

SOME ASPECTS OF THE
FRANCO-GERMAN ECONOMIC
RELATIONS BETWEEN THE
TWO WORLD WARS.

by

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A thesis submitted to the Faculty
of Arts of Rhodes University for
the Degree of Master of Arts.

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GRAHAMSTOWN.

January, 1970.

quippe ubi fas versum atque nefas; tot bella per orbem,
tam multae scelerum facies; non ullus aratro
dignus honos; squalent abductis arva colonis,
et curvae rigidum falces conflantur in ensem.
hinc movet Euphrates, illinc Germania bellum;
vicinae ruptis inter se legibus urbes
arma ferunt; saevit toto Mars inpius orbe:*

Virgil, Georgicon, Lib. I,
505-511.

* For right and wrong are confused here; there is so much war in the world, evil has so many faces, the plough so little honour; the labourers are taken, the fields untended and the sickle is straightened into the swordblade that yields not. There the East is in arms, here Germany marches; close-neighbouring cities, breaking their mutual bonds, attack each other; the war-god's fury runs amok through all the world.

P R E F A C E

In this thesis I have aimed at covering a field in Economic History where not many suitable publications are available in English. During the interwar period, the maintenance of peace and harmonious international relations was directly dependent on a reconciliation of the conflicting interests between France and Germany. In studying the economic implications of the Franco-German antagonism, I have tried to throw light upon the crucial role which this relationship played.

The Appendix offers a quantitative survey of economic conditions in the two countries and of the relevant production and exchange problems. To assist the reader who is not completely familiar with this period, a brief summary of the relevant conferences, agreements and treaties is also offered in the Appendix, as well as some short biographical notes.

I would like to make it clear, however, that this thesis is neither supposed to be a paraphrase of the Appendix, nor a mere treatise on the commercial relations between the two countries concerned. I aimed rather at revealing the forces behind the events and at illustrating how economic problems became quite often subject to political and military considerations.

When trying to attain some understanding of Franco-German relations, it seems advisable to look not only at the interbellum period, but in the first instance to become aware of the currents of history which finally led to the two disastrous World Wars.

In conclusion, I would like to express my appreciation for the thought-provoking seminar work under Professor R. von Albertini of Heidelberg University, and for the facilities made available to me by Professor M. Arkin of the Department of Economics and Economic History and by the Library of Rhodes University. Finally I would like to thank Dr. F.L. Coleman for many valuable suggestions.

H.J.W.

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ABBREVIATIONS, FOREIGN TERMS AND EXPRESSIONS

I. DOCUMENT COLLECTIONS, PERIODICALS ETC.

A.H.R.	American Historical Review
Doc. B.F.P.	Documents on British Foreign Policy
Doc. G.F.P.	Documents on German Foreign Policy
E.H.R.	Economic History Review
E.J.	Economic Journal
F.A.	Foreign Affairs
HDSW	Handwoerterbuch der Sozialwissenschaften
HZ	Historische Zeitschrift
I.M.T.	International Military Tribunal (Nuremberg)
J.E.H.	Journal of Economic History
J.M.H.	Journal of Modern History
Keesing's	Keesing's Contemporary Archives (Keesings Archiv der Gegenwart)
P.S.Q.	Political Science Quarterly
Schultess'	Schultess' Europaeischer Geschichtskalender
VfZG	Vierteljahreshefte fuer Zeitgeschichte

II. GENERAL

<u>Abteilung (Abt.),</u>	section, department
<u>Administration des Mines Domaniales Française du Bassin de la Saar,</u>	French administration of the coal mines of the Saar Territory (1920-35)
<u>Anschluss,</u>	the incorporation of Austria into the Reich ("Great Germany")
<u>fr.,</u>	franc(s), the unit of French currency
<u>Geheimrat,</u>	Privy Councillor, title conferred on high Government officials in Germany prior to 1918
<u>Grosswirtschaftsraum,</u>	an economy whose industrial and agricultural areas complement each other so as to form some kind of self-sufficient economic "bloc" e.g. United States or Russia. Both France.....and Germany/

and Germany aimed at times to establish such an economic "bloc" with overseas possessions and South-Eastern Europe respectively. Thus Grosswirtschaftsraum is both an economic and political term in its relation to expansionism.

<u>hectol.</u> ,	hectolitre (= 100 litres) = 21.9975 Imperial gallons
<u>km,</u>	kilometre (= 1,000 metres) = 0.62137 miles
<u>Legationsrat,</u>	Counsellor of Legation second/first class grade in the German Foreign Service equivalent to Regierungsrat/Oberregierungsrat in the Home Civil Service.
<u>metric ton</u>	= 1.10231 short tons = 0.98421 long tons
<u>Ministerialdirektor,</u>	grade in German Civil Service, usually the director of a department (Abteilung) in a Ministry
<u>Ministerialrat,</u>	grade in German Civil Service, usually head of a division (Referat) in a Ministry
<u>Mission Interailliée de Contrôle des Usines et des Mines (Micum),</u>	inter-Allied, i.e. Franco-Belgian engineering commission, which took over control of transport and production in the Ruhr District during its occupation.
<u>Realpolitik</u>	a term coined by Ludwig von Rochau (Principles of Realpolitik, 1853) in an attempt to introduce a more pragmatic approach into mid-19th century Liberalism. Later to be applied in particular to Bismarck's policy. Realpolitik can be described as "enlightened nationalism", which implies self-restriction in accordance with political realities. It has often been called uncommitted opportunism by its critics.
<u>RM</u>	Reichsmark, the unit of German currency.

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- N.B. 1. Words to be in italics are underlined.
2. Reference is always made to metric measurements. For instance, tonnages are given in metric tons.
3. To assist the reader, terms and quotations from non-English sources have been translated by the author, as far as this was possible.

CHAPTER I

INTRODUCTION

The Franco-German antagonism between the two World Wars had a considerable impact on economic relations between the two nations albeit to a varying degree. This interwar period has been referred to by W.A. Lewis as one of "dislocation and experiment".¹ I would like to add here, that with special reference to the Franco-German economic relations, it was also a period of failure and maladjustment. This can be described in terms of a vicious circle as follows:

1. Failure to achieve a lasting peace settlement.
2. Maladjustment resulting from the bottlenecks of the Peace Treaty.
3. Failure in being prepared to overcome the causes for this maladjustment.
4. This failure on either side to see the limitations of victory on the one hand, and to accept the implications of defeat on the other, created further problems of maladjustment.
5. Thus entrenched in their respective positions, the two nations failed to reach any lasting rapprochement. The degree of failure can be ultimately measured in terms of the disutilities they underwent in the war which inevitably followed, thus completing the circle.

It can be suggested that this vicious circle remained an all-embracing phenomenon throughout the period. On the other hand, it will be shown that at many times and in many spheres there was a break-through this impasse. Nevertheless, the vicious circle of "failure and maladjustment" remained an unsurmountable barrier and, although at times it seemed to have been overcome, this was by and large a misconception.

The basis for the post World War One Franco-German antagonism lay in the fact that in 1815, after the Napoleonic Wars, France had passed her peak of vitality while Germany, on the other hand, fully realised her energies and economic potential

¹ W.A. Lewis, Economic Survey, 1919 - 1939, sixth impression, 1963, p. 12.

in the actual course of the First World War.

She was only at the beginning of her struggle for hegemony: France in 1815 was at the end of hers.²

The contrast between appearance and reality was the main characteristic here. Admittedly, the Allies secured a complete victory over Germany, but France was economically hardly less weakened by her part in the war effort than was Germany. The latter's economic potential remained superior to that of France, this despite her losses in territory, and notwithstanding post-war appearances, the second half of our period will testify to the reality of Germany's economic revival.

After the war, Germany was faced with economic and political disruption, while the enforcement of various provisions of the Peace Treaty hastened on the complete collapse in 1923 of her economy. On the other hand was it feasible to assume that the Peace Settlement would keep a permanent check on her recovery? Obviously not. The potential weakness of France in comparison with Germany could not be offset simply by means of enforcing the harsh provisions of the Peace Treaty and as long as there was no break-up of the national unity of Germany, the latter was to emerge as a Power to be reckoned with. A comparison between population numbers of the two countries, and the higher degree of industrial advancement on the part of Germany, made it apparent how difficult it would be to reconcile the conflicting interests of the two nations. Yet reconciliation was of vital importance for two great Powers who stood in a world where the economic significance of Western Europe was gradually declining - a fact too often overlooked at that time. It was only during relatively short periods that the two nations seemed to draw closer together, for the antagonising forces proved to be too strong, especially at times under strain such as the early post-war years, the "Great Depression", and the events leading to the rise of the Third Reich.

When trying to trace some cycle in the developments and

² L. Dehio, Germany and World Politics in the Twentieth Century, London, 1959, p. 114.

in the oscillating movements along the "expansion path" of this antagonism, it can be suggested that generally the degree of antagonism in the economic sphere tended to become more moderate despite the upswing in tension following on after the trough centred around the late 1920's. It is interesting to note that neither the first climax of the antagonism resulting out of the occupation of the Ruhr District nor the second climax, resulting out of the Austro-German customs union project, fell within the time of the Third Reich. In making Germany abandon this project, France showed that for the last time in our period she was able to enforce her will upon Germany. Thus the years after 1933 represent some kind of anti-climax. It became a tragedy of history that France only gave up her drive as from the time of the Weimar Republic's coming to an end.

The following table offers a summary of this.

Time Period	Major Events and General Tendencies	Degree of Antagonism
1918 - 20	Armistice. Paris Peace Conference. Versailles Peace Settlement.	Extreme
1920 - 24	Franco-German economic "Cold War". Total amount of reparations fixed at 132 million gold marks.	Strong to extreme
1923	Occupation of Ruhr District.	Very extreme (First Climax)
1924 - 27	Dawes Plan provides first constructive solution to reparations issue. Commencement of commercial negotiations. Locarno Agreements, guaranteeing of Franco-German frontiers. Conclusion of Commercial Agreement known as "Economic Locarno" (1927).	Distinct but moderate.

Time Period	Major Events and General Tendencies	Degree of Antagonism
1927 - 30	Increasing co-operation both on government and private business level. Young Plan adopted as the "new plan" for settling reparations problem.	Moderate
1930 - 33	Gradual decline in Franco-German trade, continuing up to end of interwar period. Introduction of import and foreign exchange control. Reparations abolished with signing of Lausanne Agreement.	Distinct to very strong
1931	Abortive Austro-German customs union project.	Extreme (Second Climax)
1933 - 36	Increasing restrictions on Franco-German trade, especially on the part of Nazi Germany. Franco-German "quota-quarrel".	Strong
1936 - 39	Partial consolidation in the field of economic relations with signing of Commercial Agreement (1937). Failure to obtain any all-embracing <u>rapprochement</u> .	Distinct but moderate N.B. Strong as from mid-March, 1939 after German occupation of rest of Czechoslovakia.

Having dealt with the degree of antagonism we are led to the question of the nature of these antagonising forces. It can be suggested that the actual antagonism manifested itself in the political sphere, and both emotional and economic elements were of a complementary function here. On the other hand, it can be maintained that the field of antagonism was determined by the drive towards hegemony, which in turn found its basis in economic considerations. Power politics consist of two main components,

the first being military and the second economic. In essence, the display of military force can be said to be primarily aimed at maintaining or securing a certain economic position. Thus it becomes clear that power politics are founded on economics, and the latter can hence be regarded as the "stream of consciousness" of power politics. For the purpose of this thesis, such a simplification offers a convenient foundation. This does not mean that non-economic factors can be neglected. Notwithstanding the fact that World War One was the first great "war of materials", especially when considering the decisive role of the American involvement, this war remains also a war of emotions and sentimental aspirations. Quite often such non-economic factors were responsible for dangerous developments as far as their economic implications were concerned.

Since this thesis is concerned with the economic aspects of Franco-German relations, such non-economic factors are scrutinised in respect of their significance for an understanding of the economic field of action.

The strain enforced upon Franco-German economic relations was to no negligible extent the result of "outside interference" being largely of a political and emotional character. This had its impact on the reshaping of economic intercourse and in particular of trade relations. Despite the fact that the obligations of Germany under the Peace Treaty, especially as far as Reparations were concerned, came de facto to an end with the signing of the Lausanne Agreement in 1932, political and emotional barriers remained, due to the emergence of a new antagonising force in its own rights - the ideology and expansionist drive of the Third Reich.

Over the period as a whole, the economic sphere as such offered less situations of conflict than one might expect. At first sight, of course, the changes in territorial and customs frontiers determined the economic resources available to each nation. It will be shown that there is a good deal of justification in speaking of an economic balance of power concept, when dealing with the distributive shares of the Ruhr-Lorraine-Channel unit, which each nation tried to secure

for herself. This unit, divided up between Germany, France, Belgium and Luxemburg, can be regarded as the most important industrial region of Western Europe. The possession of its iron-ore and coal deposits and its heavy industry became a dream which fascinated many who intended to establish or re-establish either German or French hegemony on the Continent. The Franco-German antagonism in the political sphere was to a considerable degree influenced by the realisation on either side that political power and the nation's economic strength were a direct function of the share each one secured for herself of that economic unit. These economic considerations were a vital issue and had direct bearing on the two nations' involvement in the field of power politics.

Thus the direct or indirect political control over this unit became at different times the pre-requisite for each nation to attain economic hegemony - mainly in Germany up to 1918 and thereafter in France. In fact, this can be interpreted as an act of defensive aggressiveness. It was not only economic power but also national security which was regarded as being dependent upon the favourable "balancing" of the Franco-German power struggle. It will be seen that the French desire for security determined her attitude towards Germany throughout the interwar period.

It will further be shown that another stumbling block to any political rapprochement during early post-war years was the economic discrimination against Germany as laid down in the Treaty. As from late 1924, the necessity to enter as soon as possible into normal economic relations, based on the principle of equality was recognised. The reasons for this readiness to overcome the existing state of affairs were firstly that the Dawes Plan³ settled

³ Against initial French resistance, two sub-committees of the Reparation Commission were set up at the end of 1923. Only one of them, headed by the American, Charles Dawes, gained importance. It was concerned with the problems of balancing the German budget in view of the Allied demands for reparations. The Dawes Plan, as it was to be termed, emerged out of the working of this committee, and became the basis for a fair settlement of the reparation issue in London in August, 1924. Germany obtained

the Franco-German "Cold War" in respect of reparations and secondly that the economic discrimination against Germany came to an end in January, 1925, which made it in the interest of each side to seek to negotiate for the conclusion of a commercial agreement.

