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GERMAN
BUSINESS CYCLES
1924–1933

CHAPTER ONE

THE TREATY OF VERSAILLES, INFLATION AND STABILIZATION

THE fateful decade of war, revolution and currency inflation—1914–24—witnessed sweeping changes in the economic life of Germany. On the eve of the World War, Germany was one of the great economic powers of the world. In industrial activity, in world commerce, in international finance, in the aggressiveness and resourcefulness of its business leaders, it challenged or surpassed every one of its rivals. Ten years later the formerly powerful German economy was perilously near the brink of chaos. The tremendous spiritual and material demands of a disastrous war, the acceptance of the severe provisions of the treaty of peace, the domestic instability attending political revolution, and the catastrophic currency inflation—these factors had wrought havoc in the business life of the nation.

Some notion of the economic consequences of Germany's defeat in the World War and of its plunge into the maelstrom of inflation is essential to an appreciation of the character of the fluctuations in its economy after the return to more stable conditions, for certain peculiar features of these fluctuations were intimately related to structural changes imposed upon it by the War, the peace treaty and the currency inflation.

1. THE WORLD WAR AND THE TREATY OF VERSAILLES

Public opinion in Germany has been inclined to hold the loss of the World War, and the consequent terms of the treaty of peace, as ultimately responsible for all the economic difficulties of that nation since 1918. Thus it was declared in an official memorandum that, because of the Treaty of Versailles, "all of the favorable conditions of the period before the War have disappeared; all the unfavorable conditions have been strengthened." [1] The full implications of this statement can hardly be admitted to be correct. Certainly the economic misfortunes of Germany were to a large extent a part of the general economic misfortunes of post-War Europe. Nevertheless, defeat and the Treaty of Versailles did result in changes in Germany's economic structure that were of particular significance in the subsequent course of its economic life.[2]

[1] *Deutschlands Wirtschaft, Währung, und Finanzen* (Berlin, 1924) p. 37.
[2] On the post-War changes in German economy see James W. Angell, *The Recovery of Germany* (Yale University Press, 1929), pp. 1–16; F. D.

The loss of European territory, with its attendant losses of sources of industrial raw materials and productive equipment, was serious from the economic viewpoint. The provisions of the Versailles Treaty reduced the 1913 area of Germany by 13.05 per cent. The ceded territories[3] had produced 15.7 per cent of the total value of the German coal output in 1913; 48.2 per cent of the iron ore; 58.8 per cent of the zinc ore; 25.6 per cent of lead ore.[4] Especially significant for the future of German industry was the loss of the great Lorraine iron area. The peace treaty erected national barriers across it, and the German iron and steel industry was thereby forced into considerable dependence upon foreign sources of supply. The separation of the Saar region and of a part of Upper Silesia had much the same effect.

Self-sufficiency was further limited by the loss of important arable land, about 15.5 per cent of the 1913 area. As the War and the Treaty reduced the population by only about 10 per cent, the area available for cultivation was thus relatively, as well as absolutely, smaller than in 1913. The loss of large

Graham, *Exchange, Prices, and Production in Hyper-Inflation: Germany, 1920–1923* (Princeton University Press, 1930), pp. 16–30; Statistisches Reichsamt, *Deutschlands Wirtschaftslage unter den Nachwirkungen des Weltkrieges* (Zentralverlag, Berlin, 1923); Harms, ed., *Strukturwandlungen der Deutschen Volkswirtschaft* (Reimar Hobbing, Berlin, 1929).

[3] The territories surrendered by Germany in accordance with the Treaty of Versailles were: Alsace-Lorraine, Eupen and Malmedy, North Schleswig, parts of West Prussia, Posen and Silesia, and Memel.

