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## ARTICLES

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### *Could and Should Germany Have Followed Great Britain in Leaving the Gold Standard?*

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#### I.

On September 18th, 1931 the American consul in Basle, H. Merle Cochran, reported to his Undersecretary of State, William R. Castle, Jr., in Washington on the currency crises in Europe: "The present B.I.S. rating on this side of the Atlantic would be as follows: (1) Great Britain; (2) Hungary; (3) Austria; and (4) Germany, with the last named much more favorably situated than the rest and offering the highest promise of recuperation to a strong position."<sup>1</sup> First of all countries Germany is characterized as promising! Where could one find a similar remark in one of today's descriptions of that period? Do not historians describe Germany's fate during the crisis as a cumulative

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<sup>1</sup> NA Washington, Record Group 39 (Treasury), International Fiscal Relationships: Country File Germany, Box 104.

catastrophe which would have justified, if not to say demanded counter-action of any possible kind from the very beginning, not least so that Hitler could have been avoided?

As a matter of fact Germany had reached a period of a certain calm after the storms of the credit and currency crisis of June and July 1931. The Hoover moratorium in June, the "Devisenbewirtschaftung" (foreign exchange control) since the middle of July, and the standstill agreement in August (which, allowing for some payments to cover interest and amortization, extended the bulk of the short run commercial debts and kept open the credit lines abroad for Germans) preserved the endangered reserves of gold and foreign currency. In August and the first weeks of September the Reichsbank had not lost any more gold. The discount rate of the Reichsbank, which had been raised to 15% on August 1st could be lowered to 10% on August 12th and to 8% on September 2nd.

2. Certainly the overall economic situation did not show any signs of recovery. Experts expected a number of 6 millions and more unemployed for the coming winter.<sup>2</sup> But was it not already a good sign that the collapse of the credit and currency order could at the last minute be prevented, and that the German export surplus had climbed to a record high during this month? The monthly export surplus had reached an amount of 349 million RM in August 1931 and was thus as high as in any month since the stabilization of the mark after World War I.<sup>3</sup> So the

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<sup>2</sup> "Maybe we shall have 7 millions of unemployed in Germany next winter. But this is not yet certain...". Chancellor Dr. Brüning, interview with the United Press Berlin correspondent, 26. August 1931 (transl. K.B.), *Schulthess Europäischer Geschichtskalender*, N.F. vol. 72 (1931), p. 189. In a conversation with the Secretary of State in the British Foreign Office, on Noel-Baker, 25, June 1931, the chairman of the SPD, Otto Wels, reports that in Germany the figure of 7 million as the possible number of unemployed in the coming winter is openly talked about. *PRO London*, F.O. 371-15215 C 4820/11/18.

<sup>3</sup> *Konjunkturstatistisches Handbuch 1933*, ed. by the Institut für Konjunkturforschung, Berlin 1933, p. 75. This result, however, had not been caused by an increase of exports

gold parity of the mark seemed to be safe — at least for a while.

Admittedly nobody could really regard it as safe in the long run. Strictly speaking, for amortization and interest alone Germany would have had to make payments in foreign currency which exceeded even the extraordinarily high export surplus of 1931. Without further import of capital, as practised before, this would be most probably impossible. But where should foreign credits come from after all this? The quiet on the foreign exchange front was thus only temporary. The signs of the coming storms were already visible: in January 1932 the rediscount credit, amounting to 100 million dollars, granted in June 1931 by the central banks of the U.S.A., France, and Great Britain, and of the B.I.S. was due to expire; in February the standstill agreement would end. Both agreement and credits had been prolonged. Not least because there was no doubt whatsoever of Germany's inability to pay. In case of nonrenewal there simply would not have been enough money in foreign currency available for the payments. The threat of the Germans being forced to a moratorium in case a prolongation was not conceded was very convincing. Germany was insolvent. The only question was how this should be declared: unilaterally or bilaterally. With the standstill agreement the creditors could at least count on the interest payments and some amortization, and more important, it gave them the security that other creditors could in the meantime not ruin the debtor totally. A unilateral moratorium would even have endangered this weak position of the creditors. On the other hand the standstill agreement kept open the Germans' credit lines of the international (London) acceptance houses. But from the summer of 1931 on, nobody could consider it possible that Germany would be able to pay reparations in the near future. Not only the Germans maintain-

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but by a decrease of imports. After October 1931 the export surplus was diminishing rather fast, because now also exports were shrinking.

ed that; it was also the result of the computations of the experts of the creditor states.<sup>4</sup> This became especially evident when since the end of 1931 the export surplus was diminishing fast so that finally in February/March 1932 the German foreign currency situation was again viewed with deep distrust.<sup>5</sup>

3. In September 1931, however, when Great Britain left the gold standard, Germany's foreign currency situation did *not* look desperate. Maybe the real "tragedy" in the course of events of the fall was that Germany had her crisis *before* Great Britain and that she then had taken measures which later made it seem less imperative in the eyes of Germans as well as foreigners to take further unheard-of "emergency measures" again. Structurally, in the long run, Germany was in a much worse position than Great Britain. But obviously this did not create such a strong pressure to act and such a justification for a drastic change of currency policy as an actual panic would have.

Against another panic Germany was relatively well protected by the "Devisenbewirtschaftung" (foreign currency control), which had been adopted in July and was extended later on. The Reichsmark was convertible at the old exchange rate only in those quantities which the Reichsbank would allow.

The adoption of the "Devisenbewirtschaftung" had not been an unilateral measure by the German authorities. American and British authorities had supported them and nothing is known of a lasting strong French protest.<sup>6</sup> Of course, the toleration

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<sup>4</sup> This also was the conclusion of the Basel committee (Beneduce committee), whose report was published on 23 December 1931.