It took almost three years to reconcile the conflicting interests of the two nations. The Commercial Treaty of 1927 has been called an "economic Locarno". However, it did not survive the strain of the "Great Depression", and did not contribute in any vital respect to the creation of a lasting Franco-German rapprochement. Similarly, the Commercial Treaty of 1937 helped to consolidate the strained Franco-German relations, but again its impact was limited. Hopes for any form of rapprochement were limited at that time as well, and thus it came as a surprise when, as from the end of 1938, the visit to Paris, of the German Foreign Minister, von Ribbentrop seemed to offer fresh hopes and large-scale projects of Franco-German economic co-operation were envisaged.

In fact, it will be seen that throughout the period, Franco-German antagonism was accompanied by various attempts to co-operate. For instance, as early as 1921, the Wiesbaden Agreement envisaged the co-operation between French and German private firms in the field of reconstruction of the devastated areas in Northern France. It was one of the first steps to settle the reparations issue in a spirit of mutual fairness. However, this project failed due to the lack of a spirit of co-operation on both sides.

Another example is seen in the Franco-German co-operation as regards international cartels. Mutual economic interest brought the two sides together here where it was usually the

3 (Continued)

a loan of 800 million gold marks to allow her to make her first instalment. "This is the beginning of the process of keeping the debtor alive by hock or by crook".

Keesing's 1932, 351 B.

R.N. von der Nahmer, Die deutschen Reparationen und das Problem der alliierten Kriegsschulden, Propyläen Weltgeschichte, vol. 9, Das Zwanzigste Jahrhundert, Frankfurt-Berlin, 1960, pp. 368-71.

conditions on the world market which were conducive for establishing or joining such cartels. This was the case for instance with the creation of the Franco-German Potash Cartel of 1926 and the Franco-German Dyestuffs Cartel of 1927. Unfortunately such co-operation remained limited in its application.

Due to continuing antagonism, any co-operation of a more far-reaching scope was bound to meet with failure. For instance, a cartel of the heavy industries of the two countries or the creation of a European organisation based on French and German co-operation in the distribution sector of raw materials supplied, especially as far as iron-ore and coal are concerned, had little realisation value at that time.

On the other hand, an outstanding example of the development of some kind of spirit of good will between France and Germany are the so-called Luxemburg Conversations during the years 1931 to 1933. These were a series of intensive contacts between French and German industrialists. They discussed ways of combating together the problems faced by private enterprise during the Depression. Furthermore, their special concern was the Franco-German antagonism in general and its political implications in particular. They induced the French Government to agree to far-reaching concessions in favour of Germany, especially as far as her eastern frontiers were concerned. A lasting reprochement could be envisaged for the first time since the war. However, the Nazi Government jeopardized such moves with its intransigent attitude.

It is quite surprising that the Franco-German economic relations, after being exposed to this sort of ideological strain, tended to develop satisfactorily. Of course, the trade control mechanism which had grown out of the Depression, had its detrimental impact. Exchange controls, import quotas and clearing agreements had disruptive effects, this especially since the French economy recovered extremely slowly, while the Nazi Government applied restrictive devices far beyond the measures a democratic government would have adopted. Despite this, the Commercial Treaty of 1937 abolished the clumsy working of the clearing system and payments were to be made in the normal way although quotas remained.

At this time political events overshadowed the economic sphere. For instance, the German claim to colonies was far more controversial in its political than in its economic implications. From an economic point of view France had not to lose much in respect of such a German claim. On the contrary, there were various prospects for successful co-operation. The crux of the matter lay in the political sphere, where Germany was threatening the maintenance of world peace.

In the Balkans, by many regarded as the "natural" economic hinterland of Germany, France was on the retreat, thus reflecting this time in the economic field prevailing appeasement policies. She was retreating despite the fact that, although holding a weaker position economically in South Eastern Europe since she did not offer adequate markets for the produce of those areas, her capital holdings there were in most cases far greater than those of Germany, who in turn offered the markets France was unable or unwilling to provide by herself. Where both nations could have functioned in a complementary way, this might have led to fruitful Franco-German co-operation. At the very end of our period this was indeed envisaged, but political forces formed such an antagonising drive that instead another world war was to be undergone.

CHAPTER II

THE LEGACIES OF WAR AND THE SUBSEQUENT PEACE SETTLEMENT.

1. THE PROBLEMS UNDERLYING FRANCO-GERMAN ANTAGONISM WITH
SPECIAL REFERENCE TO REPARATIONS.

When working on the interbellum period one must, for obvious reasons, first look at the outcome of the First World War, and in particular at the Peace Treaty, soon after to be described by even a Frenchman as -

"....dead, fallen into dust"¹.

Nevertheless, this "accursed porcupine", as General Smuts was to term it, had repercussions over the whole period.²

Both France and Germany were faced with the consequences of the first real "war of materials", which has been described as just as much a "battle for supremacy" between Krupp's on one hand, and Schneider-Creuzot on the other, as it was between Foch and Hindenburg.³

This kind of "war economy", a novelty in history, developed further and further with the duration of the war. In Germany the exigencies of war led to complete "War Socialism" - at the end of 1916, the so-called Hindenburg Programme envisaged the mobilisation of all economic resources, and state control became gradually all-embracing.⁴ This drive to autarky was more or less enforced upon Germany by the blockade and the material supremacy of the Allies, and it laid the foundation stones not only for later irresponsible experiments but also for plans for German political and economic expansion.⁵ While such plans

¹ J. Caillaux, Economics and Politics in Europe, F.A., vol. 1, 1922-23, p. 44.

² i.e. the Peace Treaty of Versailles, see Selections from the Smuts Papers, vol. 4, November, 1918 to August, 1919, edited by W.K. Hancock and Jean van der Poel, Cambridge, 1966, No. 976, p. 167, (Smuts' letter to Margaret Gillett, May 18th, 1919).

³ P. Batty, The House of Krupp, London, 1966, p. 131.

⁴ Stolper, German Economy, 1870-1940, London, 1940, pp. 116-20.

⁵ F. Fischer, Germany's Aims in the First World War, London, 1967, passim.

G. Ritter, Eine neue Kriegsschuldthese?, HZ, vol. 194, 1962, pp. 646-68.

finally became irrelevant with the signing of the Armistice and German economic policy had to be defensive in almost every respect, this state of affairs was to undergo a complete reversal again in the late 1930's when Nazi Germany entered upon its expansionist drive.

Turning to the development of conditions in France, we find that up to the outbreak of the war, the extremists of both the Left and Right stood uncompromisingly in opposition to official financial policies - they regarded large-scale French foreign investments as a way of weakening the country's own means of production. However, during the war a reconciliation (*union sacrée*) developed in France between former antagonistic political forces, similar to the inter-party truce (*Burgfrieden*) between Social Democrats and the conservative Establishment in Germany. Hand in hand with the escalating military and economic warfare which resulted in an all-embracing involvement of the State in economic affairs (*étatisme*)⁶, a complete change of the pre-war economic life could be seen in France, as a consequence of the nation-wide effort to increase output.⁷

As in Germany, although to a lesser extent, the concentration of economic forces into the hands of State machinery was conducive to the development of a drive towards economic expansion, which gained more and more ground, and during 1916 it became clear that economic considerations were here equally,

⁶ The climax of state control was reached in France by the right to legislate "by decree in the whole domain of the country's economic life". These extensions of power were granted to the Clemenceau Ministry on February, 10th, 1918 - P. Renouvin, The Forms of War Governments in France, Yale U.P., 1927, p. 155.

⁷ On November, 24th, 1916, L'Action Française emphatically revealed this change in mentality as follows:

"Tout l'monde va travailler;

Fini d'être rentier.....

Pour qu'nous soyons vainqueurs,

Plus d'fainants, rien qu'des travailleurs."

Quoted in: M. Hoegel, Die auswaertige Handelspolitik Frankreichs nach dem Kriege, Muenchener Volkswirtschaftliche Studien, NF, Jena, 1929, p. 7.

if not more important than traditional largely politically motivated expansionist views. After the Paris Economic Conference from June, 14-17th, 1916, which had optimistically envisaged a comprehensive system for the further consolidation of inter-Allied economic co-operation after the war, it was obvious that in connection with this the elimination of Germany's pre-war economic status and the claims for reparations were issues of the utmost importance, as far as any future peace settlement was concerned.

In French official circles it soon became unquestionable that the military defeat of Germany should also result in an economic defeat. Thus during the war, the Entente Cordiale developed also into an Entente Economique, regarding both war and peace objectives.⁸

The consistency in France's policy in extending economic warfare into times of peace was proved by her post-war attitude towards Germany. This can be illustrated by President Millerand's Speech delivered at Rouen on July, 26th, 1921:-⁹

Our customs policy is an integral part of our foreign policy Our Minister of Foreign Affairs has been criticised, sometimes not unjustly, of not having taken economic considerations sufficiently into account. The danger would be no less great if our Ministry of Foreign Trade did not recognise in its policies the importance of diplomatic and military factors.

Germany, on the other hand, had to accept defeat and the economic clauses of the Peace Treaty threatened the very existence of the nation. Despite the fact that the structure of the whole economy was disrupted through the provisions of the Treaty, one should keep in mind that the policy of financing the war had already laid the foundation for the collapse of the monetary system. Comparing the two nations, it was the war itself which proved to be disastrous for France, while it was the actual outcome which paralysed Germany. The latter's position on the world market was far more seriously affected than that of France, and

⁸ Ibid., pp. 8-14.

⁹ W. Roepke, Die internationale Handelspolitik nach dem Kriege, Jena, 1923, p. 12.

the problem of meeting the claims for Reparations proved to be in the immediate post-war period the main obstacle to recovery. In addition, it has been suggested that France's basic mistake was her failure to recognise the limited nature of the victory.¹⁰ Thus by discriminating against Germany not only politically but also economically, any rapprochement became rather illusory. The systematic discrimination against Germany, as far as foreign trade was concerned, is illustrated especially by Article 281 of the Treaty:-

If the German Government engages in international trade it shall not in respect thereof have or be deemed to have any rights, privileges or immunities of sovereignty.¹¹

Against this background of Franco-German confrontation, the most important perhaps of the war legacies was the reparations issue. It was none other than this which influenced Franco-German relations for more than a decade in a tragically all-embracing way. It was unfortunate that the Armistice did not specify exact claims but laid down certain general obligations on the part of Germany, and this led to widely conflicting interpretation. The Armistice was not a cease-fire in the true sense of the word, but came to be regarded by some, especially the French, as a means of preventing Germany from taking up arms again and as a means of recovering her own costs of war. Thus while within eight months after the war the Peace Treaty was signed, it took thirty months to settle the question of the total amount of reparations to be demanded, and it was here that bitter conflict was to be perpetuated.

On October 3rd, 1918, the German Government accepted a peace settlement based on Wilson's Fourteen Points and his

¹⁰ D.W. Brogan, The French Nation from Napoléon to Pétain, 1814-1940, London, 1961, p. 247.

¹¹ See A History of the Peace Conference of Paris, edited by H.W.V. Temperley, vol. III, Chronology, Notes and Documents, London, 1920, p. 248. See also Articles 264-312.

subsequent speeches, the results of which were further specified in the Lansing Note of November 5th, 1918. In accordance with this Germany accepted the general principle of responsibility for the restoration of the devastated areas.¹²

Thus the Armistice was concluded based on these agreements. Much controversy arose over the interpretation of the preamble to Paragraph 19 of the Armistice, which reads:-

With reservation that any future claims and demands...remain unaffected, the following financial conditions are required: Reparation for damage done.¹³

This became the so-called Klotz clause introduced on the suggestion of the French Finance Minister who at one stage, "guaranteed" annual German reparation payments of 18 milliard goldmarks.¹⁴

The clause was sometimes interpreted as an extension of the claims made in the Lansing Note, but in fact it was hardly more than a common legalistic reservation, not affecting the subject matter as such.¹⁵ Thus further claims beyond the actual letter of the Lansing Note were abandoned at the Peace Conference, and so the various claims for compensation for the costs of the war, estimated at some £24,000 million and more, lost their significance.

However, it still remained an open question as to what should be regarded as damages, as distinct from costs of the war.¹⁶

¹² H. Ronde, Von Versailles bis Lausanne, Der Verlauf der Reparationsverhandlungen nach dem I. Weltkriege, Stuttgart, 1950, p. 12. See also Stopler, op. cit., p. 88.

¹³ J.M. Keynes, The Economic Consequences of the Peace, London, 1920, pp. 103 ff.

¹⁴ J. Caillaux, Economics and Politics in Europe, F.A., vol. I, 1922-23, pp. 39-40.

¹⁵ B.M. Baruch, The Making of the Reparation and the Economic Sections of the Treaty, New York-London, 1920, pp. 29-30.
J.M. Keynes, A Revision of the Treaty, London, 1922, pp. 140 ff.

¹⁶ Keynes, Consequences, op. cit., pp. 54-5 and 103 ff.
See also Keynes, Revision, op. cit., pp. 134 ff.

This was the time when the inclusion of pensions into the total Allied claims was suggested, finally resulting in the acceptance of a rather sophisticated interpretation of the term "civilian population". To make the Smuts Memorandum of March 31st, 1919 responsible for this, and to call Smuts the "great South African casuist", does not seem to be fully justified.¹⁷

The French attitude towards reparations proved to be not very realistic. The inclusion of pensions, while it trebled the amount of the total Allied claim, however reduced the share of France as far as apportionment among the Allies was concerned. At this time French politicians were mainly concerned with how much Germany ought to pay and not with how much she could pay ("Le boche payera tout").¹⁸

¹⁷ Brogan, op cit., p. 248.

W.K. Hancock, Smuts, vol. I, The Sanguine Years 1870-1919, Cambridge, 1962, pp. 540-1.

In brief, the argument of Smut's memorandum runs as follows: firstly, compensation implies a "far-reaching scope" and cannot be limited to restoration of the devastated territories only. Secondly, compensation to the civilian population includes any damage suffered by a soldier, since he will again be a civilian after his discharge, and thus all war pensions and separation allowances constitute a liability of the German Government.

