Albrecht Ritschl: Deutschlands Krise und Konjunktur 1924-1934. Binnenkonjunktur, Auslandsverschuldung und Reparationsproblem zwischen Dawes-Plan und Transfersperre (= Jahrbuch für Wirtschaftsgeschichte. Beiheft; 2), Berlin: Akademie Verlag 2002, 296 S., 52 Abb., ISBN 3-05-003650-8, EUR 79,80.

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Albrecht Ritschl's book on the German economic crisis between 1924 and 1934 is a major work that demands attention from everyone in the scholarly community interested in the history of the Weimar Republic and the early history of the Nazi regime. Knowing that this was the product of a Habilitation this reviewer was expecting an unwieldy and unforgiving monster of a book. In fact, Ritschl has produced a taught and readable volume. Into slightly more than three hundred pages he packs an incredible volume of information and analysis. The book presents a completely revised macroeconomic dataset for Germany between 1924 and 1938. It contains an extensive series of econometric tests on the basic relationships that governed the development of the German economy. Ritschl also provides a comprehensive new political narrative of the making of economic policy between the mid 1920s and 1934. Finally, as the coup de grace, Ritschl attempts to translate his narrative into two different economic models. As Ritschl himself is clearly aware, only a small minority of his readership will enjoy, or even understand, every aspect of this book. So, to assist readers in finding the sections most relevant to them, the book is clearly sign-posted and divided into self-contained sub-sections. This gives the book, taken as a whole, an elegant, almost essayistic quality. It is also worth saying that though the terrain, which Ritschl traverses, has been hotly contested and though Ritschl's intent is clearly revisionist, the tone throughout is generous and scholarly. Indeed, much of Ritschl's argument has about it the air of an extended thought-experiment, which is seductive on the one hand, but also makes it easy to disagree with. This is a book, in short, which manages to be at the same time, both authoritative and truly thought provoking. It would be churlish not to acknowledge Ritschl's enormous contribution. At the same time, however, the book by its very nature seems destined to arouse critical comment.

Following a long tradition in British and American writing, most recently revived by Barry Eichengreen, Ritschl argues that the German depression can only be understood in an international context. Domestic factors may be able to explain the downturn that triggered the German recession that began in 1928, but they cannot explain the extreme severity of the crisis. The most obvious candidate to explain the severity of the

German recession has always been the switchback in Germany's balance of payments that occurred between the mid 1920s and the early 1930s. Between 1924 and 1929 the Weimar Republic was a massive net importer of foreign capital. It not only paid reparations out of foreign credit. In addition, the influx of foreign money fuelled a domestic boom and a large trade deficit. This is the international context for the upward surge in wages and prices observed by Knut Borchardt. Borrowing also funded large state deficits at all levels of government. It is unhelpful to view this in moralistic terms. Foreign borrowing can be justified on all kinds of economic and political grounds. But having permitted foreign borrowing on an enormous scale, the Weimar Republic was exposed to the risk of a major adjustment crisis. Between 1928 and 1929 large-scale private lending dried up. The Weimar Republic now faced the prospect of having to make real transfers to repay reparations, but also to repay the interest and principal owing on its debt. The Weimar Republic had no option but to engineer a trade surplus, in the first instance by reducing its imports. Bruening's policy of deflation was the means to this end.

In effect, the Weimar Republic traded prosperity in the 1920s, for a far more severe recession than would have been necessary without excessive borrowing. Why did it engage in this risky trade-off? As Ritschl makes clear, the total burden of reparations facing Germany even when combined with all other kinds of debts was not vastly in excess of that facing all of the other European combatants in the aftermath of World War I. The difference was that a large part of Germany's debt burden was "political" and it was owed to foreigners. In the early 1920s a determined effort at real fulfilment had ended in a crisis of the Republic and the extension of the legal framework for rule by presidential decree. In the early 1930s when Germany faced the same grim prospect of actually paying reparations, the men struggling to rule the Weimar Republic resorted to the same instruments. Rule by Presidential decree was not, in fact, a degeneration of the Weimar state. It was an essential part of the Weimar constitutional settlement and had to be if it was to have any chance of pursuing a real policy of reparations fulfilment.