<sup>5</sup> Note of the Economic Adviser in the State Department to the Secretary of State, 2 February 1932: "If this should be a forecast of the balance during future months, it would be entirely out of the question for Germany to make any reparations payments for this amount would be far from sufficient even to meet the service on the private debts of Germany to foreigners. With this decline in foreign trade and six million unemployed, it is probable the German economic and financial situation is more critical than at any time since last June — though banking situation remains well in hand." NA Washington, Record Group 91 (Diplomatic Branch) 862.51/3380.

of the "Devisenbewirtschaftung" was made easier for the other countries by the fact that Germany did not use it as a means for import restriction for a long time, due to its export surplus.<sup>7</sup>

If one regards the guarantee of convertibility for capital transactions as an essential feature of the gold standard, then Germany left the gold standard in July 1931.<sup>8</sup> On the other hand we have to notice that for contemporaries only leaving the parity against gold seemed to be the real breaking of the rules of the gold standard. At least this is the way our sources regard it. Till long after July 1931, and thus after the introduction of the "Devisenbewirtschaftung" the question was asked, whether Germany would or should leave the gold standard. This could only mean leaving the parity in favour of floating.

## II.

### 1. As we have seen, Germany was not in an acute emergency

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<sup>6</sup> I cannot list all the references here. But in this context it may be decisive to find out which kind of advice O. Sprague gave the German Government between 16 and 20 July. On 20 July he telegraphed to Governor Harrison of the Fed. Res. Bank New York: "Should the worse come to the worst I strongly advised the suspension of gold payments without inflation rather than resort to prolonged moratorium. Both Bruning and Luther seemed to think that my advice in this matter was wise." *FRB New York*, C 261.1 Germany - Reichsbank-Credit. Theoretically this could also mean that Sprague had recommended to leave parity; yet this seems to me, regarding the whole context (including the following London Conference) rather improbable. I interpret the above formulation as a recommendation of a foreign exchange control without a change of parity ("without inflation"). Nevertheless this point requires further clarification, even more so because of contradictory remarks of H. Luther and H. Schäffer.

<sup>7</sup> Even this, it seems, would have been tolerated by the Foreign Office under certain circumstances. Cf. the note of the specialist for German affairs Nichols, 10 October 1931: "... that so long as Germany is in great straits and is trying to put her financial house in order by limiting imports and increasing exports, and this is done in a *bona fide* manner without undue discrimination, then we have no real grounds for complaint vis-à-vis the German Government." *PRO London*, F.O. 371/15212 C 8022/9/18; cf. also F.O. 371/15210 C 6236/9/18.

<sup>8</sup> This is also held by G. Hardach, *Währungskrise 1931: Das Ende des Goldstandards in Deutschland*, in H. WINKEL (ed.), *Finanz- und wirtschaftspolitische Fragen der Zwischenkriegszeit*, Berlin 1973, p. 128.

in regard to her currency when Great Britain left the gold standard. This is important for understanding the decision-making process in Berlin. This process was characterized by the fact that those responsible for it were not under pressure to change the parity. They were, however, under great pressure (or at least thought they were) to defend the old parity of the Reichsmark.

2. Clearly, in September and the following months there was no pressure worth mentioning put on the Reichsregierung from within Germany to change the course of her currency policy. The opposite is true: the parties of the Weimar centre, including the SPD, the union leaders as well as the associations of trade, industry, and banking strongly demanded that Germany make no "Währungsexperimente" (experiments in respect to the exchange rate). As far as I can see, in September 1931 there was no German scholar who suggested leaving the parity (in whatever way his should be effected). Only very few political writers regarded these steps as worth thinking about, and usually they tied their proposals to certain conditions, for example in regard to what the British would do.<sup>9</sup> In government circles and most of all in the central bank the early decision in favour of adhering to parity was almost never controversial. No doubt, at the end of September there had been a discussion between the Berlin Direktorium of the Reichsbank and the representatives of the Reichsbank to the B.I.S. in Basle on the so-called "Quesnay plan"; but this plan suggested a concerted action of all gold countries which Germany was supposed to join. The "Quesnay plan" had brought some confusion into the German considerations, especially as one didn't know whether it was not really of French origin. But at the latest with the Laval visit

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<sup>9</sup> C. KRÄMER, Der Weg der Reichsmark, in: *Wirtschaftsdienst*, vol. 16, 16 October 1931.

to Germany (September 27th-29th) this plan could be disposed of and did not demand any further a decision.<sup>10</sup>

3. Also from abroad there was no pressure on Germany in the days after September 20th to leave parity. It goes with out saying that France and the U.S.A. did not exert such a pressure. They used their influence now and in the following months, when the parity-question remained to be an important issue in Germany, rather to press in favour of adhering to parity.

It has been maintained, however, that there had been suggestions from Great Britain to follow the British example.<sup>11</sup> Even if suggestions of this kind were made in downright earnest, they seem never to have assumed the guise of political pressure. However, in my opinion, it is questionable anyway, whether we can assume that Great Britain had a great interest in Germany following it in leaving parity. What is the known evidence? On September 20th, 1931 the Adviser to the Governor of the Bank of England, Henry A. Siepmann, reporting by telephone to the vice president of the Reichsbank F.W. Dreyse on the British decisions, asked "... whether the German mark should not be tied to the pound" <sup>12</sup> (Translated by K.B.). Is this more than a cautious fishing for information to find out how Berlin might possibly act? Admittedly at least the American ambassador Frederic M. Sackett seems to have understood this differently (who must have been told of Siepmann's question by Staatssekretär H. Schäffer of the Reichsfinanzministerium). For Sackett cabled to Washington on September 23rd, where the text was at once forwarded to the White House: "For your con-

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<sup>10</sup> Cf. K. BORCHARDT, Zur Frage der währungs politischen Optionen Deutschlands in der Weltwirtschaftskrise, in: K. BORCHARDT and F. HOTZHEU (eds.), *Theorie und Politik der internationalen Wirtschaftsbeziehungen*, Stuttgart 1980, pp. 169 sq.

<sup>11</sup> Cf. e.g. R.E. LÜKE, *Von der Stabilisierung zur Krise*, Zürich 1958, p. 334.