To a certain extent it is justified to see in this a casuistic approach. To call it straight forward common sense might be casuistic as well. But Smuts was not the first to put forward such an argument at the Conference. The claim for the inclusion of pensions gained ground before Smuts even contemplated writing his memorandum. Both Smuts and Wilson have been described as "idealists under strain, bound to meet with some degree of failure".

Selections from the Smuts Papers, op. cit., no. 926, pp. 96-8. This memorandum was first published in Baruch, op. cit., pp. 29-32. G. Curry, Wilson, Smuts, and the Versailles Settlement, A.H.R. vol. 66, 1960-1961, p. 986.

¹⁸ Ronde, op. cit., pp. 37 ff., esp. p.42.

A.J. Mayer, Politics and Diplomacy of Peacemaking, Containment and Counterrevolution at Versailles, 1918-1919, London, 1968, pp. 647-54.

The reasons for this can be found in the way in which many of the French leaders and the general public ignored basic economic considerations in their dealings with Germany. It is hard to understand how the myth of German reparations as being the panacea for all French financial problems could have survived for so long as well as the belief that at the same time her vanquished foe could be kept prostrate. It was soon discovered that Germany could only pay the large sums required if she could accumulate surpluses in her foreign trade to the amount necessary for reparations. Thus she would have to comply with her obligations by paying with the foreign exchange earnings obtained from goods and services she could export over and above her import requirements.

The basic and undisputable fact remained however, that there were limits in the elasticity of demand for German goods on the world market. Furthermore, the capitalist system had its own working mechanism in that by stimulating further and further German export trade, Germany's capacity to compete with non-German producers would have to be improved into unforeseen dimensions. The interests of the latter had to be safeguarded and this necessary bolstering of Germany's competitiveness as a trading nation at the expense of others would have had serious effects and disruptive consequences on world trade in general. Furthermore, reparations in kind also came to be regarded as a mixed blessing both to France and her Allies. For instance, reparations in coal made by Germany were at times so great that they forced the price of domestic coal down in France, leading to re-exports of coal by the latter at dumping prices, so affecting the British coal industry and becoming partly responsible for mounting social unrest in Britain, which led to the General Strike of 1926.¹⁹

¹⁹ S.B. Clough, France. A History of National Economics, 1789-1939, New York, 1964, pp. 324-5 and note 112, p. 478.

For further details on conditions in Britain see:

The Coal Crisis, Facts from the Samuel Commission, 1925-6, Labour Research Department, London, 1926.

R.P. Arnot, The General Strike, May 1926: Its Origin and History, Labour Research Department, London, 1926.

J. Symons, The General Strike, London, 1957.

Thus can be seen the lack of insight into the economic implications of reparations demands, as from early peace times. The struggle to reach agreement over the total claim to reparations was long and arduous. After various even more extreme demands, in February, 1921, France was still demanding 269 milliard goldmarks from Germany (£13.5 milliard). On the other hand, the material damage in Northern France was estimated at no more than £500 million, and the French net war debt in terms of inter-Allied indebtedness amounted to about £700 million.²⁰ The Spa Agreement of July, 1920 had already fixed the apportionment among the Allies and allocated 52 per cent to France. Thus at this stage, such demands had rather propagandistic value only although exerting pressure on the Reparation Commission, which in April, 1921 reached the decision to fix the total amount of reparations to be paid by Germany at 132 milliard goldmarks (£6.6 milliard).²¹

The French claim amounted to the following: (milliard goldmarks)²²

²⁰ Keesing's, 1932, 351 B.

Keynes, Consequences, op. cit., pp. 116-20 and pp. 252-65.

Loans made by France to Russia during the war amounted to £160 million. Adding this to the net figure of French foreign indebtedness, we arrive at £860 million. Loc. cit., p. 254.

²¹ This figure represents more than two and a half times the net national income of Germany in pre-war times, which amounted to 51 milliard goldmarks in 1913. In terms of the territory remaining to Germany after the war, it was 46 milliard goldmarks. F. Luetge, Die deutsche Kriegsfinanzierung im I. und II. Weltkrieg, Beitrage zur Finanzwissenschaft und Geldtheorie, Goettingen, 1953, pp. 243-57.

²² Reparation and the Policy of Repudiation: An American View, by "Alpha", F.A., vol II, 1923-24, pp. 74 ff.

It can be suggested that a victorious Germany would have demanded ceteris paribus a total of reparations to be made by France amounting to about half of the figure demanded by the latter after the war. However, the German territorial demands especially those in the East were of greater importance here.

Fischer, op. cit., p. 117 and passim.

I.	<u>Claim for injuries to persons</u>	35.5
II.	<u>Property Damage</u>	
	(a) Damage in devastated areas	24.8
	(b) Shipping losses, Damages abroad	3.3
	(c) Interest at 5 per cent, November 11th, 1918 to May 1st, 1921	3.4
	Total	<u>67.0</u>

It is difficult to make an assessment of the amount which Germany actually paid. In any case, it remained only a fraction of the sum originally asked for.

It had been recognised in Article 232 of the Treaty that Germany's resources made complete reparation for all loss and damage incurred by the Allies impossible. The persistent demands for an unreasonably high sum, especially on the part of France, were never fully successful, and even the amount of 132 milliard goldmarks was still far beyond Germany's capacity to pay.

On the other hand, it may be interesting to analyse Germany's capacity to pay firstly in terms of reparations and secondly in terms of her expenditure on armaments by the Third Reich in the years preceding World War Two.

It should be noted that the expenditure on armaments in Germany amounted to 51.5 milliard marks for the six years leading up to World War Two. This German "armament effort" represents on an annual average about 14 per cent of her national income, and it came close to 20 per cent for the years 1937-39.²³

Here the effects on the German economy of the 1914-18 war and those of the "Great Depression" after 1929 are not completely incomparable where in both cases, industrial production figures indicated a contraction in output of about two-fifths. Admittedly, a democracy and a dictatorship can mobilize the economic potential of a nation to quite a different extent, and in addition, the psychological factor has to be considered. In the 1930's, re-armament was something which could easily be made "popular",

²³ Survey, 1939-46, The World in March 1939, Appendix II, p. 493.

which could hardly have happened with reparations. Thus it remains an interesting fact that from 1925 to 1930, Germany spent on the average 2.6 per cent of her national income on reparations, but a percentage of five to six times as much of her national income on armaments in the years 1933-39.²⁴ This demonstrates the relatively moderate annual burden imposed by reparations after the coming into operation of the Dawes Plan when comparing it with the heavy burden later imposed by re-armament. However, this comparison is misleading as regards the period 1925-30, since the latter does not represent the immediate post-war times. It was during the pre-Dawes Plan years (1919-23) that the amount of 132 milliard goldmarks was put forward unconditionally as the total Allied claim and that the annual demands for reparations proved to be beyond Germany's capacity to pay. Although in 1924 the Dawes Plan recognized the limits of Germany's capacity to pay when reducing her annual instalments, the total Allied claim was officially revised only with the Young Plan of 1929. Thus when comparing both the post-war "reparation effort" and the post-depression "armament effort", the obvious starting points are the years 1919 and 1933 respectively.

It is a debatable question whether any valid calculation of reparations as a percentage of national income can be obtained for the period 1919-23 which is relevant here. Similarly, only estimates are available for the total amount spent on armaments for the period 1933-39. Nevertheless, it can be suggested that the "reparation effort" of the years 1919-23 more or less equalled the "armament effort" of the years 1933-39.²⁵

²⁴ E. Mantoux, The Carthaginian. Peace or the Economic Consequences of Mr. Keynes, Oxford UP, 1946, p. 147.

²⁵ Survey. op. cit., p. 501.

Mantoux, op. cit., pp. 111-7.

M.Y. Sweezy, The Structure of the Nazi Economy, Harvard UP, 1941, pp. 206-8.

The German estimates of reparations are used here, after 25 per cent have been deducted for "adjustment" purposes, in order to eliminate certain "errors" which may have occurred in the

In fact, the "armament effort" of the 1930's represented an utmost strain on the productive resources of Germany. Since the impact of the "Great Depression" was at least in the same way felt as that of the First World War and since reparations resulted in a similar burden for the nation, it becomes apparent that Germany's capacity to pay was overstrained by the reparations demanded during the years 1919-23.

As far as France is concerned, she adopted a moderate claim to reparations only after realizing that during the 20 months of the occupation of the Ruhr District, when in control of four-fifths of Germany's heavy industry,²⁶ she was able to secure much less than a tenth of all reparations received from Germany up to the coming into force of the Dawes Plan.²⁷

25 continued

German calculations. The national income of the year 1913, within the Versailles boundaries (excluding Saar Territory) has been substituted for not available figures relating to the years 1919-23. The 1913 national income figure thus tends to deflate the percentage share of reparations. Despite this, reparations amount to 13 per cent of national income in this calculation. Due to reasons given above, it can be assumed that the actual percentage was even higher. In addition, it should be emphasised that the German figures are largely reliable for calculating the "reparation effort". Some of the goods and services supplied in terms of reparations made by Germany can be regarded as being completely useless for the purpose of actual compensation. For the purpose of re-armament, however, the possible channelling of this "effort" is decisive and relevant here. In this context, we are not concerned with the utilities gained from reparations by the Allies. The disutilities involved for Germany are important, since they represent an equivalent potential in terms of the alternate "armament effort".

²⁶ In the late 1920's the Ruhr District was to become responsible for about four-fifths of the output of the whole German iron and steel industry. - H. Levy, Industrial Germany, Cambridge, 1935, pp. 48-9.

27 F. Friedensburg, Die Weimarer Republik, Berlin, 1946, pp. 103-5.

It should be noted that in principle, I am in agreement with Mantoux as regards the difficulties in estimating post-war national income of Germany and thus took like him the 1913 figures, while offering a re-assessment in view of Germany's capacity to pay reparations. - Mantoux, op. cit., pp. 14-5 and 115-6.

For a detailed treatise of Germany's capacity to pay reparations in view of her foreign trade requirements and her budgetary problems see: H.G. Moulton and C.E. McGuire, Germany's Capacity to Pay, New York, 1923, pp. 98-200.

2. THE PROBLEM OF COMPENSATION IN THE CONTEXT OF THE
RUHR-LORRAINE-CHANNEL UNIT.

After having touched upon some of the actual consequences of World War One and of the Peace Settlement, it is both interesting and necessary to compare them with the different outcomes of the war which might have been possible. For convenience, I restrict myself to the role of the Ruhr-Lorraine-Channel unit in respect of Franco-German antagonism.

In approaching the problem by means of this model, the underlying forces behind the Franco-German antagonism can be seen in the demands for compensation which were made in terms of either territory or reparation payments. These demands for compensation can be reviewed in the light of the economic balance of power between the two nations, as illustrated by their share in the vital Ruhr-Lorraine-Channel unit, a share which both nations aimed at increasing at the expense of the other. To show the magnitude of the mutual drives towards hegemony, the importance of each area of this unit has been expressed in terms of its pre-war steel production as a percentage of the steel output of the unit as a whole. Steel is also used as a measure of value with regard to compensation by reparation payments. Hence reparation payments are expressed in "steel currency" and are given as a percentage of the steel output of the whole unit. This has been done to show the dimension of the demands for reparation payments as against the demands for compensation by territory. In other words, a nation would receive an equal amount of compensation by securing either temporary or permanent control of the equivalent steel output of a certain part of the unit, as she would receive from reparation payments.

The repercussions of any permanent extension of control over an area will not be dealt with explicitly. The permanent nature of any peace settlement can be questioned as a criterion here. Only a peace based on mutual fairness and taking both nations' interests fully into account, might have offered some lasting peace. Up until then, it was simply unrealistic to assume the establishment of any "new order" which was to cancel out the century-old Franco-German antagonism.

In line with this, the following hypothetical and actual settlements as regards the economic balance of power in the unit are now discussed in terms of its steel-producing areas.

My first case is that of a peace with no territorial demands and no claims to reparations to be considered - a rather unlikely proposition since each side was determined to decide the war in its own favour and to make others pay for it. The attitudes of the peoples themselves would have made impossible such a settlement by maintaining the status quo ante. Both the French and the German peoples were asked to make extremely heavy sacrifices during the war and were inspired by a propaganda machinery which promised everyone that at the end of this war, he would be on the side of the creditors. The peoples were led to believe that the enemy not only ought to pay but would be made to pay the bill for the war. The arousal of such popular sentiments elucidates the difficulties experienced after the war in explaining to the Frenchman that there could not be "fulfilment" of all his hopes with regard to reparations, while on the other hand, it was no less difficult to make the German believe that "fulfilment" was, if not a good thing, at least something to be accepted.

Out of this develops our second proposition - that of peace with claims. Whoever the victor be, he claims compensation in one way or another. However, things had not necessarily to develop into the impasse that they actually did become, and depending on the circumstances involved, various solutions might have been possible. In fact, everything boils down to the existing Franco-German antagonism in respect of resources available. Both the pre-Armistice imperialistic drive by Germany and the mainly post-Armistice drive towards hegemony as undertaken by France, were largely motivated by the realisation of the crucial importance for each nation of which share she would be able to secure for herself out of the Ruhr-Lorraine-Channel unit. Not only the dealings at the Peace Conference, but also the occupation of the Ruhr District highlight this.¹

¹ C.K. Leith, The World Iron and Steel Situation in its Bearing on the French Occupation of the Ruhr, F.A., vol. 1, 1922-23, pp. 136-51.