[4] Wladimir Woytinsky, *Zehn Jahre Neues Deutschland* (Rudolf Mosse, Berlin, 1929), p. 35.

portions of the Eastern Provinces made for a considerable change in the source of food supplies. Of the total German agricultural production in 1913 the ceded territories of East Prussia, West Prussia and Posen produced 14 per cent of the rye, 6 per cent of the wheat, 12 per cent of the barley, 6 per cent of the oats, 14 per cent of the potatoes and 17 per cent of the sugar beets.[5] The inhabitants of these regions constituted only about 5 per cent of the total 1913 population of Germany. Domestic food production was materially reduced and the necessity for additional importations of foodstuffs correspondingly increased.[6]

The loss of industrial equipment that attended the territorial cessions was not so disastrous as was at first supposed and was quickly more than restored in the post-War German territory.[7] However, the domestic market for many industrial products was relatively smaller than before the War; that is, there was greater dependence upon sales in foreign countries.

[5] Harms, *op. cit.*, p. 23. See also Woytinsky, *op. cit.*, pp. 33–5.

[6] In fact, the average annual production of rye from 1924 to 1931 was 24 per cent less than the average of 1911, 1912 and 1913 (within the present boundaries of Germany); wheat production was 11 per cent less; barley, 2 per cent less; oats, 18 per cent less; only potatoes increased by 5 per cent. (No comparable data of sugar beet production are available.) Yield per acre was in most instances less than before the War. (See Statistisches Reichsamt, *Statistisches Jahrbuch für das Deutsche Reich, 1928*, Berlin, 1928, pp. 72, 73; and the same source for 1931, pp. 62–3; Sonderabdruck, *Deutscher Reichsanzeiger und Preussischer Staatsanzeiger*, Nr. 300, December 24, 1931.)

[7] Harms, *op. cit.*, p. 22.

The reduction in national wealth during the War and its continuing outflow in fulfillment of the reparation provisions of the peace treaty was perhaps the most significant change.[8] This shrinkage in productive wealth made it impossible for Germany to discharge its international obligations and reconstruct its economy solely by means of its own resources. Beginning in 1924—that is, as soon as the domestic, political and economic situation was more favorable—it became an eager borrower of foreign capital. Germany was thus transformed from "one of the world's great creditor nations . . . to the world's largest debtor nation on both governmental and private account." [9]

Economically, the Germany of 1920 was thus different from the Germany of 1913, more specialized, less self-sufficient. Its population was reduced, but its area was reduced even more. This loss placed greater emphasis upon the finishing processes of German industry and less upon the production of raw materials; it made Germany less of an agricultural nation; it narrowed the domestic market for finished goods and increased the pressure to export them. That is, Germany was more dependent upon foodstuffs and raw material imports, and, at the same time, more dependent upon foreign markets for the export of its industrial products. It was

[8] See Ch. II, Part B, Sec. 1, b, for estimates of the losses in national wealth in the period 1914–23.
[9] Angell, *op. cit.*, p. 301.

obliged to become a heavy borrower of foreign capital funds.

The implications of these changes—at least so far as this study is concerned—would seem to be that (a) post-War fluctuations in German economy would be more conspicuously industrial and less markedly agricultural phenomena than before the War; (b) such fluctuations would tend to be much influenced by international factors; (c) the shortage of domestic capital and the correspondingly great dependence upon foreign sources would make for a condition of chronic strain and would lead to extreme sensitivity to changes in world credit conditions.

2. THE CURRENCY INFLATION

The period of the currency inflation, lasting from the end of the War until the autumn of 1923, was characterized by further serious modifications of Germany's economic life—modifications that were reflected in the business fluctuations of the years following stabilization. Undoubtedly, the central factor making for those changes was the depreciation of the mark—starting slowly, and then proceeding ever faster, until finally the mark was plunged into the abyss of virtual worthlessness.

