Reparations Reconsidered: A Reminder
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Reparations Reconsidered: A Reminder

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At a session of the December 1968 annual meeting of the American Historical Association, Professor Gerhard Weinberg suggested during the discussion that the entire history of German reparations needs to be restudied. He further remarked that the key question is not how much but, rather, who paid. Professor Weinberg is of course right on both counts but perhaps a brief second look should also be given to the question of how much. Both the world in general and the historians in particular have tended to be mesmerized by the figure of 132 billion marks. The assumption has been that this sum, by definition outrageous, was brutally imposed at gunpoint upon a prostrate Germany by greedy and vengeful victors. The fact that the 1921 Schedule of Payments soon collapsed and was revised downward by the Dawes Plan is often presented as proof of the unreasonableness of the Allied powers and of their Schedule of Payments. It is not surprising that world opinion has never penetrated the arcane mysteries of Reparations Commission prose, particularly since the public was meant to be fooled, but there is no excuse for the historians. The relevant documents, memoirs, and monographic studies have been available for thirty and forty years. A close examination of them clearly indicates that Germany was never in fact asked to pay anything remotely resembling 132 billion marks and that, in actuality, the London Schedule of Payments of May 1921 constituted a tremendous German victory.

The tendency to regard reparations from an inverted angle (and in-

1. I should like to acknowledge gratefully the assistance of Professor Stanislaus Markiewicz of the Rhode Island College Economics Department, who has bolstered my insufficient background in finance with essential definitions and interpretations of texts.


3. See, for instance, Nicholls, Weimar, p. 78.
deed from an angle often designed by German politicians) started right at the beginning of the story, at the Paris Peace Conference itself. It is widely believed that the failure to set a definite sum for German reparations in the Versailles Treaty stemmed entirely from the parliamentary problem which would arise for prime ministers of the receiver states if any remotely realistic figure were incorporated in the treaty. This was, of course, an important factor, but there is also reason to believe that the British at least came to realize that time would be not only on the side of the politicians but also of Germany. The preference for leaving the sum unsettled stemmed not only from political difficulties but also from the hope that, as wartime passions abated, a more moderate settlement would be possible. The latter factor seems to have become increasingly important in Lloyd George’s thinking and he seems to have fought a specific sum partly in self-interest and partly in Germany’s interest (although the second motive could hardly be explained to Clemenceau who, fortunately for Germany, had political difficulties of his own). Surely the Germans also realized that their chance of a moderate reparations settlement would increase between 1919 and 1921. However, there was much political mileage to be made out of the undoubted fact that Germany was committed to sign a blank check.

Those who thought that reparations estimates would shrink with the passage of time were of course proved right. Figures between 500 and 800 billion marks were discussed at the Paris Peace Conference. At the conference of Boulogne in June 1920, the figure under discussion was down to 269 billion marks. By January 1921, at the Paris conference, the total had dropped to 248 billion, and only three months later, on April 27, 1921, the Reparations Commission, whose members certainly were not free agents, announced a dramatically lower total indebtedness of 132 billion marks.

The leading authority on reparations, Etienne Weill-Raynal, states that public opinion, both in the Allied states and in Germany, had ex-

pected a substantially higher figure and that the sum of 132 billion marks was an agreeable surprise to the Germans. His description of the tense political atmosphere of April 1921 is well borne out by any sampling of continental newspapers of the time and it seems unlikely in the extreme that public opinion in France, Italy, and probably Belgium, would have accepted any appreciably lower figure. This conclusion is further substantiated by the fact that the French and especially the Italian representatives in the Reparations Commission fought for markedly higher totals in the face of British determination to reduce the debt and were only with great difficulty brought to accept the compromise Belgian figure of 132 billion. In short, the decision of the Reparations Commission probably constituted the lowest figure which was politically feasible in the context of 1921.

Yet, little more than a week later, that figure had also gone by the boards. The London Schedule of Payments of May 5, 1921, duly enshrined the 132 billion mark total and then systematically proceeded to destroy it. Historians have noticed the enshrinement but rarely the destruction and have focused their attention on the modalities of payment rather than upon the extraordinary arrangement of the total figure. A close look at the latter yields startling conclusions.