The formulation of hypothetical "solutions" firstly enables us from an economic point of view to obtain a grasp of the economic importance of areas which contributed so much to the creation and maintenance of Franco-German antagonism. Secondly, it throws light upon the extent of the "antagonising weight" of demands for compensation. As far as these hypothetical settlements of the model are concerned, when distinguishing between moderate and excessive claims to reparations in terms of steel output of the unit as a whole, the French claim is taken as twice that of the German, since the latter placed about half of the former's emphasis on reparation payments, while extending her territorial demands accordingly. A moderate claim is taken as representing an equivalent amount of 50 per cent and 25 per cent respectively of the unit's annual pre-war steel output. In line with this, an excessive claim is assumed to be 200 per cent and 100 per cent respectively. The value of the 1913 steel output of the unit represents about 3,000 million goldmarks, a figure which has been arrived at by multiplying the total quantity supplied by its average price - 20.1 million tons times 150 goldmarks. This model is detached from reality insofar as it does not take into account destruction by the war and changes in productivity in general.²

The role each area of the unit plays in its contribution to the economic balance of power is summarised as each one's percentage in respect of steel output in the table below:³

	%
Ruhr District ⁴	50.3
Saar Territory	10.4
Luxemburg	6.5
Lorraine Annexee	11.4
French Lorraine ⁵	5.5
Pas de Calais ⁵	5.5
Belgium	10.4
<hr/>	
Ruhr-Lorraine-Channel Unit	100.0

² It is interesting to note here that the German pre-war level of steel output, adjusted to changes in territorial frontiers, was already surpassed by 1922. The events in connection with

From the above, it becomes clear that whatever provisions might have been incorporated into a peace treaty, the dominant role of the Ruhr District had to be taken into account and thus even the French policy of making the Rhine Germany's western frontier would not have settled the existing state of affairs more favourably for France than did the actual Peace Settlement. In fact, the Rhine frontier had only strategic value.

The economic importance of both pre-war German Lorraine (Lorraine Annexee) and the Saar Territory can be seen from the fact that the former's output of steel surpassed that of the pre-war share of France in the unit, while the latter's output of steel came close to it.

Leaving the analysis of the above table aside, and since we are here not concerned with diplomatic history as such, I move on to the following summary of hypothetical events which, compared later with the actual outcome, may suffice to demonstrate more clearly the significance of the Peace Settlement and its repercussions on Franco-German relations.⁶

2 (Continued)

the occupation of the Ruhr District in 1923 had their adverse effects of course. Despite this, the German steel output for the 1920's remained on the average well above the pre-war level. Statistical Year Book of the League of Nations, 1931/32, Table 72.

³ See Appendix A, VI. Apparent inconsistencies are due to the simplification of decimals.

⁴ The Ruhr District was responsible for over half of Germany's pre-war steel output. For further details, see Statistisches Jahrbuch fuer das Deutsche Reich.

⁵ French Lorraine and the Pas de Calais were responsible for less than a quarter each of France's pre-war steel output. For further details, see Annuaire Général de la France et de l'Etranger.

⁶ Fischer, op. cit., pp. 96-113, 117-9 and 173-9.

H. Lichtenberger, Relations between France and Germany, Washington, 1923, pp. 9-25.

A. Tardieu, The Truth about the Treaty, London, 1921, passim.

I Hypothetical Developments.⁷

1. Victor : Germany

(a) Negotiated peace with no territorial claims and no reparations demanded.

- Compensation : Nil
- Balance : Germany/France
78.6/11.0

(b) Negotiated peace with the realisation of moderate territorial claims (incorporation of parts of French Lorraine into Germany, i.e. Longwy-Briey District) and moderate amount of reparations demanded.

- Compensation : Territory 5.5
Reparation Payments 25.0
- Balance : Germany/France
84.1/5.5

(c) Dictated peace with the realisation of excessive territorial claims (extension of German control over Belgium and the French Channel coast from Calais to Boulogne and annexation of the whole of French Lorraine) and excessive amount of reparations demanded.

- Compensation : Territory 21.4
Reparation Payments 100.0
- Balance : Germany/France
100.0/0.0

2. Victor : France

(a) Negotiated peace with no territorial claims and no reparations demanded.

- Compensation : Nil
- Balance : France/Germany
11.0/78.6

(b) Negotiated peace with the realisation of moderate

⁷ As outlined earlier on, compensation is split up into that made in territory and that made in annual reparation payments, expressed in terms of the 1913 steel output of the unit as a whole. The balance refers to the remaining share of each country in the unit's steel-producing areas.

territorial claims (incorporation of Alsace-Lorraine into France) and moderate amount of reparations demanded.

- Compensation : Territory	: 11.4
Reparation Payments	: 50.0
- Balance : France/Germany	
	22.4/67.2

(c) Dictated peace with the realisation of excessive territorial claims (incorporation of Alsace-Lorraine and the Saar Territory into France, creation of a Rhenish buffer-state, i.e. Rhine frontier for Germany) and excessive amount of reparations demanded.

- Compensation : Territory	: 21.8
Reparation Payments	: 200.0
- Balance ⁸ : France/Germany	
	32.8/50.3

II Actual development - Versailles Peace Settlement.

Combination of claims under (2b) and (2c)

- i. Incorporation of Alsace-Lorraine (Lorraine Annexee) into France.
- ii. Temporary extension of French control over the Saar Territory.
- iii. Demilitarisation of the Rhineland and temporary occupation of it.
- iv. Excessive amount of reparations demanded.

- Compensation : Territory	: 21.8
Reparation Payments	: 213.5
- Balance : France/Germany	
	32.8/50.3

At first sight it would appear that France's territorial claims were even greater than those of Germany. However, in judging the magnitude of a claim, consideration should be given to how far the claim extends over areas in the main inhabited by population groups other than that of the nation putting forward this claim. There were no German settlements beyond the frontiers of the share in the unit which Germany was in command

⁸ Excluding Luxemburg.

of before the war. Thus even the moderate German claim to territory was less justified than that of France, notwithstanding the fact that it is a debatable question of to what extent the population of Alsace-Lorraine (Lorraine Annexee) could be regarded as consisting in its overwhelming majority of Frenchmen. In deciding the magnitude of the French territorial claim, it would seem advisable that Lorraine Annexee be regarded as largely French, and thus not a true territorial claim. Assuming this, the moderate French claim to territory becomes zero and her excessive claim is reduced by more than half.

It can thus be seen that the outcome of the Paris Peace Conference represented the realisation of moderate to slightly excessive territorial demands on the part of France. As far as claims to reparations are concerned, they were "extremely" excessive at the time of the Peace Settlement. A "compensation period" of 42 years was envisaged, with instalments amounting to 6.4 milliard goldmarks per annum, to be made by Germany to France both in foreign exchange and in kind. Since the wartime demands of Germany are compared with those of France, it seemed advisable not to consider moderations in the attitude of the latter if they took place after the calendar year of the signing of the Peace Treaty. Thus it is not relevant here to take the less excessive total claim into account, which represented an inter-Allied compromise and which was partly influenced by post-war conditions after the experience of two years of peace. Certain rigidities are necessary in this model, in order to throw light upon the question of the degree of reparations demanded by each belligerent during the war and the immediate post-war times up to the signing of the Peace Treaty. The later modifications and realisation of such demands are quite a different matter.⁹

Even when conceding that the "extremely excessive" French demands for reparations became less excessive over time, they retained their excessive character for the early post-war years. However, it is a debatable question whether the total French claim

⁹ Keesing's, 1932, 351 B.

Friedensburg, Weimarer Republik, op. cit., pp. 103-5.

for compensation was more excessive than the German excessive claim especially of the early World War One times. It can be suggested that the German claim to territories was "extremely excessive" - in fact it would have resulted in the elimination of French influence in the Ruhr-Lorraine-Channel unit.

The underlying reasons for their excessive claims either in territory or reparation payments lie in the political sphere, where the drive for hegemony can be basically explained in terms of the German complex of isolation and the French complex of security. Long before the outbreak of World War One, Germany was faced with becoming more and more isolated in international politics. The war times brought it home to leading Germans that only her strategically important presence at the Channel and her economic control over the Ruhr-Lorraine-Channel unit would counteract the dangers involved in any future war, where she might again find herself isolated. This isolation complex had its equivalent on the French side in the latter's security complex. France realised her potential economic and military inferiority against Germany. One wonders whether after the war, the letter of the Bible was as much believed in as was the letter of the Peace Treaty by the majority of Frenchmen. However, relying on this Treaty to such an extent offered security of a very deceptive nature only. Thus Franco-German antagonism was to develop into a deep-rooted stumbling block where each nation's "complex" worked in an opposing direction to the other.¹⁰

The expression of the post-war shift in economic power in numerical terms illustrates the different degree of importance attached by both sides to territorial questions and the extent of Franco-German antagonism was largely a function of the settlement of the frontier claims concerned, although of course, the relevance of emotional aspects should not be underrated.

In the case of the moderate as well as the excessive claims to territory, a victorious France would have gained both in relative and in absolute terms more than a victorious Germany,

¹⁰ T.W. Lamont, *The Final Reparations Settlement, F.A.*, vol. 8, 1929-30, p. 353.

despite the smaller emphasis placed on territorial demands by France. The reason for this is that France's pre-war share in the unit amounted to about one seventh of that of Germany and thus even the moderate French claim to Alsace-Lorraine (Lorraine Annexee) implied the doubling of the French share in the Ruhr-Lorraine-Channel unit and an increase in the capacity of her iron and steel industry by about one half. The German moderate claim to the Longwy-Briey District (French Lorraine) would have added accordingly to the total German capacity to a far smaller extent.

As regards Alsace-Lorraine, the underlying economic aspects represented driving forces of varying degree behind the political scene. Keeping in mind that Germany seemed to be far more willing to accept the loss of Alsace-Lorraine from a sentimental angle than had been the case with France,¹¹ it becomes apparent that both economic and sentimental spheres worked in similar directions - with France intensifying the drive of the nation towards regaining the three Départements lost in 1871 and with Germany becoming more and more ready to accept the loss of this Reichsland, as it was termed. Thus a victorious France would have found it comparatively easy to come to a rapprochement with Germany if the French claim had been confined to this area. It was the excessive demands for reparations which in the main gave the Franco-German antagonism its lasting character. This was further aggravated by the fact that the reparations issue had its direct bearing upon territorial questions, when France asked for productive securities, culminating in the occupation of the Ruhr District. On the other hand, the French move towards the Ruhr resembled in many ways the German policy of establishing hegemony on the European Continent during the war where she, if successful, would have controlled the whole of the Ruhr-Lorraine-Channel unit. From this perspective, it is difficult to say who is to be blamed first. A difference in time of a few years does not make any one policy more justifiable than the other.

¹¹ For a detached record of both countries' attitude towards the "rights" to this territory, see Lichtenberger, op. cit., pp. 3-70. N.B. For detailed illustration of each country's share in the unit, see Appendix B, I.

3. THE SIGNIFICANCE OF THE ECONOMIC DISCRIMINATION AGAINST GERMANY AND ITS POLITICAL IMPLICATIONS.

Apart from the problem of reparations and compensation in general, another important aspect of the Peace Settlement was the economic discrimination against Germany, which will firstly be discussed in terms of the temporary provisions during the first half of the 1920's. Secondly an example will be given of the impact over the period as a whole, of less explicit forms of discrimination.

As we have seen already, economic discrimination against Germany was sanctioned by the Peace Treaty (see especially Articles 264-273) and it remained in force for five years, since the right to prolong the discriminatory provisions was not taken up by the Council of the League of Nations.

France hoped that these provisions would enable her to attain rapidly a dominant position in the "international economic sun", and would also, hand in hand with the reparation clauses, guarantee some upper limit to Germany's industrial revival.¹

This was to a certain degree an extension of French pre-war protectionism, in accordance, however, with the provisions laid down in the Treaty, whilst being on the other hand a clear violation in letter and spirit of the third of Wilson's Fourteen Points.²

The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance. (my emphasis)

From a purely economic point of view, however, it was clearly to the advantage of France to trade with Germany immediately after the Armistice. The exchange of raw materials and manufactured

¹ S.B. Clough, op. cit., p. 291

F.W. Taussig, Free Trade, The Tariff and Reciprocity, New York, 1927, p. 202.

² Keesing's, 1918-1931, pp. 10-11.

H. Nicolson, Peacemaking 1919, London, revised edition, 1943, reprinted 1964, pp. 185-211.

goods with Germany was an essential element in the structure of the French economy.³ In fact, the provisions of the Treaty were supposed to counter-balance this dependence, in particular the clauses concerning the Saar territory and the obligation of Germany also to deliver reparations in kind. Germany suffered greatly because of the blockade, which was largely kept up after the Armistice.⁴ With regard to Franco-German trade, however, Germany was less dependent on this trading partner, than was the case with France, where trade with Germany amounted in pre-war times to about 13 per cent of her total trade, whereas the percentage figure for Germany was about half of that. This was aggravated by the eastward extension of the French customs frontier, since the areas concerned were economically speaking largely orientated towards the domestic German market, and especially prominent here was the interdependence between Lorraine and the Ruhr District.

The discrimination against Germany was in particular introduced by the one-sided application of the most-favoured-nation treatment⁵ which Germany was required to grant unilaterally to all Allies.

³ In 1913 Germany was after Great Britain and Belgium the third largest customer of French produce, and after Great Britain her second largest source of imports.
For further details see: Annuaire Général de la France et de l'Etranger. F.A. Haight, A History of French Commercial Policies, New York, 1941, p. 93.

⁴ The blockade which continued officially until the Peace Settlement incurred a loss to Germany, which was estimated at 12,000 million marks. See G. Solmsen, Beitraege zur deutschen Politik und Wirtschaft, 1900 - 1933, vol. I, Muenchen-Leipzig, 1935, p. 128. Others have maintained that the blockade was hardly of any great consequence, K. Laurson and J. Pedersen, The German Inflation, 1918-1923, Amsterdam, 1964, p. 54.

⁵ The implementation of the most-favoured-nation clause means that one trading nation grants another the same tariff concessions already granted to any other nation or to be granted in the future. This is the most-favoured-nation treatment in its

Again, since this provision was not extended by the League of Nations Council it ceased to be effective after January, 10th, 1925.

This most-favoured-nation clause had played a crucial role in Franco-German relations since 1871. In 1862, the Franco-

5 (Continued)

unconditional or classical form. In fact, the most-favoured-nation treatment does not guarantee any "favourite" position to a single trading nation, but it ensures equal treatment of all those nations who are by virtue of mutual agreement subject to this clause. The granting of the most-favoured-nation treatment is normally agreed upon on a bilateral basis. Germany's granting of the most-favoured-nation treatment unilaterally to the Allies for five years after World War One, represents the exception and not the rule. It should be noted that I have referred to most-favoured-nation treatment always in its unconditional form, as it becomes fully re-established between France and Germany in 1927. Conditional most-favoured-nation treatment is a misleading term, since it is the application of the principle of reciprocity, which is opposed to the principle of equal treatment. The equalisation of concessions granted and received between two trading nations only, is in its strict application a violation of the clause, since no other trading nation enjoys the concessions granted here. In general, reciprocity agreements involve a high degree of discrimination between countries.