<sup>12</sup> Source is an entry in the diary of Staatssekretär (in the Reichsfinanzministerium) Hans Schäffer, dated 21 September, written after a conversation with the Vice President of the Reichsbank, Dreyse. *IfZG München* ED 93, vol. 14.

fidential information. I learn from a high government treasury official that on Sunday morning September 20th the Bank of England requested the Reichsbank to join England in foresaking the gold standard. This request caused the Reichsbank to consider the matter with the result as indicated above."<sup>13</sup> We must see what the archives of the Bank of England contain on this incident to decide whether Siepmann's question is to be interpreted as a request, a suggestion or merely a form of begging for information.

The inclination of Montagu Norman to support the pound standard by increasing the number of participant countries<sup>14</sup> can in my opinion not be considered as a proof of British pressure on Germany. As we know, Norman did not participate in the decision process on floating the pound and only appeared in office after September 28th. The general impression is that after September 29th the British government acquired far more competence also in currency matters, thus such an initiative should have mainly originated here.<sup>15</sup> Certainly there is from a later date evidence for a sceptical evaluation of the German situation by Norman, for example in the remarkable conversation with the Legationsrat at the German embassy in London and son-in-law of H. Schacht Hilger van Scherpenberg.<sup>16</sup> But there is also a notification of the member of the Reichsbank-Direktorium Wilhelm Vocke on a conversation with Norman on December 3rd, 1931, in which the latter is reported to have said "once more... that it has been quite self evidently correct for the Reichsbank to keep the Reichsmark à tout prix at its value and that

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<sup>13</sup> NA Washington, Record Group 59 (Diplomatic Branch) 862.51/3206.

<sup>14</sup> Cf. H. CLAY, *Lord Norman*, London 1957, pp. 410 sq.; also G.R. TREVIRANUS, *Das Ende von Weimar. Heinrich Brüning und seine Zeit*, Düsseldorf 1968.

<sup>15</sup> Cf. PRO London, CAB 65 (31), 28 September 1931, see also "Minutes of an Informal Conference held at 10, Downing Street on Tuesday Sept. 28th 1931..." PRO London, F.O. 371/15682 W 12264/10755/50.

<sup>16</sup> BA Koblenz, Luther-Papers No. 337.

he wished that we use all our strength and that we would continue to be successful.”<sup>17</sup> (Translation by K.B.). All things considered it seems plausible to me that at least the government accepted the (Treasury) point of view of Sir Frederic Leith Ross, who on September 30th, 1931 communicated to the head of the Central European Department in the Foreign Office: “I do not think that we need urge Germany to follow us; they will probably have to in the long run but the longer they can keep themselves on the gold standard so much the better for our exports.”<sup>18</sup>

One has to keep in mind that for the German government, as for other governments as well, the development of the British currency situation in September/October 1931 had become highly bewildering. Very different future paths were possible: the quick return to the old parity, a stabilization about 10 to 15% below the old parity, continuing the floating, with or without exchange rate-pegging. As we know, the British government did not commit itself to any one of the options for some time and rather purposefully left its partners in ignorance on what it would finally do.<sup>19</sup> Could such a country really exert pressure or even cause Germany to enter into a conflict regarding exchange rate policy with the now strongest financial powers, with France and the U.S.A.?

#### 4. Of course in September 1931 the question whether Ger-

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<sup>17</sup> BA Koblenz, Luther-Papers No. 338.

<sup>18</sup> PRO London, F.O. 371/15211 C 7327/9/18; JÜRGEN SCHIEMANN, *Die deutsche Währung in der Weltwirtschaftskrise. Währungspolitik und Abwertungskontroverse unter den Bedingungen der Reparationen*, Bern and Stuttgart 1980, pp. 184 sq. He also mentions F. Leith Ross among the persons who have supposedly recommended tying the Reichsmark to the Pound Sterling. As a proof, however, he uses a “recommendation” which F. Leith Ross gave to the Reichsfinanzminister of that time, Graf Schwerin Krosigk, in January 1933 (!) – in which he talked of a devaluation, not of an attachment to the pound.

<sup>19</sup> “All experts had predicted a lasting devaluation of 10 to 15 percent at the most; after all one still had in mind a 10 percent overvalued pound, asserted by J.M. Keynes since 1925.” O. EMMINGER, *Währungsentwertung und Krisenüberwindung in England*, in: *Weltwirtschaftliches Archiv*, vol. 40 II (1934), p. 437. (Transl. K.B.).

many could or should forsake parity was not yet finally decided. Strictly speaking, an open discussion in Germany did not begin before October–November 1931, when now and then someone suggested leaving the old parity. A proposal to devalue, put forward by the journalist Felix Pinner in the “*Berliner Tageblatt*” of November 29th, got special attention.<sup>20</sup>

The terminology is a little bit confusing and needs some clarification, otherwise it could be a source of error. The German term “*Abwertung*” has changed its meaning since the Thirties. In the discussion of 1931/32 “*Abwertung*” meant freeing the RM from any parity to gold or dollar, that is free floating. In the situation described that only could mean a devaluation of the RM.

But today “*Abwertung*” (now translated ‘devaluation’) means fixing another — lower — exchange rate (less gold for 1 RM). 1931/32 this has been called in Germany “*Devaluation*”.

In order to distinguish these two I shall use the following English words: “*devaluation*” means changing the exchange rate with fixing of a new rate; “*devalorisation*” means leaving the gold standard (free floating) with the effect of lower exchange rates.