First of all, the London Schedule of Payments did not state that the German debt was 132 billion marks. Rather, it declared that the total reparations debt of all the Central Powers (for which Germany was legally responsible under Article 231 of the Versailles treaty) amounted to 132 billion marks plus the Belgian war debt but minus (1) amounts already paid, (2) sums credited in the future to Germany for state properties in territories ceded to the Allies, and (3) amounts paid or ceded by Germany’s former allies. Although Germany had not as yet paid any reparations at all, credits for transferred property were considerable. As to Germany’s former allies, Bulgaria was in fact paying reparations. Austria and Hungary had both transferred a substantial amount of state property, for which reparations credit was due, and both countries were

9. The text of the London Schedule of Payments may be found in Reparation Commission, Official Documents Relative to the Amount of Payments to be Effected by Germany under Reparations Account (London, 1922), 1, 4–9.
10. Weill-Raynal, Les Réparations, 1, 648–49. German payments to this date had not fully covered the prior charge of occupation costs.
obligated by their respective treaties to the regular payment of reparations. Because of Reparations Commission delays in establishing schedules of reparations payments (which in fact were never levied on Austria) and reluctance to evaluate transferred Austrian and Hungarian properties, it is not possible to do with exactitude the arithmetic of adding to 132 billion the Belgian war debt and then making the various subtractions to establish the remainder to be paid by Germany. Expert efforts have yielded totals ranging from 123 to 126.5 billion. Weill-Raynal, who had the fullest figures to work with, arrived at 126.3 billion marks.\textsuperscript{11}

However, even this figure is of no significance whatever since all of the arithmetic was to be applied to that part of the German debt which was from the first consigned to never-never land. The entirety of the debt was divided into three categories, described in terms of A, B, and C Bonds, which Germany would be obligated to provide to the Reparations Commission. A Bonds, which constituted a first charge on all German imperial and state assets and revenues, amounted to 12 billion gold marks and constituted the unpaid balance of the 20 billion marks, valued in gold, which Germany was supposed to have paid for such varied items as reparations, occupation costs, coal deliveries, and German food purchases. These bonds were to be created and delivered to the Reparations Commission by July 1, 1921. The Reparations Commission could issue them at will (or withhold them) and, upon issue, they would bear a modest 5 per cent interest. B Bonds, amounting to 38 billion marks and constituting a second charge on German assets, were to be delivered to the Reparations Commission by November 1, 1921, and thereafter would be handled in a manner identical to A Bonds. For both, a sinking fund for the redemption of the bonds was specified. In short, the A and B Bonds constituted a clear and genuine German debt to a nominal value of 50 billion marks.

The C Bonds, however, were another matter. They constituted a third charge on German assets and totalled 82 billion marks subject to the arithmetic adjustments outlined above. Like the B bonds, they were to be delivered to the Reparations Commission by November 1, but, significantly, they were not to be issued at will. In fact, the Reparations Commission was not authorized to issue the C Bonds until German payments became sufficient to cover all obligations (interest and sinking funds) under Series A and B, to say nothing of such prior charges on reparations

receipts as the ever present occupation costs, plus the interest and sinking fund for the C Bonds. Until such time as the bonds were issued, they would not bear interest and Germany would not be obliged to provide coupons for them. The bonds of course could not be marketed without the coupons. The likelihood that Germany would provide the coupons without compulsion, even in 1921, was slight. This situation alone is enough to give one pause and, when one contemplates indefinite suspension of a tertiary charge on German assets with no interest in the meantime, a certain aura of unreality enters the air.

The unreality becomes absolute when one examines the modalities of payment. The Schedule of Payments decreed that Germany would pay a fixed annuity of two billion marks and a variable annuity corresponding to 26 per cent of the value of her exports. Thus the annual payment would fluctuate in relation to German economic prosperity. It was anticipated that at first the payments would be insufficient to meet the service of the A and B Bonds, which amounted to three billion marks per year,12 but any deficiencies were explicitly not to be subjected to compound or accumulated interest. The simple interest would remain to be paid when Germany was able but penalties for delay were expressly forbidden. Furthermore, should potential German payments in a prosperous year exceed the amounts required, payments would be “reduced to the amount required in that year to meet the interest and sinking fund on the bonds then outstanding.”13 It is evident that the incentive for Germany to falsify export figures and to lag behind on interest payments was considerable, particularly since the arrangement guaranteed that the C Bonds could not be issued so long as Germany defaulted on service of A and B Bonds, as indeed she did.14 It is equally evident that no surplus applicable to service of C Bonds would ever be built up and that eventual issue of the C Bonds would depend upon complete German good faith, favorable political conditions, and extraordinary German prosperity and, even then, would remain improbable. One expert estimated that export figures of 21 billion marks would be required before there would be any possibility that the C Bonds could be issued.15 According to Reparations Commission statistics, Germany never, not even in the boom years of

13. Italicized mine.
15. Ibid., p. 131. Keynes essentially agreed, Revision, pp. 70–71.
1928 and 1929, approached two-thirds of that figure. In 1921, and most probably in 1923, German exports were insufficient to service the A and B Bonds. Had the London Schedule of Payments remained in effect, German defaults in servicing the A and B Bonds would obviously have rendered the issuance of the C Bonds an extremely remote contingency, even in the strict economic sense. When the problem is viewed in a political context, the contingency becomes even more remote.