In connection with the advent of the "Great Depression", the unconditional most-favoured-nation clause was, if granted, subject to evasive devices such as exchange controls, clearing agreements and import quotas. It will be seen that the most-favoured-nation clause remained in force between France and Germany. However, the period 1932-36 in particular, showed that in fact trade relations were based on a strictly reciprocal basis.

S.H. Bailey, *Reciprocity and the Most-Favoured-Nation Clause*, Economica, vol. 13, 1933, pp. 428-56.

R.C. Snyder, *The Most-Favoured-Nation Clause and Recent Trade Practices*, P.S.Q., vol. 55, 1940, pp. 77-97.

HDSW, vol. 7, 1961, pp. 285-8.

Prussian Commercial Treaty included the most-favoured-nation treatment and had laid down some kind of liberal tradition similar to the Cobden Treaty of 1860. In Art. 11 of the Treaty of Frankfurt both countries had guaranteed each other "eternal" irrevocable mutual most-favoured-nation treatment ("ewige unkuendbare gegenseitige Meistbeguenstigung"), which in its unconditional character imposed restrictions on France as well as on Germany.⁶ It is true that Germany took advantage of this provision by avoiding as far as possible any commercial agreement with a third country, which might have been favourable for France as well. On the other hand, she was very successful in exploiting any concession made by France to other countries. Not surprisingly French public opinion developed strong dislike for this clause.⁷

Quite often it has been forgotten, however, that it was France who had asked for inclusion of this clause in the Treaty of Frankfurt. In fact, this later turned out to be in favour of Germany, while furthermore it was no less ironical when Germany later realised that the high-phosphoric iron-ore (minette) deposits in French Lorraine were anything but as useless as they were thought to be in 1871.

It is sufficient here merely to refer to other discriminatory measures without going into much detail. The main result of all these provisions was that Germany's sovereignty was to a certain extent affected, as was in one way or another, the material well-being of the nation.

The Weimar Republic suffered greatly from the consequences of defeat, and it is rather a miracle that it had

⁶ Stolper, op. cit., p. 62.

The following aspect is quite often overlooked: This clause as laid down in Art. 11, Peace of Frankfurt, was to a certain extent responsible for the fact that a customs union between Austro-Hungary and Germany did not come into existence before 1914.

N. Reichesberg, Die Meistbeguenstigung in den kuenftigen Handelsvertraegen, Bern, 1918, p. 14.

⁷ Haight, op. cit., p. 125.

Hoegel, op. cit., p. 81.

not already collapsed earlier, since "the defeat was the source of its own existence."⁸ Such provisions underlined only too well the precarious character of this existence.

One of these provisions, finding only an insignificant place in the Treaty,⁹ proved to be, however, detrimental to any new beginning of unhampered economic relations. It was laid down here that the Allies were entitled to exert "economic and financial prohibitions and reprisals", in the event of Germany failing to meet all her obligations. At first sight this clause may appear to be quite innocuous. Nevertheless, it should be remembered, how easy it was for France to make the Reparation Commission declare that Germany was in default of her obligations. By this the French Government could confiscate property of German nationals in France and this potential threat of appropriation had some adverse effects on German business. It was only after the preliminary Franco-German Commercial Treaty of August 14th, 1926 that any legal basis for German nationals taking residence in France was agreed upon. This one-sided discrimination stands out against the one-sided protection which foreigners enjoyed when indulging in economic enterprises in Germany. They were subject to equal rights with German nationals; that is, Germany had to grant permanent "most-favoured-nation treatment" to Allied nationals, concerning in particular all matters as regards importation, exportation, transit of goods, tariffs of the railways, and navigation.¹⁰ In addition, Art. 279 provided for the right of the

⁸ L. Dehio, The Precarious Balance, The Politics of Power in Europe, 1494 - 1945, London, 1963, p. 254.

⁹ Treaty of Peace, Part VIII, Annex II, 18, see Temperley, *op. cit.*, p. 224.

¹⁰ The Rhine Commission consisting of 19 members included five French representatives, one of them being President. Germany as main power on the Rhine, however, had only four, while Italy for unknown reasons had two representatives. (Art. 355). J.M. Keynes, Consequences, *op. cit.*, pp. 98-102. For one-sided rights allocated to France, see especially Art. 358.

Allies to appoint consular representatives in Germany, whereas Germany remained de jure not entitled to give protection to her nationals engaging in business abroad. Since this provision did de facto not affect German consular rights in the long run, its very existence, representing legal insecurity, proved to be detrimental enough, especially when considering the potential repercussions of such a device on a nation's trade and economic interests in general. If such provisions had been bilateral they might have led to increasing economic co-operation. This unilateral character, however, symbolised the substitution of economic warfare for the earlier military warfare. Thus, the whole principle of internationalisation seemed to have been brought into disrepute, and the underlying tension in Franco-German economic relations was for more than a decade, if not longer, nourished by these "restrictions of liberty of economic policy, such as no great nation has ever previously experienced in the history of the world."¹¹

The oppressive character of the Peace Treaty reached its climax in the determination to forbid Austria from attaching herself to Germany, except with the consent of the Council of the League of Nations, a consent which had to be unanimous and was thus de facto unattainable. Until 1866 Austria had belonged to the German Confederation. The antagonism between the Hohenzollern and Hapsburg dynasties had excluded her from the German Empire. These dynasties were overthrown by the victory of the Entente, and with the discarding of the Wilsonian Fourteen Points and the dismembering of the German nation in keeping Austria apart, the supremacy of Prussia was inevitably secured. The post-war Austrian Parliament voted in favour of joining Germany and from this it becomes clear that behind the declared aim of fighting Prussian militarism lay deeper economic and political interests. Later these motives can also be traced behind France's vehement rejection of the project for an Austro-German customs union, to be discussed in Chapter IV, part 4.

Furthermore, we should deal with the eastward extension

¹¹ P. Ashley, Modern Tariff Policy, London, 1920, p. 127.

of the French Customs frontier, which was to be fatal to the German monetary system. In Art. 270 of the Treaty, the Allies reserved their right to apply a special customs regime to German territory occupied by their troops, "in order to safeguard the economic interests of the population of these territories." France took advantage of this provision, and several times extended her Customs frontier. In 1923, this applied also to the Ruhr District. By this she was able to enlarge her domestic market considerably, disrupting to a great extent the economic life of Germany. The latter was not capable of sufficient countermeasures. With little success she tried to adapt her tariffs to the decreasing exchange value of the mark. This proved to be more and more impossible with increasingly severe inflation. The German Government introduced, for instance, prohibitions on imports as well as exports. Such measures were in accordance with the unilateral most-favoured-nation treatment of the Allies, as long as they were not directed against Allied countries only but generally applied.¹²

The Allies and in particular France, did not realise that to attain their ends it was not only necessary to make some sort of peace but also to see that the democratic Republican Government in Germany should win the favour of the country generally - a Government which obviously did not bear the responsibility for the war. Thus one may suggest that insistence on Germany's full responsibility for the war¹³ in order to justify the peace terms, especially those concerning reparations, had its embittering effects on Franco-German antagonism to a very considerable extent.

¹² Th. Niebuhr, Die deutsch-franzoesische Aussenhandelspolitik der Nachkriegszeit, Diss. 1934, pp. 42 ff.

¹³ Article 231 reads: The Allied and Associated Governments affirm and Germany accepts the responsibility of Germany and her allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her allies.
Treaty of Peace, Temperley, op. cit., p. 214.

Discrimination against Germany should also be seen in the light of the interdependence of political and economic questions as in particular illustrated by the French policy of security - "the leitmotif of French policy since the time of Richelieu."¹⁴ The "cordon sanitaire" in East-Middle Europe was regarded primarily as a means of creating a counterbalance to Germany and Communist Russia. However, French policy has never been consistent in this matter. The United States did not ratify the "Treaty between France and the United States, respecting assistance to France in the event of unprovoked aggression by Germany",¹⁵ and as a result Britain did not feel bound to her own treaty obligations.¹⁶ Thus France felt her position to be maintainable only by insisting on every letter of the Peace Treaty and by a shift in the balance of power in East-Middle Europe. The hope for a Russian colossus to keep Germany in check had to be finally abandoned after the conclusion of the Russo-German Treaty of Rapallo in April, 1922. The precarious double role of the "cordon sanitaire", to keep both Russia and Germany in check, was thus something of eminent importance. The French attitude became more and more one of wishful thinking and this characterised again her lack of insight into the limitations of victory. After the war, it was generally realised in France, that no control of Germany could be lasting without a united anti-Bolshevist Russia. This was a rather unrealistic dream, and thus it was that Millerand, the then French President, sent General Weygand to fight the battle of Warsaw in mid-1920. The Versailles Peace Settlement had increased Poland in the West, while this military campaign extended Polish territory in the East, although the Poles did not attribute this to the presence of the French.¹⁷ Nevertheless, the more important Poland

¹⁴ J. Haller, France and Germany, History of One Thousand Years, London, 1932, p. 267.

¹⁵ Treaty of Peace, Temperley, op. cit., pp. 339-40.

¹⁶ Ibid., pp. 337-8.

¹⁷ A. Cobban, A History of Modern France, vol. 3, 1871-1962. Penguin, 1965, repr. 1967, p. 124.

Brogan, op. cit., p. 256.

Mayer, op. cit., pp. 580-603.

became in terms of both former German and Russian territory, the weaker she became as an ally of France. Her position between these two Powers was of a very precarious nature, and it led finally to her downfall after the conclusion of the Ribbentrop-Molotov Pact in 1939. Apart from this later development, the discriminatory way in which Upper Silesia was divided up between Poland and Germany had its bearing on Franco-German antagonism. Despite the fact that in the plebiscite 60 per cent of the votes were in favour of Germany, France insisted in the Council of the League of Nations, on a partition of Upper Silesia, largely in favour of Poland. Thus the lion's share of Upper Silesia's iron and steel industry was handed over to Poland affecting, in addition to the provisions made in the Peace Treaty relating to changes in territorial frontiers, the economic balance of power between France and Germany. The partition of Upper Silesia represented a considerable loss to Germany's heavy industry, and its long run effects had perhaps even greater repercussions than had any other discriminatory measures laid down in the Peace Treaty. On the other hand, Poland's gains in Upper Silesia were a mixed blessing for both her and France. The embittering results of this made any rapprochement with Germany hardly attainable without reconsidering Upper Silesia's status and in the early 1930's, France contemplated revising the status of this area in favour of Germany, leading on from the so-called Luxemburg Conversations.¹⁸

It is an ironical fact that, weakened as her position was, Germany succeeded far better in raising productivity in her remaining portion of Upper Silesia than did the economically backward Poland. Thus the partition of Upper Silesia was also from a purely economic point of view, a mixed blessing. The following tables illustrate this.¹⁹

Table I

Percentage Shares of Poland and Germany in Industrial Output of Upper Silesia in Terms of Pre-War Production.

(1913 = 100)

	<u>Coal</u>	<u>Rolling Mill Products</u>	<u>Total Iron and Steel</u>
Poland:	74	78	72
Germany:	26	22	28

.....footnotes 18 & 19/

Table II

Industrial Output in Polish Upper Silesia.

(1913 = 100)

	<u>Coal</u>	<u>Rolling Mill Products</u>	<u>Total Iron and Steel</u>
1925	66	53	46
1928	95	84	80

Table III

Industrial Output in German Upper Silesia.

(1913 = 100)

	<u>Coal</u>	<u>Rolling Mill Products</u>	<u>Total Iron and Steel</u>
1925	129	100	92
1928	177	175	122

Thus Franco-German antagonism made itself felt both in the West and in the East. On the other hand, it is interesting to speculate on the outcome of events if Germany had not by her blind opposition to France and the "system of Versailles", started on the path which was to end in the Third Reich. An excellent analysis of this is given by Gerhard Ritter:²⁰

The newly created States of middle-Eastern Europe found themselves between us (i.e. Germany) and Russia.... In the long run, these States had to look for economic and political support from Germany against Communist Russia since France could not really offer this due to her geographical position.... Instead of developing a patient and far-sighted policy as regards our Eastern neighbours, we discarded the opportunities offered and threw ourselves, in blind opposition against the so-called system of Versailles, into the arms of a malicious adventurer. This is the greatest failure in modern German history.

¹⁸ Doc. G.F.P., series C, vol. 1, The Third Reich, The First Phase, No. 18, pp. 38-41.

¹⁹ Mantoux, op. cit., p. 81.

²⁰ G. Ritter, Der Versailler Vertrag von 1919, Festschrift des ev. Stiftsgymnasiums Guetersloh, 1951, quoted in B. Gebhardt, Handbuch der deutschen Geschichte, 8th edition by H. Grundmann, vol. 4, Die Zeit der Weltkriege, by K.D. Erdmann, Stuttgart, 1959, repr. 1965, p. 108.

Although the discriminatory nature of some of the post-war frontier settlements remained in certain cases up to 1939, and Upper Silesia can again be cited as an example here, by the end of the inter-war period the "petty" discrimination of the first half of the 1920's already formed part of history. Thus it will be seen that despite the continuing antagonism, economic relations between the two countries, France and Germany, led at the very end of the interwar period to the elaboration of plans for mutual economic co-operation. However, success in this matter was to be jeopardised by political events.

4. THE FRANCO-GERMAN ECONOMIC "COLD WAR". WITH SPECIAL REFERENCE TO THE OCCUPATION OF THE RUHR DISTRICT.

After the Peace Settlement the years leading up to the Dawes Plan of 1924 showed an intensification rather than a relaxation of tension in the political-economic sphere. After this the events leading up to the "economic Locarno" of 1927 continued through the final stages of a "cold war" which developed in degree of sophistication, while the degree of antagonism became distinct but moderate.

When Schacht came to Paris at the request of the Dawes Committee in early 1924 and paid a visit to both Millerand and Poincaré, it again became quite clear that a "Franco-German understanding" through the "closest possible economic connections" was still rather utopian.¹ The prevailing mutual distrust between the two countries proved to be stronger than any reasoning, despite the fact that Germany was as a defeated and isolated nation very anxious to come to a détente in her relations with France. This would have involved, however, some French concessions beyond the envisaged revision of the reparation issue, and in fact, the National Bloc in particular, regarded this to be out of question.

