda of a violent and romantic nature, and while it is true to say that Bolshevism, as a practical political and social programme, has little hold over thinking Germans, or indeed over any section of German society[4] under normal conditions, it has appealed with considerable temporary success to tens of thousands of workers in this abnormal frame of mind.

It is this psychological development which explains the peculiar economic phenomenon which is being witnessed in Germany at the present time, namely, that at a moment when hundreds of thousands of workers are being thrown idle on the labour market, wages, instead of falling in response to the increased supply of labour, have risen and are still rising by leaps and bounds. Whether the demobilised soldiers are for the most part in a mood to work, it is hard to say. Probably whilst they remain soldiers they look forward to finding employment, but as soon as they are demobilised they are apt to get swallowed up in the prevailing excitement. At any rate it seems clear that the civilian workers, for whom employment is still available, are to a large extent unwilling to remain at work under anything like normal conditions. In spite of the general reduction of working hours very large demands for wage increases have been made, which have for the most part been granted, both by the State and by private employers.²

The newspapers are filled with earnest, in some cases almost frantic, appeals from employers, professors and other urging the workers not to make impossible demands or to cease work at the moment when the State is most in need of their labours, dilating on the disastrous results of the Bolshevik experiment in Russia, and pointing out the interdependence of the various elements in German industrial production and in particular the folly of stopping work in such vital industries as the coal mines or nitrogen factories. For it is the colliery districts, in Westphalia, Silesia and elsewhere, which have been particularly affected by the wave of unrest; the coal mines in the Ruhr basin were seized by a local committee of workers, whilst in Silesia the excitement was accentuated by a double conflict between Poles and Germans on the one hand and proletarians[5] and bourgeois on the other. A strike broke out in this latter district as early as 18th November, and after it had been composed by the granting of an eight hours day and a rise from 15 to 25% it broke out again a few weeks later, on a question of back pay.³ The wage movement has been particularly to handle in districts where trade unionism was relatively backward, since varying demands are made at different pits and workshops, and there is a natural tendency for the maximum concession to become regarded as the general rule. Indeed is not uncommon to read

1 *Tenfelde, Krupp*, 124–126.

2 Mit dem Stinnes-Legien-Abkommen vom 15. November 1918 war in Deutschland der 8-Stunden-Arbeitstag eingeführt worden. Trotzdem kam es in den folgenden Monaten insbesondere in der Ruhrindustrie immer wieder zu Streiks um höhere Löhne. *Feldman, Great Disorder*, 92–94, 107 f.

3 *Feldman, Great Disorder*, 107–109.

in the bourgeois papers exhortations strangely reminiscent of the doctrine of the extremists in other countries, to the effect that the revolution should be regarded as something more than a glorified wages movement.

This state of affairs, so contrary to the ordinary working of economic law, cannot last for long. It is obvious that with tens of thousands of unemployed workmen in the labour market, including masses of women, and with food and necessities at their present prices, wages cannot be kept up at an unprecedented height without an almost irresistible temptation being afforded for blacklegs to undercut them. Once this tendency sets in it will rapidly spread and will infallibly provide material for fresh conflicts between various sections of the working class.

With the workers in their existing frame of mind employers are naturally feeling great uncertainty and insecurity, and this in its turn helps to create unemployment by discouraging initiative and enterprise. The seriousness of the outlook for the ordinary business man can best be judged from the fact that the Minister of Demobilization, Herr Koeth, in a recent address made the following despairing appeal to the employing class:

"Employers must make up their minds to run their businesses on revolutionary lines and to put their trust in God Almighty. If they do not float on the new tide they will sink. If they do, they might very likely sink too, but they will at least have chance of surviving."