The movements of the foreign exchange rates, of wholesale prices and of ordinary currency circulation, during the period 1919–23, give a fairly ac-

TABLE 1

INDEXES OF FOREIGN EXCHANGE, PRICES AND ORDINARY CURRENCY CIRCULATION[1]

1919–1923

(monthly averages)

YEAR AND MONTH	FOREIGN EXCHANGE MARKS PER DOLLAR (Par=1)	WHOLESALE PRICES (1913=1)	ORDINARY CURRENCY CIRCULATION (1913=1)
1919			
January	2.03	2.62	5.69
February	2.21	2.70	5.81
March	2.48	2.74	6.14
April	3.05	2.86	6.35
May	3.10	2.97	6.58
June	3.36	3.08	7.04
July	3.57	3.39	6.90
August	4.70	4.22	6.74
September	6.35	4.93	7.00
October	6.55	5.62	7.15
November	9.40	6.78	7.48
December	11.40	8.03	8.27
1920			
January	15.4	12.6	8.4
February	23.7	16.9	9.0
March	20.0	17.1	9.8
April	14.2	15.7	10.3
May	11.1	15.1	10.6
June	9.3	13.8	11.3
July	9.4	13.7	11.5
August	11.5	14.5	11.9
September	13.8	15.0	12.5
October	16.2	14.7	12.8
November	18.4	15.1	12.8
December	17.4	14.4	13.5

TABLE 1 *(cont.)*

INDEXES OF FOREIGN EXCHANGE, PRICES AND ORDINARY CURRENCY CIRCULATION[1]

1919–1923

(monthly averages)

YEAR AND MONTH	FOREIGN EXCHANGE MARKS PER DOLLAR (Par=1)	WHOLESALE PRICES (1913=1)	ORDINARY CURRENCY CIRCULATION (1913=1)
1921			
January	15.5	14.4	13.0
February	14.6	13.8	13.2
March	14.9	13.4	13.3
April	15.1	13.3	13.4
May	14.9	13.1	13.5
June	16.5	13.7	14.0
July	18.3	14.3	14.3
August	20.1	19.2	14.6
September	25.0	20.7	15.6
October	35.6	24.6	16.4
November	62.5	34.2	18.0
December	45.5	34.9	20.3
1922			
January	45.5	36.7	20.5
February	49.0	41.0	21.3
March	67.5	54.3	23.2
April	69.0	63.6	24.8
May	69.0	64.6	26.8
June	76.0	70.3	29.8
July	118.0	100.6	33.5
August	270.0	192.0	41.7
September	350.0	287.0	54.8
October	760.0	566.0	79.9
November	1,710.0	1,154.0	126.8
December	1,810.0	1,475.0	213.4
1923			
January	4,300	2,785	329
February	6,700	5,585	583
March	5,050	4,888	913

TABLE 1 *(cont.)*

INDEXES OF FOREIGN EXCHANGE, PRICES AND ORDINARY CURRENCY CIRCULATION[1]

1919–1923

(monthly averages)

YEAR AND MONTH	FOREIGN EXCHANGE MARKS PER DOLLAR (Par=1)	WHOLESALE PRICES (1913=1)	ORDINARY CURRENCY CIRCULATION (1913=1)
1923			
April	5,850	5,212	1,088
May	11,400	8,170	1,424
June	26,200	19,385	2,865
July	92,000	74,787	7,231
August	1,110,000	944,041	110,181
September	23,600,000	23,948,898	4,653,115
October	6,000,000,000	7,094,800,000	413,000,000
November	530,000,000,000	725,700,000,000	65,954,000,000
December	1,000,000,000,000	1,261,600,000,000	81,810,000,000

[1] Angell, *op. cit.*, pp. 365, 366.

curate impression of the increasingly difficult position in which the country found itself. The movements of all other indexes in terms of paper marks —wages, cost of living, public debt of the Reich, volume of Reichsbank credit—tell a substantially similar story.[10]

The inflation assumed astronomical dimensions. At its height, it was a dizzy round of exchange depreciation and rocketing prices. Finally, in the middle of November 1923, when the paper mark exchanged at the rate of 4,200,000,000,000 to the dollar, it was replaced by a new currency. Thus the

[10] For accounts of the course and effects of the inflation, see Graham, *op. cit.*, Angell, *op. cit.*, pp. 17–60.

period of inflation was suddenly closed by the extinction of the paper mark itself.