In contrast the anonymous proposal in the “*Deutscher Oekonomist*” of the December 11th, 1931 (authors were R. Dalberg and W. Grävell) was robbed of its effect by the editors already, as they expressed in a preliminary remark “that the path of de-

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<sup>20</sup> The Financial Adviser of the British embassy in Berlin, E. Rowe-Dutton, commented on the proposal in an interesting, although in important respects, wrong, way: “So far as I know the ‘*Tageblatt*’ is the first serious economic paper to advocate this course: up to now it has been put forward only in private discussion by theoretical economists, and not even by many of them, as well as by interested parties who see a gain to themselves in such a course. I do not include the utterances of the wilder men amongst the National Socialists, etc. It stands, of course, for the big Jewish money interests, and politically for the small but influential *Staatspartei*. If the latter are in agreement with the policy of devaluation, it will presumably be taken up by the ‘*Frankfurter Zeitung*’, the ‘*Börsen Courier*’ and the ‘*Deutsche Volkswirt*’, which represent between them a very considerable proportion of the intelligent economic press of this country.” *PRO London*, F.O. 371/15212 C 9080/9/18. Rowe-Dutton was wrong in respect to the attitude of the *Staatspartei*; the other papers remained opponents of leaving parity.

valuation, perhaps possible some weeks ago, can now (after the emergency decree of 8th Dec. 1931, note by K.B.) hardly be followed any more." (Translation by K.B.) But even Pinner did not demand an immediate change of parity in his article. He only described the proposed measure (no tying to the pound, no leaving the gold standard) and then he suggested awaiting the suitable psychological moment for it. This moment might come when the impending reparation negotiations had come to a successful close. In regard to the long-run political perspective, this proposal is similar to the advice given by J.M. Keynes in his famous Hamburg speech of January 8th, 1932. It is quoted incompletely (as is usually done) by saying that Keynes asked Germany to join the sterling-club. In his speech he also pointed out: "I appreciate the reasons of psychology and high politics which lie behind the present insufferable pressure on the economic life of the German people. But the continuance of the existing deflationary pressure, *when the necessity for so impressive a demonstration has passed away*, would surely be a disastrous mistake." <sup>21</sup> (Emphasized by K.B.).

Opinions in favour of Germany leaving the gold standard were rare indeed in the public,<sup>22</sup> whereas there was an abundance of articles which gave reasons why Germany should under all

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<sup>21</sup> *The Collected Writings of John Maynard Keynes*, vol. 21: Activities 1931-1939, ed. by Donald Moggridge, London 1982, p. 44. The *Neue Zürcher Zeitung* Nr. 275, 1932, 14 February 1932, summarizes the reactions of the press in regard to Keynes' speech as follows: "The German press which knows the terrible practice of inflation better than the Cambridge professor, has reacted to these lures, although they were garnished with the harshest criticism of the reparations, very critically and reserved..." (Transl. K.B.).

<sup>22</sup> Several authors did mention the alleged 20,000 currency projects which were sent to the Reichsbank and the administration by the public (cf. e.g. J. SCHIEMANN, annotation 18, p. 225). But this number has never been verified. The author, Professor Melchior Palyí, who put it into circulation in the year 1932, was the co-director of a Reichsbank financed "Währungs-Institut" (currency institute) at the Berlin Handelshochschule. This Institute took part in the counter-propaganda against "currency experiments". As a matter of fact there are voluminous collections of letters from private persons also containing proposals for monetary and currency policy.

circumstances adhere to the parity. Some of them were probably also initiated by the Reichsbank.<sup>23</sup> There was indeed a extensive propaganda in favour of the policy of the Reichsbank and the Reichsregierung. But this was probably not even necessary. Even authors who later included in the circle of "reformers" (because they proposed unconventional measures like the expansion of the German money supply or even a deficit financed expansion of German government expenditures) (e.g. E. Wagemann<sup>24</sup> and W. Lautenbach<sup>25</sup>), belonged to those who advocated adherence to the old parity. K. Muhs has in his book on the dethronement of gold in 1932 described correctly: "Moreover it can be said that the fundamental and vigorous rejection of leaving gold parity was so unanimous that it is meaningless to ask the question at all."<sup>26</sup> (Translation by K.B.)

5. In view of these findings it is especially remarkable that meanwhile in the historical literature the German decision to stay with the gold parity is regarded by some authors as the key question of the whole crisis policy. There are even authors who

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They can be found in the archives of the Reichsfinanzministerium (BA Koblenz), the Reichswirtschaftsministerium (ZStA Potsdam), the Reichsarbeitsministerium (ZStA Potsdam) and in other places. But this material does not prove, as Schiemann says, that "the German people was less afraid of inflation than was generally maintained". (J. SCHIEMANN, *loc. cit.*, transl. K.B.). Most proposals tried to create safeguards against the dangers of inflation or asserted not to be inflationary. They dealt with index currencies, plans on a rentenmark, bodenmark, bimetallism, emission of emergency money, etc. etc.

<sup>23</sup> For instance in the article of H. Gestrich from the Reichsbank in *Frankfurter Zeitung*, 27 September 1931, with the title: "Sollen wir England folgen? Ein scharfes Nein!" ("Should we follow England? A sharp no!").

<sup>24</sup> E. WAGEMANN, Das Devaluationsproblem, *Wochenbericht des Instituts für Konjunkturforschung*, vol. 4, No. 36, 2 December 1931.

<sup>25</sup> Memoranda of Oberregierungsrat Dr. W. Lautenbach (Reichswirtschaftsministerium), ZStA Potsdam, Reichswirtschaftsministerium (31.01) 9930. Compare for example the one of 25 September 1931, where he stated: "It is fundamentally important that we do not even consider following the English example whatever the situation is likely to be." (Transl. K.B.). Consequently W. Lautenbach suggests a deflationary policy as an alternative supplemented, however, by an expansive employment programme.

<sup>26</sup> K. MUHS, *Die Entthronung des Goldes*, Berlin 1932, p. 31.

express the opinion that another policy could have prevented Hitler from coming into power.<sup>27</sup>

It is not my intention to give a comprehensive description of what economic results could have been expected of different kind of policy. Of course it would be interesting to play through alternative courses of the historic events in order to conjecture under what circumstances the world after 1933 could have been incomparably nicer... But so many assumptions about many historical variables, which would have to be different too, would have to enter into these scenarios that any result would remain highly speculative. The attempt of Jürgen Schiemann to estimate the probable effect of a German devaluation of 20% in the balance of trade is based on a very primitive comparative-static model and contains so many freely chosen suppositions (e.g. on the price elasticities of demand for exports and imports) that it has no more persuasive power than other kinds of "guesstimates."<sup>28</sup> Attention has to be drawn to the fact that Schiemann makes his computations on the assumption that his previously established presumption is not valid, namely that a devaluation was not possible under the existing reparation agreements, unless Germany had accepted the economic and military sanctions it could have been threatened with.<sup>29</sup> Thus Schiemann's computations simply imply a very peaceful world. I should say, however, that nobody is really able to specify more exactly how France and the U.S.A., to mention only these two, would have reacted to a German change of the exchange rate.