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With the cost of production mounting up daily and with the mark at half its pre-war value, all the trades and industries depending upon the foreign market are thus in an almost desperate condition.⁴ This is most clearly brought out in a recent report by the Association of Saxon Manufacturers, extracts from which were published in the "Frankfurter Zeitung" of the 4th January. "The outlook for German exports" it states "is almost catastrophic. The increase in the cost of production resulting from the shortening of hours together with the great increase in wages, and prices of raw material are so substantial that there can be no thought for the moment of making effective competition on the world market. The difference of price levels even as against our Western neighbours, who have also been affected by the war, is very considerable, and if production is not greatly cheapened it will be impossible to retrieve the situation. For instance, machinery, which used to be a staple article of German export can be delivered by British manufacturers at the 1910 rates which are 100 and even more per cent cheaper than ours. Artificial flowers which cost 24–33 Mk. a dozen to produce in Germany are being offered by French competitors at from 6–9 francs a dozen. Materials which our manufacturers can only produce at 2 ½ - 3 Mk. a metre can be offered by our foreign competitors at half, and sometimes at even less than half, that rate. These examples could be multiplied indefinitely. Under these circumstances we cannot begin to think of resuming our export trade. On the contrary the German market stands open to cheap foreign competition. This is all the more disastrous as it is only the resumption of our foreign trade which can improve the position of our exchange, and enable us to procure raw materials and food stuffs at more or less tolerable prices."

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To crown all these difficulties no employer is quite sure whether he is going to be allowed to retain his business as his own property, or whether it will fall a prey to the prevailing movement in favour of nationalisation. The recent elections, by giving the non-Socialist Radicals the balance of power, will to some extent allay these apprehensions.

Another factor contributing to unemployment is the cost of living, both among the employing and the working class. Hitherto the prices of necessities have to some extent been kept down by State control, though members of the employing class have no doubt largely evaded the regulations and procured the necessities of life through illicit means. But, partly as a result of the widespread smuggling, control has become extremely unpopular, and there is a widespread demand for its relaxation. It is, however, generally overlooked that, except in the case of luxuries, a relaxation of control is much more likely to lead to a rise than to a fall in prices, since presumably

4 Das Thema der Geldentwertung wurde bereits während des Krisen thematisiert, als viele Beobachter über Preissteigerungen klagten. Insbesondere die hohen "inoffiziellen" Preise bei Hamsterfahrten oder auf dem Schwarzmarkt sorgten für erregte Debatten. *Feldman, Great Disorder*, 57–63.

it was only on account of scarcity that the control was adopted and maintained. There is thus little prospect of the relaxation of control leading to a lessening of wage demands or a lowering of the cost of production.

With employment thus occupying the centre of the stage, the authorities have spared no pains to devise counter measures. The simplest measure has been a general shortening of the hours of work. By a decree issued on Nov. 12 immediately after the revolution, the eight hours day was proclaimed throughout industrial Germany as a step towards greater freedom for the workers. But it soon became evident that the shortening of hours was not a measure of philanthropy, but of necessity, and further reductions have had to be made. In Frankfurt, for instance, a six hours day has been introduced for all except certain scheduled employments, and even so there remains a very large[8] fringe of unemployment.

Another measure which could not fail to be adopted in the existing situation, was the granting of unemployment pay without contribution on the part of the worker. Since this has introduced a new and dangerous element into an already complicated situation it deserves close attention. The "Frankfurter Zeitung" of 10th January, contains details of the rates fixed for that city on January 19th, comparing them with the rates previously paid and with the similar scheme adopted at Stuttgart. The figures are as follows; the Frankfurt payments being made for seven days in the week.

Bachelors who live with their parents and family and have no household of their own receive: (1) over 21 years, 4.50 Mk. (previously 3.30, Stuttgart 4.50); (2) from 18 to 21 4.00 (3.30, 4.00); (3) under 18 years 3.50 (3.30, 3.30).

Bachelors who do not live in Frankfurt, but lodge there receive: (1) over 21 6.00 (3.50, 6.00); (2) from 18 to 21, 5.50 (4.50, 5.00); (3) under 18 years 5.00 (4.50, 3.30).

Married men with children receive: 8.00 (6.00, 9.00); with one child 9.00 (6.75, 10.00); with two children 10.00 (7.50, 11.00); with three children 10.75 (8.25, 12.00); with four children 11.50 (9.00, 13.00); with five children 12.00 (9.75, 14.00); with six children 12.50 (10.50, 15.00).

In considering these figures it must be remembered that the weekly wage of an agricultural labourer in the Frankfurt area is between 14 and 20 Mk., and that this figure is regarded by the farmers (who have no doubt been spoiled by the use of prisoner labour as the limit of what they can pay without ruining agriculture. The resulting situation can be easily foreseen.