The currency inflation had grave repercussions upon the economic life of Germany. "The distribution of wealth and income was violently altered, and in a way which greatly reduced the general buying power of the German people . . . and the general state of industrial technique remained stagnant. Many of the new enterprises and giant combines which sprang up during the inflation were also inherently unsound, and at the stabilization collapsed into mere wreckage. Even after all allowance for the direct effects of the Treaty cessions, industrial Germany was far weaker at the close of 1923 than she had been at the beginning of 1919." [11]

The consequences most significant for the cyclical pattern of the years after the stabilization are those affecting industrial production, business organization and the loss of capital.

During most of the inflation period the progressive depreciation of the currency stimulated industrial activity and kept the mines and factories working full blast. The margin of industrial profits was widened by the reduction in capital charges—the result of the cancellation of long-term debts—and by the lag of wages and taxes behind the rising commodity prices. Demand for industrial goods during most of this period remained quite active, in part because of the feverish desire of many persons to

[11] Angell, *op. cit.*, p. 58.

convert the depreciating mark currency into anything that had inherent worth—and in part because the general lag of wholesale prices behind the rapidly rising foreign exchange rates made for a large export market. When, finally, after stabilization, this stimulus to exportation disappeared, many enterprises found themselves in difficulties, for the crippled buying power of the domestic market revived only slowly.

But the War and inflation, by discouraging the importation of manufactured goods, gave German industry considerable freedom from foreign competition in home markets. This, together with relatively low production costs during the inflation, tended to discourage possible technical and administrative improvements. "When the stabilization once more exposed Germany to world competition, she found that her industrial technique was years behind, and had to undertake a painful and costly reorganization." [12] As is indicated in the discussion of the post-stabilization fluctuations, this reorganization was a factor in shaping their pattern, and was strikingly reflected in unemployment and in business mortality.

The inflation period also affected the number and forms of business organizations. For one thing, it led to the founding of many new enterprises. "The chaotic and fluctuating state of prices . . . gave the shrewd trader innumerable opportunities

[12] *Ibid.*, p. 47.

to make a profit. . . . But the chief explanation was doubtless the fact that large numbers of clerks, officials, and others with more or less fixed incomes saw the value of what they received steadily declining as the depreciation progressed, and concluded that the only way to survive was to set up in business for themselves, where they might benefit instead of suffer from rising prices." Thus new firms, "mostly small and weak," were rapidly formed. The number of separate enterprises at the end of the inflation was "four or five times what it had been before the War." This was to aggravate the cyclical fluctuations of the post-inflation period. Inflation also affected the pattern of German business organization by encouraging a revival of the cartel movement and a development of enormous combines and trusts.[13]

Finally, the period of inflation witnessed a further reduction in national wealth, emphasizing even more Germany's dependence on foreign capital and heightening its sensitivity to credit influences. During the years 1919–23 productivity declined markedly.[14] Probably almost all of the foreign investments of Germany remaining after the War were

[13] *Ibid.*, pp. 49–55.

[14] The 1913 national income (within the confines of the post-War German boundaries) has been estimated at approximately 45.7 milliard gold marks (Statistisches Reichsamt, *Das deutsche Volkseinkommen vor und nach dem Kriege*, Einzelschrift Nr. 24 zur Statistik des Deutschen Reichs, Berlin, 1932). By 1923, the last year of the inflation, it probably had fallen to 60 per cent of this sum (in terms of 1913 purchasing power of the mark). One milliard = 1,000 million.

lost during this period. The flight from the mark led to a very appreciable export of capital and to a very large transfer of assets from German to foreign hands. Much of the industrial plant and equipment erected in desperation during the inflation was found subsequently to be a technically inefficient addition to the country's productive capacity. No really accurate estimates can be made of the loss of actual and potential capital during the five years of inflation. However, it is certain that the lessened industrial productivity, the export and the uneconomical investment of capital funds, and the failure to restore wasted savings—so characteristic of this period—contributed very largely to the capital poverty of Germany at the end of 1923.