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<sup>27</sup> Compare among others H. IRMLER, *Bankenkrise und Vollbeschäftigungspolitik (1931-1936)*, in: Deutsche Bundesbank (ed.), *Währung und Wirtschaft in Deutschland 1876-1975*, Frankfurt/M. 1976, p. 308. G.A. Hart writes in a review article on the book of J. SCHIEMANN (s. annotation 18): "If Schiemann is anywhere near the mark in his estimate that a 20 per cent devaluation could have raised real national income in Germany by 18 per cent, failure to devalue the mark may have thrown away a great opportunity to obviate the Nazi accession and World War II." *Journal of Economic History*, vol. XLI (1981), p. 451.

<sup>28</sup> J. SCHIEMANN (s. annotation 18), pp. 255 ssq.

<sup>29</sup> *Ibid.*, pp. 172 sq.

I do not want to get lost in this kind of speculation, tempting as it would be for an economist, but I want to give more attention to the actual decisions which were taken after September 20th in Germany. In the following pages I want 1. to show that the choice to be made at that time was not a choice between only two alternatives — a fact which today usually is not taken into account appropriately, 2. to discuss (at least in a few words) the question why there was such a wide-spread consensus in rejecting any “Währungsexperimente” (experiments with the currency) in Germany.

### III.

1. What could have been done in currency matters by Germany after the 20th September? This is not a trivial question. I have dealt with this matter in another place.<sup>30</sup> Because this paper was written in German, it will be useful here to give a short summary, filled up with further evidence from archival material.

What exactly is meant when we ask: “What could have been done by Germany”? First it is necessary to perceive clearly which operations were *technically* feasible, whatever political or institutional reasons argued against them. Secondly it has to be considered whether technically possible operations were politically at the disposal of the agents. Or, which additional conditions had to be fulfilled if they were to become possible. Thirdly those reasons have to be examined, which caused the German authorities not to change the parity of the Reichsmark.

2. The new international system of exchange rates (Wechselkurssystem), which the German government had to account for after September 20th, naturally depended on the plans of the United States, France, Great Britain and other countries, too.

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<sup>30</sup> K. BORCHARDT (s. ann. 10).

If for a moment we dismiss this fact and isolate the German possibilities of action, there was at first the decision to keep the parity of the Reichsmark against gold untouched (category A) or not. A change of parity, however, could have been enacted quite differently. Therefore besides category A we have not only one but three further categories:

- 1) a single change of parity against gold. Today this is called devaluation (category B);
- 2) floating against gold together with the stabilization of the Reichsmark against another currency (which practically would have meant Sterling) (category C);
- 3) floating against gold and all other currencies (category D).

Thus we are already left with four possibilities. However, one has now also to consider various options of the more important nations besides Germany. Restricting ourselves to the expectations of contemporaries it is obvious that they did not envisage the French franc leaving the parity against gold (with the one exception of the Quesnay plan, see below). This we want to respect while constructing our tableau. The same will be true for the US-dollar, although there was repeated speculation about it. We assume that no doubts existed on its adherence to parity. Not so with sterling. One finds very different expectations in the autumn of 1931 with regard to sterling's further course. This had to be considered above all.

These cases — enumerated in the table on the next page — I shall briefly sketch now showing their actual significance.

a) This goes without further explanation. It is the one case which has become history. But I should state that a kind of "Ersatzabwertung" (devaluation substitute) could be combined with it — which was in fact done to a moderate degree. For from January 1932 the German government was authorised to raise tariffs on imports from countries whose exchange rate had

## Technically Feasible Exchange Rate Decisions

Category	Case	Reichsmark against			If floating: with interventions?
		Gold	\$, fr., etc.	£, etc.	
A	a	stable unchanged	stable unchanged	flexible	—
	b	stable unchanged	stable unchanged	stable changed/unchanged	— —
B	c	stable changed	stable changed	flexible	—
	d	stable changed	stable changed	stable changed	—
	e	stable changed	stable unchanged	stable changed/unchanged	—
C	f	flexible	flexible	stable unchanged	yes/no
	g	flexible	flexible	stable changed	yes/no
D	h	flexible	flexible	flexible	yes/no

sunk below the former parity.<sup>31</sup> On 23rd January 1932 this was already realised in the case of imports of butter (from Denmark). However, such interventions remained rare in 1932. Export subsidies to counteract disadvantages caused by exchange rate variations had not yet been introduced in 1932 (though other kinds of subsidization were already in existence).

b) It has to be stated again that many German experts in September and still in October assumed, that sterling was to be re-stabilised. Some even thought this could be at the old level, others expected a devaluation of 10%.<sup>32</sup> The continuous

<sup>31</sup> Decree of the Reichspräsident on special measures concerning customs duties of 18 January 1932. This decree had already aroused a debate in the cabinet, s. BA Koblenz R. 43 I/1454.

debate on the overrated pound since 1925 was remembered. And the conviction was that Britain now seized the opportunity to undertake the necessary correction. In that case German devaluation or floating would no doubt have been less advisable.

c) Those who today speak of the possibility of a German "Abwertung" (devaluation) have in mind only this case (see note above). Devaluation (present sense) was discussed mainly in November/December 1931 and in spring 1932.

d) A decision for a devaluation against gold, however, could not have taken for granted the continuous floating of sterling. The outcome of a German devaluation in case of a re-stabilization of the pound (at the same time or later) could have been twofold:

d1) Germany and England should have devalued their currencies against gold by the same rate;

d2) a different rate of devaluation of the two countries should have revalued or devalued the Reichsmark against the pound.