For those familiar with the work of Barry Eichengreen, Gerald Feldman, Stephen Schuker and Niall Ferguson this story will not seem radically new. What is novel is Ritschl's analysis of the way in which foreign debt was instrumentalized in Germany's efforts to escape the burden of reparations. According to Ritschl, the defining feature of the Dawes reparations regime put in place in 1924, was not so much the reduced level of repayments, relative to the London demands of 1921, but the provision of Transfer Protection. This provided that France and Britain would receive payments on reparations in foreign currency, only if doing so was compatible with preserving the stability of the German currency. Otherwise, their reparations payments were to accumulate in bank accounts in Berlin. As Ritschl shows, the incentives provided by the system of transfer protection provide a powerful explanation for Germany's remarkable propensity for foreign borrowing between 1924 and 1929. The German economy had plenty of good uses to which to put American capital. The central authorities in Berlin had little incentive to curtail this borrowing, because under the transfer protection scheme, the claims of German imports and regular commercial debt repayment had precedence over the reparations claims of Britain and France. For any given level of export earnings, the larger the amount of German imports and debt repayment, the smaller was the amount of reparations transfers that Germany would be able to make. In the limit, Germany had an interest in accumulating so much foreign debt that reparations payments were completely crowded out by commercial debt service. In strategic terms Germany's indebtedness to the United States gave it a useful bargaining counter. From the late

1920s onwards Germany could play off the demands of American commercial creditors against the reparations demands of Britain and France. As Ritschl points out, Germany's entire foreign policy since the armistice of 1918 had relied on the Americans to ward off the threat to Germany posed by Britain and France. The foreign debt mountain of the 1920s was a commercial expression of that same strategy.

Another of Ritschl's contributions is to reveal the disputes in Berlin provoked by this strategy. The full policy of crowding out reparations through foreign borrowing was favoured only by one element of the Weimar ruling elite, centred above all on the foreign office. Reichsbank president Schacht favoured a different strategy. Schacht's ultimate goal was to neutralize the reparations question by replacing the burden of annual reparations payments with a single, one-off payment. This was to be funded by a loan, which Germany would raise on commercial terms. If "commercialization" was the goal, then the strategy of massive borrowing from the US was misguided on several grounds. It made it seem as though Germany could in fact afford to make inflated reparations payments to Britain and France and every additional dollar borrowed to repay reparations, was an extra long-term burden on Germany. Schacht believed that drawing out the process of revision would simply result in a larger ultimate debt burden, owed to the Americans rather than the British and French. As a result of this tactical difference, Germany's position from 1927 onwards appeared increasingly paradoxical. The borrowing binge continued and was powerfully stimulated by the lax fiscal policy pursued by the public sector. Schacht, meanwhile, did all he could to discourage the inflow of American funds.

It was the creditors who ultimately called a halt to the debt-reparation spiral with the Young Plan negotiations of 1929. According to Ritschl, the Young Plan amounted to a decision, by the chief reparations recipients - Britain and France - and the responsible authorities in the United States to call a halt to Weimar's credit-fuelled boom. Schacht welcomed this. However, those who had hoped that Germany's total reparations burden would be radically reduced, were disappointed. The reduction offered by the Young Plan amounted to only 25 percent, from 45.5 billion RM to a present value of 34-36 billion RM. At the same time, the Young Plan removed the transfer protection clause. Henceforth, Germany would be able to postpone reparations payments by no more than two years and only after going through an embarrassing process of appeal. As Ritschl suggests the level of reparations under the Young Plan was carefully calculated so as to push Germany's credit to the absolute limit. Adding the commercial debt contracted since 1924, to the 35 billion RM owed under the Young Plan, left Germany with foreign debts requiring regular repayments, of close to 80 percent of its national income. Schacht had urged Germany into the Young Plan negotiations hoping to restore Germany's creditworthiness by ending the reparations issue once and for all. Instead, Germany emerged under the Young Plan with its credit limit "maxed out" and completely unable to borrow on foreign markets on normal terms.

At this point, it has to be said, that Ritschl might have done more to drive home his central point that the Young Plan did indeed spell the end of foreign lending. As has been suggested in other reviews, this hypothesis might have been tested in a variety of ways. Most importantly one would have expected some kind of reaction to the Young Plan announcement in the valuation of German bonds on New York markets. If the Young Plan restored the priority to reparations payments, one would have expected this to be reflected in a lower valuation of Germany's commercial debt. A casual glance at the usual sources suggests that the prices of German industrial bonds were indeed subject to downward pressure in 1928 and 1929. This, however, would have to be compared with the experience of similar bonds from other countries. The fundamental problem that Ritschl does not address is the difficulty of distinguishing between the peculiar problems suffered by Germany, which might be attributable to reparations politics, and the more general decline in US foreign lending in the late 1920s. To put the same point counterfactually, given the downturn in the US economy was it not more than likely that US foreign lending would have dried up even without the Young Plan? Does Ritschl not therefore exaggerate the significance of this particularly German problem?