3. THE YEAR 1923: RUHR INVASION AND CURRENCY STABILIZATION

The last year of the inflation, 1923, witnessed a series of critical political and economic events: a military occupation of the Ruhr industrial district, the complete collapse of the paper mark, currency stabilization and a deep depression in the autumn. Particular implications of these events were to be of importance in the history of the succeeding years.

The reparation problem came to a crisis in the last months of 1922. Germany was granted a temporary moratorium on cash payments in the autumn, and it was doubtful that any considerable payments could be made in the following year. The French government held that coercive measures, particularly the occupation of additional German territory, were necessary in order to ensure further payments. At the Conference of Prime Ministers in December 1922 and January 1923 France and Great Britain were unable to agree on the problem of reparations. On December 26, 1922 the Reparation Commission declared Germany in voluntary default of timber deliveries, and on January 9 it declared Germany in default of deliveries of coal. The French government then asserted that the Treaty of Versailles entitled France to take independent action, and French and Belgian troops began to march into the Ruhr district. By the end of January 1923, Franco-Belgian control of the major part of that highly industrialized region was complete.

The German government contended that the occupation constituted a violation of the Treaty of Versailles, and decided to oppose the occupation by every means except armed resistance. It suspended deliveries in kind to France and Belgium on January 13. The Ruhr coal mine owners refused to continue deliveries, and when the French and Belgians tried to move the coal and coke already mined the German government called upon railroad and Rhine navigation officials not to transport these commodities. This measure completely tied up Ruhr traffic, blocked the Rhine ports with barges, and eventually necessitated the operation and management of the railroads by a Franco-Belgian administration. Further, local government officials of the Ruhr refused to cooperate with the French and Belgians; this movement spread throughout the Rhineland, except in the region occupied by the British. Hotel- and restaurant-keepers joined with the shop-keepers in boycotting the troops.

The passive resistance of the German government and people called forth coercive measures on the part of the occupying powers. The Interallied Rhineland Commission issued a series of ordinances seizing the coal tax, customs receipts and revenues from state-owned forests, and placing the coal under the complete control of the Franco-Belgian mission. Further retaliation took the form of fining, imprisoning and deporting Government officials, industrialists and mine superintendents, expelling customs and railway employees, confiscating state properties, seizing Reichsbank funds, requisitioning hotels and restaurants, and closing shops.

Such an occupation of the great industrial region of Germany obviously had serious effects. Many mines and factories in the Ruhr were closed, and production was much reduced. A succession of bloody encounters between the troops and the people in the streets, mines and factories aggravated conditions.

It is evident not only that unoccupied Germany must have suffered considerably from this cessation of industrial activity in the Ruhr but also that the finances of the Government must have been subjected to intense strain as a result of the policy of lending monetary aid to those engaged in passive resistance. Cut off from its principal industrial and mining center, deprived of its coal supply and forced to import large quantities of fuels from foreign countries, Germany experienced increasing difficulty in replenishing its supplies of the necessities of life, of coal and of raw materials, and in keeping its industrial machinery in operation. In fact, German economic activity collapsed visibly during the summer of 1923 under the heavy weight of the burdens imposed upon it.[15]

The occupation of the Ruhr had a disastrous effect also upon the mark currency. In November and December 1922 between 7,000 and 8,000 marks exchanged generally for one dollar. Beginning in January 1923, however, the price of the dollar rose so swiftly that at the end of that month 50,000 marks were paid for one dollar. The Reichsbank's attempt to support the mark exchange was success-