At the same time, Stresemann expressed a view, which only gradually was to become widely accepted.²

International confidence is the foundation stone of international credit, and international credit is essential to international trade. To restore these, it is necessary for the forces of international economic intercourse to regain free play.

It would be wrong, however, to blame only French policy for the distorted conditions of post-war Europe. The French attitude of clinging to the letter of the Peace Treaty was based on France's paramount objective of preserving her national security. Economic problems tended to become from this perspective, of

¹ H. Schacht, My First Seventy-Six Years, London, 1955, pp. 208-12, esp. p. 209.

² G. Stresemann, The Economic Restoration of the World, F.A., vol. 2, 1923-24, p. 555.

secondary importance.

It is rather tragic that, largely due to this understandable attitude, "the world never recovered from the effects of that disturbance of the old order."³ The economic conditions governing post-war Europe made any hope for a return to the world of 1914 illusory. For instance, the issues involved in the settlement of war debts by inter-governmental transfers presented the countries concerned with unforeseen monetary and fiscal problems.⁴

The post-war objectives of France can be regarded in many ways as an anachronological effort to restore the world as it had existed before 1870. Before the Franco-Prussian War of 1870/71, the population of those German States engaged in this war surpassed the population of France by only about five million. In 1919, Germany had, through the provisions of the Peace Treaty, lost about 10 per cent of her pre-war population, but even after this loss she still outnumbered France by 20 million people.⁵ Furthermore, Germany was no longer the semi-agrarian country of 1870, and her high degree of industrialisation was, despite World War One, still a crucial factor. Thus the heavy losses incurred in 1919 were no ultimate guarantee for France that German economic forces would be paralysed for ever, despite the fact that after the loss of Alsace-Lorraine it was the decision of the Council of the League of Nations to divide Upper Silesia - a decision widely regarded as the final blow to the German economy. The economic ruin of Germany

³ F.A. Haight, A History of French Commercial Policies, New York, 1941, p. 106.

⁴ For the famous Keynes-Ohlin controversy concerning intergovernmental transfers, see Economic Journal, vol. 39, 1929, pp. 1-7 and 172-82 and 388-408.

L.B. Yeager, International Monetary Relations, Theory, History and Policy, New York, 1966, pp. 84-6.

⁵ S.B. Clough and C.W. Cole, Economic History of Europe, 3rd edition, Boston, 1952, p. 667.

Stolper, *op. cit.*, p. 26 and pp. 38-44.

L. Pommery, Aperçu d'Histoire Economique Contemporaine, 1890-1945, Paris, no year, p. 445.

was predicted, and the panic on the Berlin foreign exchange market of October 17th, 1921 is perhaps the best illustration of this.⁶

Despite the gradual recovery of the German economy, it became quite clear that Germany, besides her reparation obligations, was most severely affected by the economic provisions of the Treaty, the majority of which were directly or indirectly in favour of France.

Both countries had to face up to difficult problems; they both had, although in different ways, to cope with inflation - the "hyperinflation" in Germany, the "creeping inflation" in France.⁷ The physical per capita volume of production amounted in both countries in 1920 to about three-fifths of that of 1913. France recovered quite soon and taking 1913 as 100, her index of manufacturing already stood in 1925 at 114. The German economy on the other hand, took off economically, only after the coming into operation of the Dawes Plan of 1924, and the respective index figure for Germany still stood in 1925 at 95⁸.

This is not the place for making moral judgments about the destructive efforts on both sides. After the wartime devastation of Northern France due to the German invasion, there followed France's destructive "countermove" of the post-war years. Again, mention should be made of the physical and material damage in the occupied and devastated areas in Northern France which was estimated at £500,000,000, and the post-war external indebtedness of France estimated at £700,000,000.⁹ Germany's external

⁶ G. Bresciani-Turroni, The Economics of Inflation, London, second impression, 1953, pp. 96-9.

⁷ In France and Germany, taxation had proved completely inadequate for bearing the financial weight of the war. The immediate German post-war debt amounted to 156 milliard marks, that of France to 173 milliard francs. For currency circulation see Appendix A, II.

J.R. Hicks et al., The Taxation of War Wealth, Oxford, 1941, ch. XIV and ch. XVI.

Yeager, *op. cit.*, pp. 269-72 and p. 280.

⁸ W.A. Lewis, *op. cit.*, pp. 34-7.

obligations amounted to £6,600 millions plus the 26 per cent levy on her exports, whereas the French external debt required only the annual transfer of funds equivalent in value to about 6 per cent of her exports.¹⁰

Whilst the amount of reparations collected from Germany proved to be disappointing for France, the latter on the other hand succeeded in keeping her old foe in check for some time. She was only successful in the short run, however, not in the long run, as the following two tables illustrate.¹¹

TABLE 1

Growth of total output
(percentages per annum)

	1870-1913	1913-29	1929-38	1913-38	1970-1938
France	1.6	1.6	-2.2	0.3	1.1
Germany (F.R.)	2.9 [*]	0.3	3.9	1.6	2.4

^{*}1871-1913

TABLE 2

Growth rates of industrial production
(excl. building)
(percentages per annum)

	1913-29	1920-29	1929-37	1913-37	1901-13
France	2.0	7.9	-2.8	0.8	4.2
Germany (F.R.)	0.9	7.6	3.0	1.2	4.7

⁹ J.M. Keynes, The Economic Consequences of the Peace, London, 1920, pp. 117 and 254. The impact of inflation on the internal debts of both France and Germany cannot be discussed here. It should be remembered, however, that in 1922 despite the German reparation bill, France's total per capita indebtedness was higher than that of Germany. See "Alpha", Reparations and the Policy of Repudiation: An American View, F.A., vol. 2, 1923-24, Table B (after p. 78).

¹⁰ Survey, 1926, pp. 331-3.

¹¹ D.H. Aldcroft, Economic Growth in Britain in the Inter-war Years: A Re-assessment, E.H.R., SS., vol. 20, 1967, Table I and IV, pp. 313-4.

It is especially interesting to compare here the respective growth rates for the period 1913-1929. After the devastations suffered by France during the war, her economic growth exceeded that of Germany considerably. On the other hand, the effects of the "Great Depression" were much more severely felt by France than by Germany, and when taking an overall view it can be seen that the defeated Germany experienced from 1913-1938 an annual average growth in total output of more than five times as big as France who had been on the side of the victors after World War One. However, at present we are only concerned with the early years of the interwar period, and while it may be argued that the Franco-German antagonism gained some of its raison d'être from Germany's lagging behind during the first half of the 1920's, yet it can be also emphasized that the building industry was largely responsible for reconstruction in France and should be excluded from any comparison here. Thus when comparing growth rates of industrial production, excluding building, it becomes apparent that Germany lagged behind by only 0.3 per cent when considering the first decade after the war. If this percentage represented the disutilities defeated Germany had to endure, even when making further allowances for the fact that the pre-war growth rate in Germany was slightly higher than in France, it would seem that post-war Germany did not suffer a great set-back. On the other hand, the annual average for the 1920's as a whole conceals the fact that up to 1924, the German economy was severely affected by the legacies of war and the subsequent Peace Settlement. This was a period where no foreign loans poured into Germany but heavy reparation demands had to be met.¹²

¹² It was only after the collapse of the German monetary system that it was fully realized that loans were needed in order to make recovery possible. Similarly, the vicious nature of the reparations problem was tackled rather late and when this was undertaken, it was badly handled. The financing of reparations out of loans received could not offer any long-term solution to the problem. In fact, it jeopardized recovery.

C.J. Friedrich, *Reparation Realities*, F.A., vol. 7, 1928/29, pp. 118-31.

The League of Nations failed to deal adequately with the economic problems of the post-war times. Thus economic warfare continued. This was partly due to the delicate Franco-German relations, while the revival of mercantilist practices was also a result of the lack of any "new order", as for instance, envisaged in the last of Wilson's Fourteen Points. Thus economic policies became to a large extent a reflection of the prevailing political situation.

The problems of maladjustment experienced in international trade were in the case of Franco-German relations illustrated by the abandonment of the bilateral most-favoured-nation treatment and by other discriminatory devices of the Peace Treaty.¹³

The pre-war times had of course not led to policies of laissez-faire, but to a comparatively free interplay of economic forces. The German customs tariff had been raised again in 1902, but still compared favourably with the French pre-war tariff of 1892. In general, customs tariffs increased after the war, and in the case of France and Germany we also find an intensification in the system of protective tariffs. In the decade following the war, tariff policy was, in the two countries concerned, determined by circumstances rather than formed in accordance with any long-term objectives. It was in France in particular that

commercial policy...was directed towards the reduction of foreign imports to an absolute minimum and the complete mastery of tariffs. It was a policy of self-sufficiency....¹⁴

This was, of course, not the same as the later German policy of autarky after 1933, to be discussed later. In brief, one can conclude that protectionism, as a component of national tradition, had been pre-war determined in France, whereas the move

¹³ The percentage shares in world exports of France and Germany developed as follows:-

	<u>1913</u>	<u>1925</u>
France	7.2	7.2
Germany	13.1	7.0

Clough and Cole, op. cit., p. 734.

¹⁴ Haight, op. cit., p. 104.

towards autarky was war-determined in Germany.¹⁵ The French move towards greater protectionism can especially be seen in the repudiation of all commercial treaties on April, 23rd, 1918, and the law of July 29th, 1919, which was based on the system of reciprocity. By this law it was left to the French Government in negotiations with other countries, to offer reductions on the general tariff, which were to lie between the maximum and minimum tariff.¹⁶

In addition, a very considerable increase in the general tariff was introduced in March, 1921 and rates were raised from 50 to 300 per cent above the minimum. However, generally speaking, it had the opposite effect of what had been intended. The increasing tendency developed among foreign countries to insist upon the granting of the minimum tariff integrally. France soon realized that her objective of receiving greater concessions from other countries proved to be self-defeating. Furthermore, the French Government found itself in a position where by means of creating a virtual conventionalization of the minimum tariff, she would - ironically enough - preserve the principle of the most-favoured-nation clause. Despite this, the French Government continued its "revolt" against the clause up to 1923. For instance, she remained a staunch supporter of the principle of reciprocity throughout the Economic Conference at Genoa in April, 1922. When vehemently supporting this principle, the French Delegation found itself isolated and Germany, at this time still much isolated politically, exploited the situation by launching a major attack on French commercial policies, describing them as being an impediment to the expansion of international trade.¹⁷

On the other hand, the German trading partner was up to 1925, due to the economic clauses of the Treaty, in a much weaker position and acted in response to this by adjusting the German tariff level. The following tariff-level indices illustrate this:¹⁸

¹⁵ Ibid., pp. 100 ff.

¹⁶ Hoegel, op. cit., pp. 80-1.

¹⁷ Haight, op. cit., 126-9.

¹⁸ Survey, 1930, p. 445.

TABLE 3

	1913	1925
France	20	21
Germany	13	20

Any economic "cold war", especially where free enterprise has a say, tends to develop some kind of reaction towards a settlement of the controversial issues concerned. This will be discussed in more detail in the following chapter and it suffices here to stress the point that despite the apparently hopeless state of the Franco-German post-war relations, there were influential circles that saw a way out of the existing impasse.

The Wiesbaden Agreement, signed by Loucheur and Rathenau on October 6th, 1921 was a promising starting point. It provided for the partial liquidation of Germany's reparation indebtedness by deliveries in kind of some 1.4 milliard gold marks per annum, and set up a procedure by which French and German private firms were supposed to work together as far as the distribution of materials for reconstruction in France was concerned. In addition, the fixing of prices of supplies was not left to the sole discretion of the Reparation Commission, but to an Arbitral Commission. Such provision proved to be a return to some kind of mutual fairness. On the other hand, France ensured for herself some priority in respect of the other Allies since only a proportion of the payment to be made by her was immediately credited in the reparation account, and the rest of these payments was deferable.¹⁹

This attempt to put reparations on a business-like footing was to fail. French industrialists feared German competition and disliked the provisions whereby the devastated areas were to be supplied direct by private German firms. In Germany, nationalists objected to the fact that deliveries were agreed upon at all. The reasonable atmosphere created by the Wirth Government in which Rathenau held the post of Minister of Reconstruction was soon jeopardized largely due to one of the

¹⁹ Keynes, Revision, op. cit., pp. 85-92 and pp. 211-6.

very common features of the Weimar Republic - the short-lived existence the average government was able to enjoy. Furthermore, economic conditions deteriorated in Germany at that time culminating in the complete collapse of the mark in 1923. This and rigid and intransigent attitudes on both sides were responsible for intensifying rather than lessening Franco-German antagonism.

However, the economic importance of the Wiesbaden Agreement had been vastly overestimated, though hardly by Rathenau himself. While his political enemies attacked him violently, they did not perceive that Rathenau had rendered a great service to his country. His direct negotiations with Loucheur not only improved the rather precarious political atmosphere, but in addition the deliveries in kind as envisaged in the Agreement were aimed at protecting the German currency. Furthermore, he hoped to demonstrate by his policy of "fulfilment" the impossibility of fulfilling the excessive demands for reparation. This was a far-sighted policy but rather tragically it was in all not very successful, largely due to short-sighted nationalism on both sides.²⁰

Despite this, the idea of establishing as profitable a co-operation as possible between debtor and creditor was very common among German business men and this also gained some ground in France. Various attempts had been made to organise some Franco-German co-operation, as for instance, through the suggested establishment of a bilateral or international consortium. In addition, various politicians and industrialists from both sides fostered the idea of securing France's participation in German industry, which would have not only facilitated the solving of the problem of reparation but would also have made France more willing to accept the revival of German economic strength.²¹

²⁰ E.C. Kollmann, *Walther Rathenau and German Foreign Policy: Thoughts and Actions*, J.M.H., vol. 24, 1952, pp. 127-42.
Count Harry Kessler, Walther Rathenau, Sein Leben und Werk, Berlin, 1928.
J. Joll, Intellectuals in Politics, Three Biographical Essays, Part II, Walther Rathenau: Prophet Without a Cause, London, 1960, pp. 59-129.

²¹ Lichtenberger, *op. cit.*, pp. 122-4.