Whatever the particular cause of the end to foreign lending, what Ritschl does establish beyond doubt is that it was this problem that dominated all subsequent policy decisions in Germany. In so doing he provides the most convincing account of Chancellor Bruening's economic policy, to date. If Germany was to honour its obligations under the existing gold standard system, Germany simply had no option but to engage in a brutal programme of deflation to turn around its balance of payments. To describe the deflation policy as Bruening's is to underestimate the external pressures acting on any German government after 1929. At the same time it provides a highly misleading characterization of the economic policy preferences of Bruening, who, as Ritschl makes clear, began his period in office in the summer of 1930 struggling to mobilize foreign funds with which to combat unemployment and ended his period in office, preparing for a work-creation programme much like that actually put in place at the end of 1932. The common view of Bruening's policy as a trade-off between the domestic economy and the objective of eliminating reparations is reductive. Bruening's real problem was a three-way trade-off between the desire to throw off reparations, the desire to prevent a domestic economic disaster and the desire to preserve Germany's long-term economic relations with the United States, the world's largest economic power. The desire to preserve creditworthiness in the largest capital market in the world was what prevented Bruening from adopting the ultra-nationalist programme of a unilateral default on Germany's foreign obligations. Interestingly, Ritschl also highlights American pressure as the chief reason why Germany did not follow Britain in devaluing the Reichsmark in the autumn of 1931. The Federal Reserve and the Hoover administration had expressed a strong preference that Germany should not devalue and should instead continue to honour its long-term foreign debt, whilst using capital controls to protect its balance of payments. Given the outstanding size of debts to the United States and the importance of US pressure to a final resolution of the reparations question, Germany could not afford to go against this American "advice".

Though Ritschl does not say so, his book provides a powerful restatement of the view that the worst economic disasters of the interwar period were in large part due to the failure of the United States to provide effective leadership. As Ritschl shows, the economic strategy of responsible parties in the Weimar Republic depended crucially on the assumption that the US would act rationally in defence of its enormous strategic stake in German stability. Instead, the US dragged out the reparations negotiations by its fruitless insistence on the repayment of war debt owed by France and Britain, most particularly in 1931-1932. Furthermore, US protectionism undercut any prospect that the European economies might prosper through a major export offensive. In the event, this reduced Germany's commitment to the US to a level of pure tactics. By the time reparations were finally lifted in Lausanne in the summer of 1932, Bruening had been driven out of office and German politics was moving decisively to the right. The effort to seek a German recovery in the context of a liberal world economy was abandoned and

America's long-term credits became the next target of German revisionism.

For historians this narrative of German economic policy will no doubt form the heart of Ritschl's contribution. But it takes up just one chapter. It is flanked by two large sections given over to economics and econometrics and an imposing Appendix presenting Ritschl's long awaited revisions to Hoffmann's dataset on the German economy between 1924 and 1938. These form an important contribution in their own right. Their contribution, however, is rather trickier to assess. The problem facing any economic historian wanting to tackle the problem of explaining an event such as the Great Depression is the choice of the appropriate model. There is, in fact, no consensus in the economics profession about the "right" model with which to analyse such large-scale economic events. There are differences of theoretical principle. There are also problems of reconciling different models with the evidence. To make matters even more complicated, the discipline of econometrics, particularly as applied to time series, has undergone a sea change since the early 1980s. Ordinary least squared regressions, still the stock-in-trade of most economic historians, now compete with a complex array of new methods.

Ritschl's solution to this bewildering diversity of theories and methods is startlingly bold. He refuses to commit himself either to one type of economic model or to one particular econometric methodology. Instead, he tests a variety of economic models using both main types of econometrics. In Chapter 4 he shows that his argument about the importance of credit limits can provide an explanation for the depression in Germany in two diametrically different types of economic model. Whether the world is simplistically Keynesian or radically new classical the model of credit limits can provide an explanation for the sudden break in German economic activity. In Chapter 2 as well he does not limit himself to one theory. He subjects the most important relationships involved in both Keynesian and neoclassical models, to a battery of tests using both OLS and VAR methodologies. The impact of this intellectual shotgun blast is impressive, but rather imprecise. Broadly speaking Ritschl strengthens his interpretation based on the Young Plan by demonstrating that it can be made to work regardless of ones theoretical proclivities. He has also demonstrated in a rather destructive way that many of the relationships commonly assumed to hold between key variables such as income, investment, employment, the government deficit, wages and interest rates are either insignificant, or remarkably unstable. One is left, furthermore, with the distinct impression that the assumptions of the Keynesian model come off rather worse from this exercise than do those of its neoclassical rival. But what Ritschl does not provide is his own positive account of the key forces that drove Germany into recession and then back out again. Granted that the Young Plan was the decisive factor in turning a recession into a disaster, how exactly did this credit-restriction interact with the dynamics of the domestic business cycle to produce the cataclysms of 1931 and 1932? Ritschl does not answer this question, because he refuses to commit to any particular "transmission mechanism".

In the final analysis, therefore, this reviewer ended with the wish that this excellent book could have had one more chapter, tying together the different strands of Ritschl's complex argument into a more complete explanation of the dynamics of the recession. But we should end not with a note of criticism, but with a vote of thanks for a book that kicks the economic history of the German depression into a higher intellectual gear and that will surely stimulate much argument and research to come. What we really need is an English translation.

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