[15] Much valuable information concerning the Ruhr occupation is contained in the publication of the Statistisches Reichsamt, *Wirtschaft und Statistik*, Vols. 3, 4 and 5 (Berlin, 1923, 1924, 1925). See also Ludwig Elster, ed., *Volkswirtschaftliche Chronik für das Jahr 1923* (Gustav Fischer, Jena, 1924); Guy Greer, *The Ruhr-Lorraine Industrial Problem* (Macmillan, 1925); Henri Lichtenberger, *The Ruhr Conflict* (Carnegie Endowment for International Peace, Washington, 1923); Ernst Schultze, ed., *Ruhrbesetzung und Weltwirtschaft* (Gloeckner, Leipzig, 1927).

ful for a short time. Within the first two weeks of February the dollar quotation was brought down to 23,500 marks, and was held about that point until April 18, when the entire campaign of the Reichsbank broke down. The political and economic pressure, arising largely out of conditions in the Ruhr and Rhineland, the paralysis of the most important industrial regions, the resulting increased imports and diminished exports—all made it impossible for the bank to support the mark longer. The financing of the Ruhr resistance was given over to the printing presses; only an insignificant portion of the Reich's outlays were covered by taxes. From then on the currency depreciated rapidly.[16]

In July began the repudiation of the mark. Sellers refused to accept marks, first in the occupied territories, later throughout the entire country. Many retail shops closed early in the day; others were open only a few days of the week. Farmers refused to sell their products for depreciating marks. The catastrophe of the currency developed into a catastrophe of food and other supplies. Plunderings and riots occurred almost daily; finally on September 27, 1923, to cope with the social dangers that the collapse of the mark had evoked, the Reich declared a state of siege.

A Nationalist counter-revolution broke out in Bavaria. This led to Communist disturbances in

[16] This is best illustrated by the fluctuations of foreign exchange; see Table 1.

Saxony and Thuringia. In the Rhineland and in the Palatinate separatist agitation was rife.

The fall of the mark was accompanied by a tremendous rise in the prices of all commodities. Measured in terms of gold marks, there was a four- or five-fold increase in the cost of living during 1923.[17] Measured in terms of paper marks, the index of the cost of living rose from 1,120 in January to 1,247,000,000,000 on November 26.[18] Wages and salaries lagged considerably behind prices of commodities. An ever-increasing number of families were reduced to a bare minimum of subsistence by this widespread leveling down of wages and salaries.

During 1923 the number of unemployed workers rose startlingly. Unemployment allowances were given to 150,220 persons in January. In September, in the unoccupied territory alone, 534,360 were recipients, and in December, 1,532,065.[19] Thus the purchasing power of the workers was reduced. Continuing inflation signified the destruction of the savings of the middle class. The standard of living, particularly of the urban population, declined seriously. The decline in purchasing power is evident in numerous indexes. Imports of iron ore, for instance, fell from 11 million tons in 1922 to 2.3 million tons in 1923. Statistics of foreign trade in 1923 reflect considerable decreases in the imports of raw rubber,

[17] *Wirtschaft und Statistik*, Vol. 3, Nr. 3, p. 33.

[18] *Materials for a Study of Germany's Economy, Currency and Finance* (Berlin, 1924), p. 26.

[19] Elster, *op. cit.*, p. 714, See also *Wirtschaft und Statistik*, Vol. 4, *passim*.

cotton, wool, copper ore and other raw materials. At the same time the annual imports of coal rose from 12.5 to 25.3 million tons—evidence of the severance of the Ruhr mines from unoccupied Germany.[20] Exportation became increasingly difficult. Many factories were forced to close; others operated only two or three days a week.