Historically these cases did not materialise. However, they played a certain role in public debate, especially with the proponents of devaluation, who expected Britain's return to a stable exchange rate. Much would have depended on the relations of exchange rates, of which clear conceptions did not exist.

e) As mentioned above, the general manager of the B.I.S. suggested, even after the floating of sterling, that all good standard countries (hopefully England included) should take common measures to change parities against gold in the direction of a devaluation and thus to increase the worldwide money supply. In the situation as it was this appeared as a means to drag Britain back into the system. But there were — also in Germany — similar proposals already before the pound began floating.<sup>33</sup>

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<sup>32</sup> Compare for instance C. KRÄMER, *Der Weg des Pfundes*, in: *Wirtschaftsdienst*, vol. 16 (1931), 25 September 1931.

<sup>33</sup> W. WOYTINSKY, *Internationale Hebung der Preise als Ausweg aus der Krise*, Leipzig 1931.

Such proposals were ventured by the "Reichsbank" and the German government in September, but were without any chance of realisation from October 1931 onwards.

f) That would have been the transition of Germany to the "Sterling Standard." It seems all those who wanted Germany to join the "Pound-Club" had in mind this case (or case g). For floating alone would hardly have brought forth a nearly stable relation of the Reichsmark to the pound. In case f) the former exchange rate of the mark against the pound (1 £ = 20.429 RM) was supposed to remain unchanged by virtue of interventions of the "Reichsbank".

g) R.E. Lüke has told us<sup>34</sup> and J. Schiemann treated as a fact<sup>35</sup> that in principle Britain wished "Germany to join her". She was said to have wanted the German "Abwertung", "though at a rate different from the English."<sup>36</sup> (Transl. K.B.) If there was any such plan, it would have been rather complicated. The Reichsmark would have to have been freed from gold. But only after or in the context of a *revaluation* against sterling would it take over the pound standard. It is difficult to imagine who in Germany could and would have succeeded in formally revaluing the Reichsmark against the pound. Therefore I am inclined to think of this idea as of a rather dubious speculation. At most it could have been a proposal of type c) which has nothing to do with a transition to the pound standard. However, I do not know any sources confirming that.

h) Here we are confronted with special difficulties of historical interpretation. It is not easy to find anybody in Germany proposing perfect floating of the Reichsmark. There were authors suggesting an exact copy of "the British example". But did they really have in mind the departure from the gold standard without joining any other?

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<sup>34</sup> R.E. LÜKE (s. ann. 11), p. 334.

<sup>35</sup> J. SCHIEMANN (s. ann. 18), pp. 187 sq.

<sup>36</sup> R.E. LÜKE, *loc. cit.*, p. 334.

Whenever the possibility of such a floating was clearly spoken of, it was while expressing fears about a supposed continuing fall of the Reichsmark in the case of no adherence to any other currency.<sup>37</sup> The experiences of the years after World War I were still all too vivid. Model h) therefore is the horror vision used by the Reichsbank, the German government and all who stuck to the old parity, in order to demonstrate the dangers of all "Währungsexperimente" (currency experiments). In this negative sense it made history in autumn 1931 and spring 1932. For with its help the dreaded experiences of the postwar inflation could be recalled.

Gottfried Haberler wrote that the Great Depression would have passed away earlier if all currencies, especially the dollar, had left the gold standard, thus creating a general system of flexible exchange rates.<sup>38</sup> Whatever we think today of such a possibility (and it seems a system of flexible exchange rates appeals to us much less now than some years ago), apparently nobody was in favour of this possibility in the Germany of 1931/32. Obviously it could not be excluded that a series of steps away from gold could ultimately have created a system of flexible exchange rates. However, this was not considered as hopeful by contemporaries, but rather as a sign of further disintegration of the old order.

Keeping in mind the eight possible actions of the strategic game of autumn 1931, it becomes clear: Germany had different ways of imitating or not imitating the British example. Cases

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<sup>37</sup> Without further explanations J. SCHIEMANN (s. ann. 18, p. 282) expresses the supposition that a devaluation of the Reichsmark by 30% could possibly have led to a new equilibrium exchange rate. However, he does not seem to take account of the possibility of an overshooting of the Reichsmark, if there truly was a longterm equilibrium rate.

<sup>38</sup> G. HABERLER, *Die Weltwirtschaft und das internationale Währungssystem in der Zeit zwischen den beiden Weltkriegen*, in: Deutsche Bundesbank (ed.), *loc. cit.*, p. 225. English translation: *The World Economy, Money, and the Great Depression 1919-1939* (American Enterprise Institute for Public Policy Research), Washington 1976, p. 20.

c), d), and e) meant devaluation of the Reichsmark against gold, but in principle Germany would have continued to adhere to the gold standard (as in cases a) and b). Cases f) and g) would have brought the pound standard, case h) free floating. Regarding the great scope of alternatives it is an astonishing fact that we find in the literature a relatively unanimous verdict in favour of the German decision not to change parity. For the acceptance of this verdict implies the opinion that every other policy had (high ?) advantages which clearly outweighed costs.

What really are the "costs", mentioned in the arguments brought forward with variations by all those who were involved in the discussion about the necessary decisions? These arguments, of course, are not all equally convincing. However, here we are merely concerned with the display of the sources and do not want to criticise them with hindsight. The arguments are to be found in public speeches as well as in the exposés of experts from the Reichsbank, the Reichswirtschaftsministerium and the industrial associations.<sup>39</sup>

To begin with we must distinguish between

1. those problems resulting from what I want to call "ausserpolitische Zwangslagen" (constraints with regard to foreign affairs);
2. problems in the sphere of economic policy;
3. constraints to internal policy.<sup>40</sup>

1. Germany possessed only limited sovereignty regarding her currency affairs. The agreement of The Hague from the 20th January 1930 (on the basis of the Young Plan) contained the

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<sup>39</sup> BA Koblenz Luther-Papers No. 366, ZStA Potsdam, Reichswirtschaftsministerium Nr. 15345 and 9930 and other. Memoranda of the first week after the 20th of September.