When the London Schedule of Payments was published, some experts and politicians recognized that the C Bonds were unreal but few realized why. In 1921, J. M. Keynes wrote, “It is probable that sooner or later, the C Bonds at any rate will be not only postponed but cancelled.” Prisoner of his own conceptions that he was, he did not see that they were intended for this very purpose, but he did recommend that the Germans accept the Schedule. The Germans, well realizing that they were being asked to pay 50 billion and not 132 billion, took his advice. Poincaré, who had no part in the 1921 settlement, declared at the Allied conference in early January 1923 that the Schedule of Payments was hypocritical and that “l’État des payements avait surtout un caractère théorétique. . . .” By then, cancellation of the C Bonds had been under active consideration for several months. In government circles, the fiction of the C Bonds was maintained no longer than fifteen months.

Still, the political implications of the economic situation were not made public. In a study published in 1923, Georges Barnich, director of the Institut Solvay in Brussels, which had prepared most of the specialized studies required by the Reparations Commission, calculated that service of the A and B Bonds would, upon any realistic estimate of German exports, require more than thirty-six years and that when the C Bonds could finally be issued thereafter, their present value would have declined to about 14 billion marks. He noted that a debt purporting to be 132 billion was in fact only half that but he did not contemplate the question of how a presumably somewhat resurgent Germany could possibly be compelled, after thirty-six years of paying off A and B Bonds, to issue the necessary coupons and make the interest payments on the new and larger

17. Keynes, Revision, pp. 68, 42–43; Manchester Guardian, May 8, 1921.
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debt embodied in the C Bonds. His calculations were endorsed by the secretary-general of the French delegation to the Reparations Commission, who indicated that the Schedule "enferme beaucoup plus de la moitié dans les limbes d’un avenir indéterminé . . ." but he too abstained from making the obvious point.  

It was left to a minor Belgian functionary to announce firmly that the emperor really had no clothes at all. Gaston Furst, assistant secretary-general of the Belgian delegation to the Reparations Commission, in his posthumously published and largely ignored memoir _De Versailles aux Experts_, written in 1925, demonstrated the sheer impossibility of the 132 billion mark figure on several financial and economic grounds, and declared openly:

... the authors of the Schedule of Payments knew themselves that the C Bonds were only a fiction and that, if they had not wished or dared to touch the total of the debt, they had deliberately arranged to reduce in fact to 50 billion the nominal amount of 132 billion.

In this there was an undeniable deception but an undoubtedly useful and even necessary deception. The men who had been studying the reparations question for several years knew then that one could not reasonably require of Germany more than 3 billion per year and that, consequently, there was no hope that she could pay off a debt of more than 50 billion gold marks. But the statesmen believed that public opinion in the allied nations was not sufficiently enlightened not to rebel at the brutal announcement of a total so short of its expectations.

In brief, the Schedule of Payments elegantly resolved the difficulty on which all previous negotiations had foundered: the German debt was reduced in fact to a reasonable amount but this reduction was sufficiently cleverly disguised to keep public opinion from perceiving it and becoming aroused.

Furst was one of the experts intimately involved in the issue. One of the political leaders equally involved agreed with him and eventually said so openly. In _The Truth about Reparations and War Debts_, published in 1932, Lloyd George admitted that the C Bonds were meaningless and recognized to be so at the time by those who devised them. Among the many historians who have summarized the London Schedule of Payments, W. M. Jordan, in his invaluable study, _Britain, France, and the German Problem, 1918–1939_, declared the C Bonds to be a "virtual abate-


ment,"22 but for some reason, possibly a failure on the part of others to examine the documents, he has stood virtually alone.

It is evident then that Germany was obligated to pay reparations to a nominal value of 50 billion gold marks, not 132 billion. That of itself puts the reparations settlement in a rather different light from that in which it is customarily viewed. But there is more to the matter. Experts differed in their estimates of the present value of the A and B Bonds but agreed that it fell well below the nominal value of 50 billion. Furst indicated that the bonds simply could not be negotiated at nominal value with the abnormally low interest rate of 5 per cent and calculated their present value at 35 billion. Keynes, using the same line of reasoning, was more pessimistic and argued that the bonds could not be marketed at more than half of par value. French government officials at the London conference of May 1921 estimated a present value of 30 billion and even Lloyd George assumed a substantial discount.23 Whatever the exact figure, it is evident that the present value of the obligation laid upon Germany in 1921 was markedly less than the nominal value of 50 billion marks. This fact assumes considerable importance when one recalls that the German government had twice offered to pay reparations to a present value of 50 billion gold marks. The first offer, made on March 1, 1921, received no consideration because it was accompanied by unacceptable political and economic conditions and a heavily inflated estimate of German payments to date. The second, which was transmitted to the American government on April 24, 1921,24 was largely shorn of these impedimenta but remained unacceptable for the evident reason that a larger figure had to be maintained somehow for the benefit of public opinion in the receiver countries.