Meanwhile, the German government had been trying to make satisfactory arrangements regarding payment of reparations. During the spring and summer of 1923 at least three offers of various amounts were made, to be rejected each time by the French government, which made it clear that France and Belgium were one in their intention to stay in the Ruhr until Germany paid the schedule of reparations fixed in May 1921. Moreover, the French announced that they would not treat with Germany or discuss any conditions until the latter abandoned its policy of passive resistance in the Ruhr.

And the effects of passive resistance proved too costly to the Germans. The failure of German foreign policy and the aggravation of political and economic conditions led to the fall of the Cuno Cabinet on August 12. A new cabinet under Dr. Stresemann supported a policy of currency stabilization, which implied the end of the Reich's financial support of the occupied territories. Obviously the cessation of this support necessitated abandonment

[20] Schultze, *op. cit.*, pp. 194-200.

of passive resistance. On September 26 the Government announced that the policy of resistance had been abandoned.

Since the French had summarily rejected several attempts of the German government to negotiate, it was necessary to permit the industrialists in the occupied regions to attempt a settlement of the economic impasse. A series of agreements between the French authorities and the local business leaders followed. As a result, production in the Ruhr was gradually resumed and tension relaxed.

In the midst of these difficulties, the German currency system was suddenly reformed. A decree establishing the Rentenbank was announced on October 15, 1923. The Reichsbank ceased further discounting of Reich treasury bills and was relieved of the care of the Reich finances. The capital of the new bank, fixed at 3,200,000,000 gold marks, consisted of mortgages upon all German agricultural and industrial property. It was authorized to issue notes that were receivable for governmental dues but not otherwise legal tender. The Rentenbank began to function in November. The Government promptly borrowed 1,200,000,000 Rentenmarks, of which 200,000,000 sufficed to retire discounted Treasury bills, mostly held by the Reichsbank, at the rate of one Rentenmark to one trillion paper marks.[21] The Reichsbank then established, at this ratio, inter-

[21] The mint par of exchange of the Rentenmark and the Reichsmark in United States money is 23.8 cents.

convertibility between paper marks and Rentenmarks. Thus temporary stability of the currency was effected by the introduction of the Rentenbank.[22]

As a publication of the Reichsbank declares, "once the mark was stabilized, Germany soon came to the painful realization that the collapse of the currency had brought about far-reaching and revolutionary changes in her economic system. Large sections of the population had lost their resources, and only a very few had been able to derive any benefit from the inflation. Liquid capital had been practically destroyed. The inflation had put a stop to the formation of new capital and had eliminated the possibility of saving, in the generally accepted sense of the term. The effect was an unwholesome investment in tangible assets of all kinds as well as unwarranted expenditures in useless luxuries. Germany thus emerged from the inflation in a very illiquid condition and practically without any capital in the form of money." [23] The deflation period, as will be shown in the following pages, was characterized by deep depression in many industries and by widespread unemployment.

[22] See H. Schacht, *The Stabilization of the Mark* (Adelphi, 1927), for an interesting account of this reform. See also Viscount D'Abernon, German Currency: Its Collapse and Recovery, 1920–1926, *Journal of the Royal Statistical Society*, Vol. 90, 1927, pp. 1–40; Carl Bergmann, *The History of Reparations* (Houghton Mifflin, 1927), pp. 173–216.

[23] Quoted by R. L. Buell, *Europe: A History of Ten Years* (Macmillan, 1929), p. 174.

While these financial reforms were being accomplished, substantial steps were taken in the direction of a readjustment of the reparation plan that would remove the problem of reparations from the field of international politics. During the period of passive resistance the German government had proposed the appointment of an international committee of experts to determine Germany's capacity to pay reparations. The French government at first refused to consider this proposal, but, after pressure from the United States and Great Britain, consented in November 1923. In this manner the Dawes Committee came into being.

Thus, drastic action on the part of the Reich government, together with a late recognition by the Allied powers that the reparation question was primarily economic, not political, in nature, saved Germany from sinking much further into the depths of economic disintegration.