<sup>40</sup> Compare K. BORCHARDT, *Zwangslagen und Handlungsspielräume in der grossen Wirtschaftskrise der frühen dreissiger Jahre: Zur Revision des überlieferten Geschichtsbildes*, in: *Bayerische Akademie der Wissenschaften, Yearbook 1979*, pp. 85-132.

statement: "With regard to the special aims of this clause as well as to the general aims of the plan the German government confirms that the Reichsmark is and will be convertible into gold or foreign exchange according to art. 31 of the present bank law and that the Reichsmark has and will have a parity of 1/2790 kg gold as fixed in the German law of coinage from the 30th of August 1924"<sup>41</sup> (Transl. K.B.). Accordingly the old article 31 remained unchanged in the revision of the bank law after the passing of the Young Plan Law in the Reichstag in 1930. It is important to see that this provision was not a concession by the German delegates, but that the Germans, i.e. Reichsbank, government and even the general public, were in fact interested in an internationalisation of their currency.<sup>42</sup> In the heated debates of the German parliament and public before the acceptance of the Young Plan the international fixing of parity has been underlined as a special assurance against otherwise looming dangers of inflation. For instance Oberregierungsrat Dr. Lautenbach from the ministry of Economic Affairs expressed this opinion in his broadcast speeches.<sup>43</sup> According to the agreement of The Hague changes in the bank law had to be agreed by the board of the B.I.S. The board could refuse a change, if a member considered it as being against the agreement. Notably after the reparation payments had come to an end under the treaty of Lausanne (July 1932) German governments asked for the consent of Basle, when they wanted to change the bank law. Even the government of Hitler did this in September 1933!<sup>44</sup>

Before September 1931 these international obligations had

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<sup>41</sup> Agreement of The Hague, ch. 8, section 5. See E. HEILFRON/P. NASSEN, *Der Neue Plan. Young-Plan und Haager Vereinbarungen nebst den deutschen Ausführungsvorschriften*, Berlin 1931.

<sup>42</sup> See: Anpassung des Bankgesetzes gemäss Young-Plan, *ZStA Potsdam*, Reichswirtschaftsministerium (31.01) Nr. 15576, 15578-82.

<sup>43</sup> *ZStA Potsdam*, Reichswirtschaftsministerium (31.01) Nr. 9930.

<sup>44</sup> The establishment of foreign exchange control did not violate any clause of the bank law. Therefore the agreement of the B.I.S. executive board was not necessary.

already been tested. During the London Conference of July 1931 Chancellor Brüning had demanded some changes in the bank law (mainly abolition of the minimum bank rate and the tax in case the minimum reserve of gold and foreign exchange could not be kept — which was decided late in 1932, the B.I.S. giving its consent). He also asked for approval to suspend the convertibility into gold — without change of parity, however —, i.e. foreign exchange control. Whereas the British and the Americans in part agreed with these demands, Flandin, the French Minister of Finance, protested against them:

“This is why, at any rate so far as France is concerned, we make the most explicit reserves on this point, all the more because the exchange of views between Dr. Brüning and Mr. Stimson has made it appear that, so to speak, *there is some question of organising the legal devalorisation of the German currency.*”<sup>45</sup> In the 4th meeting when this question was treated again, Brüning then made clear: “I am prepared to put on record the declaration of the German Government that the German Government is prepared to do all that is possible to keep the stabilised mark, as was proposed yesterday by M. Franqui”.<sup>46</sup>

This happened before the British decision concerning the floating of sterling. However, it is not to be supposed that French opinion in that matter was changed in favour of Germany by the event. Even the financial adviser of the British embassy in Berlin, Mr. E. Rowe-Dutton, wrote in his report on German intentions after the floating of the pound in view of the planned visit of Laval and Briand in Berlin: “I think I am right in saying

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<sup>45</sup> Stenographic Notes of the London Conference, 20.-23. July 1931, in: *Documents on British Foreign Policy 1919-1939*, Series 2, vol. 2 (1931), London 1947, p. 449. When changes of the German bank law were discussed once again in the fourth meeting, the French president was strictly against such plans: “... but the Governmental Conference must avoid, even in the indirect way, recommending inflation to the German Government.” Among these people, too, ‘inflation’ and the leaving of parity therefore were considered almost the same.

<sup>46</sup> *Ibid.*, p. 482.

that during the London Conference M. Flandin expressed the view that under the Young Plan Germany had undertaken to remain on the gold standard for all purposes. No doubt the French Ministers will reiterate this opinion during their visit".<sup>47</sup> What a scandal, if the German government shortly before or during the first visit of a French prime minister in Berlin since World War I had turned to such an obvious confrontation with France. More so as this was in the opinion of France one of her last trumps, after so many other guarantees of the treaty of Versailles and also the reparation payments had become doubtful. Internationally the dismissal of the parity against gold would certainly have been interpreted as the destruction of the Young Plan, whose approved revision was the main goal of the German government in these months.

2. A unilateral change of the Reichsmark parity might nevertheless have been justified by international law. Perhaps the theoretically possible sanctions of the treaty states could then have been avoided, too. But those questions are irrelevant. For they were not a question of a seminar in international law, but questions of power. In addition the German government had important reasons of its own for not leaving parity, namely:

a) Unlike England Germany was a debtor country to a huge extent in September 1931 over 22 thousand million R.M). And almost all the short term loans (more than 10 thousand million R.M) were given to her in foreign currency. In addition there were the reparation payments in foreign exchange (besides transfers of kind), which were still not finally settled. In this context not only the revaluation of the debts after a devaluation or devalorisation of the Reichsmark was at risk. It was also the case that the foreign creditors of Germany — unlike the (pound) creditors to Britain — would have had no incentive to save the German currency by a careful withdrawal of their capital.

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<sup>47</sup> PRO London, F.O. 371/15679 W 11236/10755/50.

b) Since the inflation 1914-1923 in the internal credit system of the country contracts on the basis of gold and dollar also played an important role. Even quite a lot of life insurances had been contracted in foreign currency. It would have been an enormous injustice if all the creditors who never showed confidence into the Mark had made big profits now. Moreover the then higher obligations of the debtors would have led to bankruptcy in many cases, as would happen with the surviving banks. (The only other solution would have been the revision of practically all the old contracts by legal action.)

c) The trade advantages of a devaluation (increase of exports, diminution of imports) were generally considered quite negligible, the more so as retaliation was expected. From 1929 to 1931 Germany had already increased her share in world exports and was now the greatest exporter of the world.

d) The fear was widespread that it would be impossible for Germany to avoid a catastrophic fall of the exchange rate of the Reichsmark, if it came to a floating (categories C and D). Who would still have confidence in German credit then? The main political problem in Germany was the continuing instability of government and its shortage of funds. Nobody could imagine how the Reichsbank would be able to stabilize the Reichsmark efficiently at a tolerable level in the case of a panic situation. Of course, foreign exchange control would have alleviated the problems of a massive flight of capital. But could it be realised at all when the rates were floating? At least new withdrawals out of the banking system, which just began to function again. In the short run nothing could have been done against that were to be feared.