A Franco-German détente was already, during this time of economic strife, something regarded by leading men on both sides as having a chance of realisation. Despite some promising moves in this direction, they were brought up short by the realities of the post-war situation.

The Franco-German antagonism of the interwar period reached its first climax with the Franco-Belgian occupation of the Ruhr District on January, 10th, 1923. The other climax was to be experienced during the Franco-German duel on the diplomatic scene over the Austro-German customs union project of 1931.

On December, 22nd, 1922, the Reparation Commission gave way to French demands and asserted the failure of Germany in complying with her obligations under the Peace Treaty. Germany had failed to fulfil her reparation obligations in 1922 by only the relatively small sum of 24 million goldmarks. In particular the amount outstanding of German deliveries of telegraph posts became the pretext for constructing a deliberate default in reparations on the part of Germany. This induced Lord Bradbury, the British delegate to the Reparation Commission, to remark that "since in the tenth year of the Trojan War, Troy fell to the stratagem of the wooden horse, history recorded no similar use of timber."²²

The first threat to occupy the Ruhr had already been made by the Allies at the Spa Conference in July, 1920. This happened again on various other occasions, for instance in the London Ultimatum of May 5th, 1921. This threat and the later occupation of the Ruhr became one of the main causes of resentful anti-French feelings on the German side.²³

Besides political motives and the intention to teach the Germans a lesson, it was circles in the Comité des Forges who in particular, pressed for an invasion of the Ruhr and this despite the fact that Hugo Stinnes²⁴ for instance, had entered into

²² Quoted from A. M'Fadyean, Reparation Reviewed, London, 1930, p. 24.
Mantoux, op. cit., p. 141

²³ N. Roosevelt, The Ruhr Occupation, F.A., vol. 4, 1925-26, pp. 112-22.

negotiations with French industrialists, with the purpose of creating a Franco-German cartel of French and German heavy industry. Such plans came to an end with the event of the invasion.

On the one hand, there was the century-old French political objective of breaking up the national unity of Germany and on the other, it was realised that the economic bonds between Lorraine and the Ruhr were unnaturally broken down through new customs frontiers. The concentration of the iron and steel industry of the Ruhr District was to a large extent based upon the smelting of iron-ore (minette) coming from Lorraine. This resembled the geographical situation of Lake Superior ores in the United States, shipped to the furnaces of the Pittsburgh district.

²⁴ It should be emphasised that Hugo Stinnes was one of those leading German industrialists who stood on the extreme right wing in politics. His readiness to foster Franco-German co-operation was largely based on hopes for taking the best possible advantage of the existing state of affairs. For instance, the way in which he exploited the post-war inflation when rapidly expanding his industrial empire at the expense of others, puts his patriotism into quite an ambiguous light. On the other hand, it should be noted that his generally pragmatic attitude and his sense for economic exigencies, made him realise the need for economic integration in Western Europe. In fact, his proposal for creating a Franco-German cartel of the two countries' heavy industry can be regarded as a neglected forerunner of the Schumann Plan of 1950, which led to the establishment of the European Coal and Steel Community in 1952 and laid the foundation for further economic integration beyond its common market in coal and steel products. The Treaties of Rome (1957), establishing both the European Economic Community (Common Market) and the European Atomic Energy Community, testify to this. Thus the heavy industry became the pace-setter for economic unification in Europe. In some ways, this had been already envisaged by Stinnes.

G. Raphael, Le roi de la Ruhr: Hugo Stinnes, l'homme - son oeuvre - son rôle, Paris, 1924, passim.

W.O. Henderson, The Genesis of the Common Market, London, 1962, pp. 114-70.

But even before the war, the Ruhr had been becoming more and more dependent on higher grade ores imported from Spain and Sweden, largely due to the fact that the Ruhr industry was increasingly specialising in highly finished goods. In general, the ores transported to the Ruhr from Lorraine represented the return freight of the coke needed in those districts. On the other hand, the steel industry in the south-western part of Germany concentrated on mass products (Massenmaterial), for which the rather low grade quality of the Lorraine-Luxemburg iron offered the most suitable basis.

Thus the Ruhr tended to depend less on Lorraine than vice-versa. It has been maintained that when Germany was in command of most of the Ruhr-Lorraine-Channel unit resources during the war, economically speaking, she would have been able to carry on fighting the rest of the world, as long as the United States were kept away. From this angle it becomes clear how much importance was attached to this unit. Thus the struggle for political control over it became in the same instance, one for economic hegemony.²⁵ The French policy of productive securities (gages productifs) was not very successful and the passive resistance²⁶ in the occupied zones of the Ruhr resulted in a complete break-down of all economic activity. The coal output was in the first six months of the occupation lower than in the last ten days before it. Thus the iron industry of Lorraine in that year experienced a great coal shortage, severely affecting production. On the other hand, it was not only the Ruhr but the whole of Germany that suffered tremendously from the economic consequences of the occupation of this main industrial centre. The German economy was bound to collapse and on September, 26th Gustav Stresemann, the then Chancellor of 100 days, at last had the courage to make an end of the passive resistance. On November 15th, the Rentermark was introduced which brought an end to the hyperinflation.²⁷

²⁵ G.K. Leith, op. cit., F.A., vol. 1, 1922-23, pp. 136-51, esp. 141-2.

²⁶ Passive resistance proclaimed by German Government on January 15th, 1923 - Keesing's, 1918-1931, p. 13.

²⁷ Gebhardt, op. cit., pp. 131-38.

groups in the German industrial and banking sectors. It was Konrad Adenauer, for instance, the then Lord Mayor of Cologne, who argued at the Cabinet meeting of November 12th to which he had been invited, that the financial support by the Reich of the occupied areas was worth, if necessary, the collapse of two or three new currencies.²⁸

Soon after the abandonment of the passive resistance, France started to re-organise the Ruhr economy as she deemed to be best for French interests. From November, 1923 to mid-1924, the so-called Micum agreements were concluded between the Inter-Allied Engineering Commission (Mission Interalliée de Contrôle des Usines et des Mines) and the Ruhr industry. In fact these agreements had more the form of rulings and private enterprise became possible only within this framework. The Micum reserved its right to issue export permits even to the unoccupied German territories. Furthermore, the Ruhr industry had to agree to making certain deliveries and payments on the Reparation account.²⁹ However, the main objective was to form a Franco-German coal and steel trust under French control and supervision.³⁰

In addition, the French authorities supported plans for the establishment of a Rhineland Central Bank and the creation of a Rhineland currency. The French presence in the Rhineland³¹ seemed to many an irrevocable reality. The economic conditions in both the occupied zones and the rest of Germany were still of such a precarious nature that influential circles, including the Chamber of Commerce and Industry of Cologne, advocated full

²⁸ G. Kroll, Von der Weltwirtschaftskrise zur Staatskonjunktur, Berlin, 1958, p. 23.

²⁹ See Appendix A, IV.

³⁰ Gebhardt, op. cit., p. 136.

³¹ The Rhineland proper denotes virtually the whole area lying on the left bank of the Rhine with the addition of a narrow strip along the right bank. The term Rhineland, as used when dealing with the occupation of the Ruhr District, is extended to include the occupied zones of Westphalia.

collaboration with the French, without the majority being "separatists" in the political sense of the word.³² They envisaged some temporary "separate development" for the Rhineland, and fostered the idea that the Franco-German conflict would be solved by incorporating French financial interests into the Ruhr industry.

At this time of accumulated resentment on both sides, such plans seemed rather absurd and even Stresemann had no sympathy for them. Nevertheless, for a very short while, it seemed as if France was going successfully to combine her security policy with her drive for economic expansion, thus compensating herself in her own way for the abortive Anglo-American guarantee against "unprovoked aggression" by Germany.

It is interesting and necessary to refer to the international implications of the plans to establish a Rhineland Central Bank. Despite the fact that the stabilisation of the mark was accomplished, it remained in immediate danger. The monetary authorities realised the dangers involved in the policy of continuing the subsidies for the occupied zones after passive resistance had been given up. Both the Rentemark and the unity of the Reich had to be maintained at all costs. The logical but unpopular answer was the approval of the plans for the establishment of a Rhineland Central Bank. The Reich Cabinet was divided on this issue, but Hjalmar Schacht, the President of the Reichsbank, gained the Cabinet's support for pursuing a policy of defending the monetary unity of the Reich. He suggested the creation of some kind of "Sub-Reichsbank", the so-called Gold Discount Bank and he succeeded in bringing about co-operation in this matter with the Bank of England. The Gold Discount Bank was established on March 13th, 1924, and based entirely on gold. The Bank of England provided a loan of 100 million goldmarks for a period of three years at the relatively low interest rate of five per cent, at a time when the interest rate stood in Germany in the neighbourhood of 10 per cent. In addition, the Reichsbank raised the same amount in Germany, the pre-requisite for obtaining the loan. Of even greater importance was the fact that the Bank of England enabled the Gold Discount

³² Gebhardt, op. cit., pp. 136-7.

Bank to make loans against bills of exchange, which in turn were guaranteed by the Bank of England and taken up by the London money market. Thus the Gold Discount Bank succeeded in building up a working capital in the region of 500 million goldmarks, being of vital importance to German export trade in general and to the Rhineland-Westphalian industry in particular.³³

The successful establishment of the Gold Discount Bank undermined the moves undertaken by the Franco-Rhineland banking syndicate, which intended to set up a Rhineland Central Bank. This syndicate had tried at the same time as the Reichsbank to gain support from the Bank of England and to enlist British financial interests in their project. However, the Governor of the Bank of England, Norman Montagu, refused any British participation - of course, he followed his country's official policy of opposing any break-up of the unity of Germany. It remains open to question how far this was perhaps also a result of the extremely skilful way in which Schacht negotiated with Montagu. In any event, this was the "death blow" to Rhineland separatism.³⁴

It can be suggested that this was the last real clash between the conflicting interests of France and Germany before the implementation of the Dawes Plan a few months later.³⁵

Before concluding, the question remains of what Poincaré actually achieved with his occupation of the Ruhr. On the one hand he made Germany accept defeat and for some time, paralysed the German economy by his measures. On the other hand, France became isolated internationally; world public opinion had turned away from her. The French financial position was becoming worse and worse with inflation continuing and stabilisation of the franc still to be achieved. Germany, however, for the first time after the war, had succeeded in breaking through the wall of isolation which had been built up around her and she could count on world-wide sympathy

³³ H. Schacht, *op. cit.*, pp. 194-206.

³⁴ *Loc. cit.*, p. 202.

³⁵ H.A. Turner, Jr., Stresemann and the Politics of the Weimar Republic, Princeton UP, 1963, p. 174.

for her cause. Her finances were settled, even if still in a precarious position. Furthermore, France had to realise that Britain in particular, having on one hand condemned passive resistance, would on the other never have agreed to any permanent French presence in Germany, or to any political dismemberment. This was, of course, not only due to some sympathy for Germany arising out of the one-sided action against the Ruhr by France, or to a re-awakening of the balance of power concept, but in addition it was largely due to the fears that any long-term disturbance in what were for Britain, important Anglo-German trade relations, would have serious repercussions on the British economy. At the Imperial Conference of 1923, it became quite clear that Britain and the Dominions "regarded any policy which would result in breaking up the unity of the German State as inconsistent with the Treaty obligations...."³⁶

It was the merit of Stresemann in particular to enlist successfully Anglo-American interest and co-operation. At first France refused to discuss any issue in connection with reparation which went beyond the question of the capacity to pay (*capacité actuelle*) of Germany. Finally French opposition was overcome, and on November 30th, 1923, it was agreed through the Reparation Commission, to establish two sub-committees of experts. One of these was to go into the question of balancing the German budget, the other into the problem of the flight of capital from Germany. Only the first under General Dawes gained importance and out of this committee was to emerge the well-known Dawes Plan, proposed by the Dawes Committee in April and accepted at the London Conference in August, 1924. Reparation was thus set apart from the political scene and so the first steps towards their commercialisation were taken. In London, Germany for the first time since the war, was accepted at the Conference Table on equal terms and the whole reparation issue was settled, this time by agreement and not by force.³⁷

³⁶ Imperial Conference 1923, Summary of Proceedings, London, H.M.S.O., 1923, p. 12.

³⁷ In the strict sense of the word, one can only really speak of "commercialisation" after the coming into operation of the

It was the so-called international officialdom, "cynical, humane, intelligent, with a strong bias towards facts and a realistic treatment"³⁸ that succeeded. The first conference between Allied and German "experts", as distinguished from conferences of "statesmen", had already taken place in Brussels in December, 1920. On both sides, it was realised that through mutual respect and reason, a solution of the reparation issue could be found. But at this time, major issues were not left to the discretion of experts whose approach was, if not impartial, at least cool and objective. Again, in October-November, 1922, economic and financial experts met in Berlin, suggesting ways to the Reparation Commission for stabilising the mark. But such moves were by and large ignored by the decision-making bodies.³⁹ The hour for fairplay and revision came only after the experience of the Ruhr adventure. Poincaré had lost his victory.

In concluding this chapter, it may be suggested that the occupation of the Ruhr District can also be seen in the light of the German drive towards hegemony during World War Two. Here I would like to offer the opinion of the French economist Etienne Mantoux who, fresh from the experience of another world war, wrote in 1944 the following:⁴⁰

The limited material yield that was brought by the occupation of the Ruhr has often been taken as the proof that 'force can settle nothing' in economic affairs. The experience of Europe after 1939 has

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Young Plan. It should be emphasised, however, that through "commercialisation" the reparations would not automatically be removed from politics. France for her part regarded "commercialisation" as giving a "guarantee" of maintained reparation payments for the future.

E.W. Bennett, Germany and the Financial Crisis, 1931, Cambridge, Mass., 1962, pp. 5-8.

³⁸ Keynes, Revision, op. cit., p. 19.

³⁹ R.W. Boyden, The Dawes Report, F.A., vol. 2, 1923-24, p. 593.

⁴⁰ Mantoux, op. cit., p. 142

perhaps taught us differently; for it is irrelevant to argue that the German 'New Order' 'failed' in the face of the resistance of the peoples of Europe....If the occupation of the Ruhr was only partly successful, it was because the coercive policy carried out by France was, compared to Germany's 'New Order', an evidently half-hearted one, and also because no unity between the Allies had been achieved. Had this unity existed, not even the application of force would have been necessary.