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Another obvious remedy against unemployment is the setting up of relief works by the State and municipal authorities. The Prussian railway administration has already put aside 3,000,000,000 marks and the River and Canal Conservancy 600,000,000 marks for emergency works of this kind, and the large municipalities are following their example - with what success it is not yet possible to say.

Another outlet for unemployment of which more is heard when the first excitement of the revolution has worn off, is the Army. Already on 24th December the Government had decided to enlist a new army on a voluntary basis for service in the East against the Polish invasion, offering considerable additions, in the form of a bonus, to the existing rates of service, and holding out prospects of better food and a fortnight's furlough every three months. The recent transference of Hindenburg's Headquarters to Coblenz indicates this policy is being vigorously pursued and the success of the Government troops against the Berlin rioters seems a good augury for the discipline of the new Army.⁵

Finally the more public spirited employers are feverishly endeavoring to transform their factories from a war to a peace basis - a task of extraordinarily difficulty in view of the absence of any worked out plan from above and of the complete uncertainty as to Germany's economic future and prospects.

Side by side with unemployment and inextricably bound up with it is the problem of shortage of raw material. Unlike the employment problem this is not a new anxiety, but merely the continuance and intensification of a trouble that has dogged the German authorities ever since the second year of[10] the war, when the blockade

5 Vgl. dazu die vielbeachtete Forschung von Mark Jones, der die Bedeutung der Anwendung militärischer Gewalt gegen die besonders auf Berlin konzentrierten Unruhen als wichtige Voraussetzung der Etablierung der Weimarer Republik betrachtet und damit deren einschneidenden Charakter hervorhebt. Jones, *Gewalt*.

became more or less watertight.⁶ A good deal of information is now available on this subject. We know that the defeats of the German Army in the autumn were largely due to an exhaustion of the supplies needed for munitions and equipment. Conditions in this respect have not improved, but rather worsened since the armistice. The blockade has been extended to the Baltic, interfering with such trade as was still being carried on between Germany and Scandinavia, whilst the potash deposits of Alsace have been lost and iron industry, which is so important an element in the manufacturing production of the country, has been disorganised by the Allied occupation of Lorraine and Luxemburg. As against this, however, a temporary relief has been afforded by the release of the stocks accumulated by the Army authorities. As an able writer in the "Frankfurter Zeitung" put it, the Army administration has proved itself to be a hoarder (hamster) beyond all expectations, and the setting of these supplies upon the market, strictly limited though they are, has done something to renew public confidence. An official statement recently declared that there was sufficient raw material available to admit of 25% of the 1913 production for a period of six months. This somewhat vague statement has been amplified as regards the textile industry by the following estimate: "We can reckon within the next six months on an employment of from 62 to 70% of the normal industry; from 15 to 20% in the cotton industry; from 25 to 30% in the silk industry; and from 25 to 30% in the linen industry; whilst the jute industry can still find a considerable field for the production of paper yarn and other substances." When it is remembered that these estimates are intended to be on the optimistic side the seriousness and urgency of the problem will be appreciated.

Inextricably bound up with the question of raw materials is the question of credits and of the financial[11] prospects of the country generally. The Acting Secretary of State for the Treasury, Herr Schiffer, made careful statement on this subject on December 9. His verdict may be summed up in one sentence of his speech – "everything is uncertain. The only certainty in the situation is the ruin that confronts us, if we continue to go on as we are going on at present." He stated that an estimate had been made last spring according to which in the event of the war ending satisfactorily for Germany in the autumn the total amount required to be raised by taxation for the Imperial Government, the Federal States and the local authorities would be 19 milliard of marks, as against 5 in peace time. To this estimate must now, of course, be added the reparation to be paid by Germany to her enemies, and the sums needed for the import of raw materials and food stuffs. Recent speeches by Allied statesmen about indemnities have not been taken seriously in Germany, for it is recognized that it will be quite impossible for the country in the immediate future to do more than meet the actual charges of reparation. Herr Walther Rathenau, a good authority, recently stated to the observer whose report is quoted above that he estimated the reparation due to France and Belgium at a thousand Million pounds. Meanwhile the mere restocking of the country with raw materials and foodstuffs will cost many hundred Million pounds, for which credits will be required. Herr Rathenau, who estimated the sum required for materials alone at 500 million pounds sterling in 1915, now places it at treble that amount, and the amount required for foodstuffs according to the estimate of the Food Minister, run to three hundred million pounds (6 milliard marks).