Before turning to the last and probably most important argument I should say that reasons a) to d) are obviously not beyond all doubt. One certainly could argue about them. For instance, as mentioned above, contracts among German citizens on the basis of gold and foreign currency could have been annulled in

this respect (at a high political price, however). The general cut in interest rates enforced in the "Notverordnung" of the Brüning Government from 8th of December 1931 was a similar measure. Accordingly there were heavy protests of those who wanted to see the capitalistic system of free contracts preserved. The brunt of external debts after a change of parity might theoretically have been delayed by a general moratorium. In 1931/32 the greater part of these debts could not be paid anyway. However, with hindsight here we perhaps see the real situation more clear than by contemporaries did who though even in 1931 that Germany would need and soon receive loans again. It seems questionable whether these debts could have been repaid at all without continuing trade surpluses. And these surpluses might perhaps have been easier to achieve by means of a diminution of the Reichsmark exchange rate against gold.<sup>48</sup>

e) Without doubt the last and most important reason was the fear of inflation. This dominated public discussion as well as the *exposés* of experts. To be sure there also were some who explained that floating and inflation were different things not necessarily dependant on each other. However, this remained the view of a minority. It has to be remembered that even in England the fear of inflation played a role.<sup>49</sup> Britain at first engaged in a strongly restrictive monetary policy in order to diminish the supposed danger of inflation. And several times the government took the opportunity to declare that public finances had

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<sup>48</sup> Here I refrain from proving in detail that the government as well as the experts clearly conceived the necessity of tightening the deflationary measures, in order to secure a sufficient export surplus, if the parity of the Reichsmark was to be kept in spite of the floating of Sterling. Hans Luther, the president of the Reichsbank, was not as naive in currency matters as is often implied. To show this, the following quotation will suffice. Acknowledging the conflict he told the press at the fair of Leipzig on March 1st, 1931: "There are no dangers for the currency. There may be only the other danger that in protecting the currency we have to take measures which augment the economic and general misery." (Transl. K.B.) *ZStA Potsdam, Reichswirtschaftsministerium* (31.01) 15345 Bl. 45.

<sup>49</sup> R.S. SAYERS, *The Bank of England 1891-1944*, Cambridge 1976, vol. II, p. 423.

become healthy in the meantime.<sup>50</sup> This could not be said of Germany. The possible extent of demands brought before the Reichsbank after it had been freed from its obligation to maintain parity cannot be imagined. Public opinion, however, was influenced rightly or wrongly by the experiences of the past inflation.

But there was one political grouping with some inclination to leave the gold standard, because it wanted to get rid of the international obligations connected with it: This was the extreme Right. Thus Mr. E. Rowe-Dutton, the financial adviser in the British Embassy in Berlin, reported on September 28th, 1931: "There is certainly a tendency in the parties of the extreme Right to hanker for a departure from gold which might easily be reinforced in industrial circles, so I have as yet no evidence of the latter".<sup>51</sup> And on the 3rd of November 1931 he wrote: "Dr. Brüning's recent parliamentary success (on the 17th of October the Reichstag before being sent home for months had refused by 295 votes of the centre to 270 of the extremist parties to agree with a motion of non-confidence towards the Brüning Government; K.B.) was in no small measure due to the fact that his opponents were definitely regarded as inflationist in their policy".<sup>52</sup>

Perhaps the best evidence for the fact that it was beyond the imagination of the German public to depart from parity against gold is to be found in the following judgement. It was expressed by the Commercial Counsellor to the British embassy of Berlin, Mr. F. Thelwall. On January 14th, 1932 he reported a slight improvement of the mood in Berlin in the wake of the hard "Notver-

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<sup>50</sup> Telegram of the Foreign Office from 20 September 1931 to all British representations abroad for immediate communication to the respective governments: "... that the internal position of Great Britain is wholly sound, thanks to the sacrifices made to secure the balanced Budget." *PRO London*, F.O. 371/15680.

<sup>51</sup> *PRO London*, F.O. 371/15211 C 7327/9/18.

<sup>52</sup> *Ibid.*, F.O. 371/15212 C 8314/9/18.

ordnung" from 8th of December, 1931, by which "Brüning has stolen Hitler's thunder". And then Thelwall characterises public opinion on Hitler's party: "I cannot imagine that a programme consisting chiefly of departure from the gold standard and ejection of all Jews really appeals to a large section of the German nation".<sup>53</sup> Here we can grasp the formidable amount of ideology connected with the question, which was everything except a matter of pure economic expertise. Mainly sources show us that Thelwall did not stand alone with his judgement of the political ranking of the currency question. Of these I shall only mention one more. Dr. W. Lautenbach from the Reichswirtschaftsministerium, who has already been quoted above, recommended in a memorandum from 13th of April, 1932 that the Government should avoid arousing disquiet in questions of the credit system. And he continues: "All the more so, as the Government's view brought forward against Hitler in the election campaign has not failed to impress itself, namely the opinion that in the matter of currency the utmost correctness is necessary"<sup>54</sup> (Transl. K.B.).

Thus the decision not to depart from parity against gold was in 1932 understood as a kind of bulwark against Hitler, whereas today, as mentioned above, there are authors who consider this same decision as one of the principal causes of the national catastrophe from which Hitler emerged the winner.

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<sup>53</sup> *Ibid.*, F.O. 371/15936 C 725/77/18.

<sup>54</sup> *ZStA Potsdam*, Reichswirtschaftsministerium (31.01) 15346 Bl. 181.