It would be extremely difficult to translate a present value of 50 billion marks into a reliable figure for nominal value in the context of 1921. Since the German offer specified that interest was to be set at no more

23. Furst, De Versailles, p. 133; Keynes, Revision, pp. 65–66; DBFP, First Series, xv, 556, 578.
24. For the text of the first German offer, see DBFP, First Series, xv, 223–25. For the text of the second offer, see United States, Department of State, Papers Relating to the Foreign Relations of the United States, 1921, ii, 46–48. The Germans later "retranslated" their offer to read "50 billions gold marks (capital)" (ibid., ii, 53) but the Allies, acting on the original text, had already rejected it. Curiously, Bergmann preserves the original wording although, as a German government reparations expert, he undoubtedly had access to both texts. Bergmann, The History of Reparations, p. 71.
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than 4 per cent and perhaps less, it seems probable that a nominal value of at least 75 billion (and perhaps a great deal more) would be required to yield a present value of 50 billion. The Germans did make an alternative proposal of annuities to a nominal value of 200 billion gold marks, which is indeed suggestive. The exact figure, dependent upon so many variables, is of no consequence. The essential point is that the German offer, when translated into nominal value, would be well above 50 billions. In short, what the Germans offered on April 24 was substantially more than they were ordered to pay on May 5. One wonders in what fashion they celebrated, behind locked doors no doubt, when they received the ultimatum of May 5.

The authors of the London Schedule of Payments did their work well and the world was fooled. Keynes, who evidently was partially fooled himself, helped the myth along and so of course did the Germans who continued to fulminate about the brutality of the settlement. In the standard German account of the reparations problem, Carl Bergmann finally admitted that the real obligation was a nominal 50 billion marks and that the settlement was no worse than the April German offer. Since when he wrote reparations were still being paid, albeit on a reduced scale, and since they still provided a convenient talking point for German propaganda, he was careful not to say that the settlement was actually considerably better than the German offer although it so obviously was, and the fact is implicit in his own account.

As German politicians and publicists continued to fulminate in the 1920's about the brutality of the reparations settlement, they pointed of course to the 132 billion figure and to The Economic Consequences of the Peace to demonstrate the outrageousness of their burden. They had in fact gained the best of all worlds (assuming the existence of any reparations at all): a high ostensible figure, low actual payments, a superlative propaganda position, and a climate of opinion well prepared by Keynes' hotheaded polemic for acceptance of their pleas as axiomatic. It is probably impossible to exaggerate the influence of The Economic Consequences of the Peace. A whole generation of the intelligentsia, especially in the English-speaking world, came to believe that the reparations burden under the Versailles Treaty was both vicious and unpayable, a belief that the Germans assiduously nurtured. This assumption became such an

article of faith that Dorothy L. Sayers, in an otherwise enchanting novel, published in 1937, remarked:

Crutchley was about as much convinced by this assurance as were the Allies, on being informed by Mr. Keynes, after the conclusion of the Peace Treaty, that they might whistle for their indemnities, since the money was not there. It is impossible for human nature to believe that money is not there. It seems so much more likely that the money is there and only needs bawling for.\(^{27}\)

Unfortunately, the English-speaking establishment which Miss Sayers represented was convinced that Keynes was right and that the money was indeed not there. Possibly it was not. We shall never know. One would think, however, that Etienne Mantoux had long ago proved conclusively that Keynes’ book constituted a self-fulfilling prophecy. Keynes declared that the reparations settlement was outrageous and that Germany could not pay. Germany in fact did not pay but, as Mantoux well demonstrates,\(^{28}\) her default proved nothing about her capacity. We shall never know what Germany could have paid, had she seen any reason to do so, but we can easily demonstrate that the settlement was not outrageous, even in German eyes.

Yet still we are plagued by Lord Keynes. Perhaps it is time to be rid of him. At the aforementioned session of the American Historical Association, Professor Weinberg suggested as much when he remarked that there is no need to rely on the imaginings of Keynes when now we have the documents and can know what actually happened.\(^{29}\) Professor Weinberg’s comment concerned the Council of Four but it can well be extended to other topics, even to that of reparations. More than thirty years ago, John Maynard Keynes informally acknowledged the damage he had wrought and regretted having written *The Economic Consequences of the Peace*.\(^{30}\) Perhaps at last we might regret it as well and might reexamine the documents with eyes no longer beclouded by Keynesian polemics.

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\(^{28}\) In *The Carthaginian Peace, or the Economic Consequences of Mr. Keynes* (London, 1946).

\(^{29}\) Professor Weinberg’s remark was made in response to several people in the audience who had rebutted him vehemently with statements beginning, “But Keynes said . . .”