Meanwhile, the existing financial administration has not only been unable to effect economies, but as we have already seen has been plunged deeper and deeper into the morass of expenditure.

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The new Secretary to the Treasury⁷ is, however, setting manfully to work to retrieve the situation and avert the impending shadow of bankruptcy by very extensive taxation. The following taxes are officially stated to be in contemplation:⁸

6 Die alliierte Blockade wurde 1916 zunehmend verschärft, dann aber erst mit dem Kriegseintritt der USA 1917 wirklich "wasserdicht", so dass die Deutschen am Ende des Krieges nicht einmal mehr mit den Niederlanden offiziell Handel treiben konnten. Darüber hinaus wurde sie als Druckmittel für die Friedensverhandlungen über den Krieg hinaus aufrechterhalten und erst im Frühsommer 1919 gelockert. *Mulder, The Economic Weapon..*

7 Das Reichsfinanzministerium wurde erst im Februar 1919 geschaffen. Erster Reichsfinanzminister war Eugen Schiffer. *Middendorf, Macht der Ausnahme.*

8 Bezug an dieser Stelle ist die Vorbereitung einer Steuerreform, die das alte System des Kaiserreichs, bei dem die Steuerhoheit bei den Ländern lag, ablösen sollte. Ziel war die Erhebung von Reichssteuern, deren Erträge anschließend an die Länder und Kommunen verteilt werden sollten. Diese Steuerreform - bis heute in der historischen Forschung umstritten - wurde schließlich mit der Erzbergerschen Finanzreform seit dem März 1919 verwirklicht. *Feldman, Great Disorder, 160–166.*

- 1) An extraordinary tax on war profits.
- 2) An extraordinary levy on capital increment during the war. The detailed proposals with regard to these two projects have recently been published and are very far reaching. The capital levy amounts to 80% in the case of increments of over 300,000 Mk. The whole of any increment over 500,000 Mk. is forfeited to the State.
- 3) A general capital levy.
- 4) An Imperial income tax graduated so that the major burden will fall upon high incomes.
- 5) Taxes on special sources of income, e.g., on investments and commercial transactions, an extension of a principle already adopted during the war.
- 6) Increased death duties with steep graduation.

It will thus be seen that the economic outlook, from whatever aspect it is regarded, is extremely gloomy. At the worst the country is speeding headlong to a catastrophe similar to that in which Russia is involved, but more terrible because the country is more highly developed. At the best she can but look forward to a slow and painful process of recovery extending over decades und indeed generations.

Almost every writer who has dealt in recent weeks with Germany's economic prospects uses the word bettelarm, poor as beggar, and the comparison between the close of the Thirty Years' War und the present day is often drawn. In an article headed "1648–1918" Herr Calwer, editor of one of the leading economic periodical[sic!] ("Die Konjunktur")⁹ remarks:

"Things looked bad enough for Germany after the Thirty Years' War, but prospects were far less depressing for the decimated population of that day then they are to-day after[13] our defeat in the war. At that time there was still enough land to provide the scanty population with their daily bread. To-day our large population is crowded into too narrow a territory, is loaded with debt, and cut off from the world market in a way which is unlikely to be altered to our advantage by the peace settlement. How will the 60,000,000 Germans earn their livelihood under these conditions? People in Germany seem to think for the moment that the workers' condition can be permanently improved by legislative action.... They are surrendering themselves to extravagant hopes which are economically incapable of realization. When will they realize the whole truth and prepare to face it, and what will the awakening be like?.... The whole of our economic and political achievements between 1648 and 1914 have been lost by the war. The German people must begin again from the beginning."

9 Die von Richard Calwer gegründete Wochenzeitschrift "Die Konjunktur" sammelte nicht zuletzt Daten zu allgemeinen Fragen der Wirtschaftsentwicklung und der sozialen Verhältnisse. Die Zeitschrift existierte von 1919–1923.