It should be noted here that France also tried to establish some sort of 'New Order' when occupying the Ruhr District. Such a policy brought her into conflict with her Allies so jeopardizing inter-Allied unity - a point which Mantoux does not consider when rightly criticising the 'New Order' aimed at by Germany in World War Two.

France thus had become isolated in the diplomatic sphere, and she was pressed by her former Allies into adopting a rather reconciliatory attitude, at a stage where her finances were at the point of collapse. Poincaré also lost support in his own country. After the victory of the Left (Cartel des Gauches) of May 11th, 1924, it was Herriot who took his place. The winds of change appeared now in both the political and the economic fields.⁴¹

The "best hope of success" was envisaged,⁴² but it was not before October 1st, 1924 that a French and a German delegation met in order to conclude a commercial treaty for the first time after the war. It took them almost three years to come to a final agreement.

Nevertheless, a new stage had begun in Franco-German relations, leading from the Dawes Plan to Locarno and Germany's entry into the League of Nations, the Franco-German Commercial

⁴¹ M. Baumont, La Faillite de la Paix (1918-1939), Paris, 4th edition, 1960, pp. 281 ff.

⁴² J.A.M. de Sanchez, Further Economic Consequences of the Peace, F.A., vol. 1, 1922-23, p. 163.

J. Caillaux, Où va la France? Où va l'Europe?, Paris, 1922.
Hoegel, op. cit., pp. 93 ff.

Treaty of 1927 and to what was to be thought of as the final settlement of Reparations through the Young Plan.⁴³

⁴³ A commission under the American Owen Young reviewed the reparations problem from January to June, 1929. The outcome of their proceedings was the so-called Young Plan, which became substituted for the Dawes Plan of 1924. The Reparation Commission was abolished and the administration of the German debt transferred from the political sphere to the newly created Bank For International Settlements. The total amount of the debt was fixed at 59 annuities of about 2,000 million goldmarks on the average, starting off with the relatively small amount of 742 million goldmarks for 1930. This was greatly facilitated by the Young loan of 1,260 million marks. The event of the "Great Depression" led to the Hoover Moratorium of June, 1931, which marked the end of reparation payments, finally adopted in the Lausanne Agreement of July, 1932.

Keesing's, 1932, 351 B.

Gebhardt, op. cit., pp. 153-4.

J. Chastenet, Les Années d'Illusion, 1918-1931, Paris, 1960, pp. 95 ff. and 119 ff.

CHAPTER III

THE FRANCO-GERMAN ANTAGONISM IN VIEW OF THE CHANGES
IN TERRITORIAL AND CUSTOMS FRONTIERS.

1. THE STRUCTURAL CHANGES IN THE FRENCH AND GERMAN POST-WAR ECONOMY.

In the interwar period it was an almost universally accepted axiom that the Franco-German relations were "the corner stone of European policy", and that a Franco-German détente would have given "fresh hope for peace and prosperity in Europe".¹

The structural changes in both economies were to a very large extent influenced by the changes in political and customs frontiers. We are not concerned here with the centuries old Franco-German antagonism, although it might be worth remembering that the importance of the Rhine Bridgeheads through two millenia dates back to Caesar's bridgehead (pons asinorum).

In more recent times there had developed a certain "frontier spirit" in both nations. French nationalists tended to regard the Rhine as a "natural" frontier (Rhenus finis Germaniae), while German nationalists proclaimed the Rhine a German "inland" river (Deutschlands Strom, nicht Deutschlands Grenze). A good deal of bitterness died down in the forty-three years of peace after 1871, but with the First World War the old antagonism flared up again in an unprecedentedly formidable way.²

We have already seen that in the immediate post-war period, France succeeded in keeping the defeated enemy in check, both politically and economically. The following table illustrates the changes in each nation's role as trading partner of various continents. On the average, France increased her share by about a quarter and that of Germany was reduced by about one third, comparing here the years 1913 and 1924.³

¹ R. von Kuehlmann, Germany and France, The Problem of Reconciliation, F.A., vol. 11, 1932-33, pp. 136-45.

² Ch. H. Haskins, Franco-German Frontiers, F.A., vol. 3, 1924-25, pp. 199-210.

It is interesting to note that as from the late 19th century, French academic life became increasingly influenced by Germany.

"... an intellectual rapprochement took place between the two countries...we established in Paris, and in

Percentage share in the trade of Europe
with other continents

		TABLE I						Total Trade of Europe			
		N. Amer.		Central & S. Amer.		Africa		Oceania		1913	1924
1913	1924	1913	1924	1913	1924	1913	1924	1913	1924	1913	1924
11	14	10	13	14	16	30	35	9	9	12	15
17	13	22	13	25	15	16	8	15	7	20	13
France											
Germany											

2 (Continued)

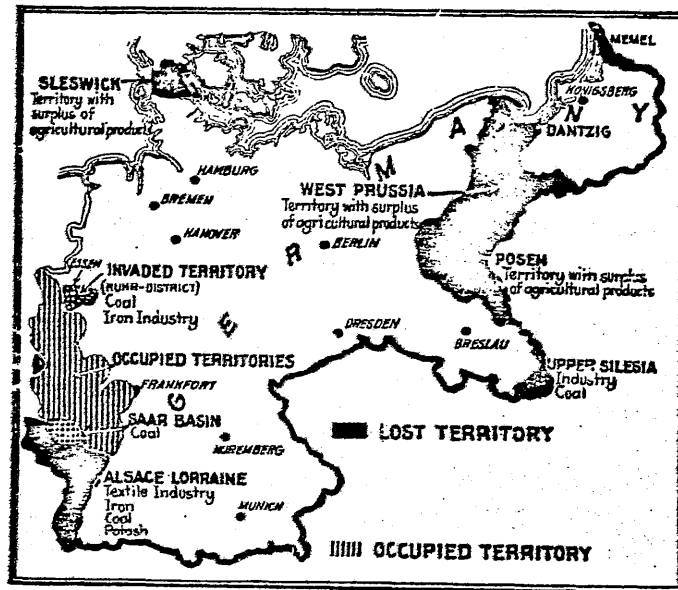
the most important of our provincial towns, universities after the German model; we adopted German methods....It became a fashion with a growing number of French young men....to go and spend a year in some German university....I am convinced that Wagner and Nietzsche....exerted a deeper influence on the ways of feeling and thinking in France than they did in any other country outside Germany.

- E. Halévy, *Franco-German Relations Since 1870, History*, new series, vol. 9, 1924-25, p. 21.

³ C. Day, *War Shocks to European Commerce, F.A.*, vol. 5, 1926-27, p. 636.

The underlying reasons for Germany's diminished role as a trading nation are manifold. Through the war, she lost, besides her colonies, an area which in its size and potential could be compared with that of the Netherlands, Belgium and Luxemburg together and she surrendered most of her capital holdings abroad worth approximately £1,400 - £1,500 millions.⁴ The total German losses have been estimated at 150 milliard gold marks, which represented about half of her total pre-war national wealth. The level of output in 1920 still amounted to only about half of the 1913 figure. She had lost 13 per cent of her pre-war area and through this 10 per cent of her pre-war population. Some further details can be obtained from the following tables.⁵

MAP I



Germany's Territorial Losses after World War One.

TABLE II

German losses through the Peace Settlement

(amounting to the following percentages of her pre-war total.)

	<u>Production</u>	<u>Reserves</u>
Coal	26	40
Potash	3	5
Iron-ore	75	83
Zinc-ore	68	-
Lead-ore	26	-
Steel	25	-
Wheat and Rye	16	-
Potatoes	18	-

Other losses

Sea Cable Network	95
Merchant Fleet (gross tonnage)	89

For instance, the above figures indicate the loss incurred by the German mining sector through the separation of Upper Silesia and Alsace-Lorraine.

In addition it is necessary to throw some light upon the changing circumstances governing the availability of economic resources before and after the war. In order to eliminate the impact of the immediate post-war situation, we are going to compare the years 1913 and 1929.

TABLE III

COAL (million tons)

	<u>1913</u>		<u>1929</u>	
	Production	Export/Import Surplus	Production	Export/Import Surplus
Germany	277	+ 30	351	+ 33
France	41	- 22	55	- 26

TABLE IV

IRON-ORE (million tons)

	<u>1913</u>		<u>1929</u>	
	Production	Export/Import Surplus	Production	Export/Import Surplus
Germany	36	- 11	6	- 17
France	22	+ 8	51	+ 15

The shift in economic power, especially as far as iron is concerned, was considerable. Special attention is drawn to the fact that France had to increase her imports of coal, whilst she ranked second among the world's iron-ore producers.⁶ On the other hand Germany was in almost every sphere of her economic life, severely affected. In the course of the 1920's, however, she was able to overcome many of the difficulties caused by the loss of the coal fields of Upper Silesia and of the Saar Territory by more efficient exploitation of her remaining mines and by the extended use of her large deposits of lignite. Generally speaking, she succeeded very well in many spheres of her economy, in overcoming major bottlenecks resulting out of the Peace Settlement, although this should not conceal the fact that during the years immediately following on after the war, economic conditions in Germany remained extremely critical.

We cannot go into much detail and the following example illustrates better than any long treatise, how the German nation

⁶ It should be noted that France lost her position as the world's second biggest iron-ore producing country to Russia in 1934, when taking the actual metal content as a basis. Her production of iron-ore had been reduced due to the Depression by more than 40 per cent during the years 1930-33. The following table compares the situation of 1929 with that of 1934.

Iron-ore Production (Metal Content) in million tons.

<u>U.S.A.</u>	<u>U.S.S.R.</u>	<u>France</u>	<u>Sweden</u>	<u>U.K.</u>	<u>World</u>	
37.6	4.0	18.0	7.0	4.0	89.9	(1929)
12.6	10.8	10.5	3.3	3.2	52.5	(1934)

was shaken to her very economic foundations. The consumption of beer, which even for the lower classes was far from being an extravagant luxury in pre-war Germany, had played an essential part in the basic diet of the average household. The beer consumption, within the German excise jurisdiction, declined from 69 million hectolitres in 1913 to 23 million in 1920 and taking into account the loss of population, we can measure a decline in per capita consumption of about 60 per cent. This shift in the preference scale away from a basic commodity indicates how the average German household oscillated around the subsistence level in its supply situation.⁷

In addition, it should be mentioned perhaps that as late as the beginning of 1922, according to reliable estimates, about 90 per cent of the population of Berlin lived at the subsistence level, and malnutrition had serious effects on the capacity for work. Conditions in the eastern parts of Germany were even worse, and the deaths caused by tuberculosis and other maladies increased to unforeseen proportions. It was none other than Chancellor Wirth, known as a strong supporter of a policy of fulfilment, who launched the password "Provide bread first, and then reparations!" at the Congress of German Industry and Commerce held on September, 14th, 1922. This demonstrates that even moderate German leaders were aware about the desperate state of affairs that the average household as an economic unit was faced with. Whether it was justified or not, much blame was laid upon the excessive demands for reparations. Economic realities intermingled with popular sentiments and anti-French feeling grew deeper and deeper. It seemed to many that any Franco-German détente was perhaps more part of the remote future than was man's landing on the moon.⁸

These post-war conditions should also be seen against the background of the German inflation, which up to 1923 and the creation of the Rentenmark made any recovery hard to envisage. This inflationary development had started with the outbreak of the war and the total currency in circulation at the end of the war was

⁷ K. Kautsky, Germany Since the War, F.A., vol. 1, 1922-23, p. 113.

⁸ Lichtenberger, op. cit., pp. 110-11.

about five times that of 1914, whereas the exchange rate was still about half of the pre-war level.⁹ However, this soon changed and exchange depreciation appeared to push up internal prices. Thus the vicious circle started with exchange depreciation, leading to price increases of imported goods, which in turn increased domestic production costs. This resulted in price increases inside Germany and in addition, swollen Government deficits were accompanied by fresh issues of paper money. During the whole of that period (1918-23) the situation was aggravated by what was one of the Government's chief methods of obtaining foreign exchange for reparations - namely, the issuing of new notes and the selling of them on the exchange market. In addition, German speculation exaggerated the exchange rates and made things worse than they already were. At this time leading German economists were prepared to accept an inflationary policy as an expedient measure for meeting the internal and external commitments of the Reich. The Government did not take any serious steps towards stabilisation of the currency which, from our perspective, seems an extremely irresponsible attitude. But the reparation question overshadowed everything. Fairly early on it was predicted that the result would be a collapse of the whole monetary system, but the prevailing view was that a stable currency could only be established with a revision of the claim for reparation. An address delivered to the Congress of German Industry and Commerce on June 14th, 1921, by Georg Solmssen, a leading German banker, dealing with the repercussions of the London Ultimatum, was quite representative of this way of thinking.¹⁰

... thus we move in a wicked vicious circle which, where our monetary system is already hopelessly undermined, must inevitably lead to its complete collapse.

However, it is not completely right only to blame the Allies, and in particular France, for the hyperinflation in Germany.¹¹

⁹ Stolper, op. cit., pp. 105-8.

¹⁰ Solmssen, op. cit., vol. 1, p. 212.

¹¹ It should be noted here that the success of the Rentenmark was achieved at a time when economic and political conditions

The rapid fall of the mark can, of course, to a large extent be ascribed to reparations, but external influences, working through the balance of payments were not the only ones. It is rather misleading to relate a currency's weakness on the exchange market to the balance of payments explanation only. The imbalance in a country's transactions cannot be given such a one-sided interpretation. It is largely a consequence of the relation between exchange rate and relative price levels. In Germany, inflation came into causal relation to the exchange rate only after years of war-time deficits financed by the printing of new paper money. That the highly sensitive exchange market reflected the anticipation of further inflation, and that France also participated in the "buying up the country" (Ausverkauf), is the outcome of a development which had already started in 1914.¹²

11 (Continued)

were extremely disturbing, and there was still no settlement of the reparation issue. The Rentenmark was introduced on November 15th, 1923, and the Dawes Plan eventually came into force only on September 1st, 1924. On the other hand reparation payments were suspended during the Ruhr conflict, and the prospects for a revision of the reparation question played quite an important role from a psychological point of view. - G. Kroll, op. cit., pp. 22-3.

N.B. The inflation had moved towards its climax in mid-1923. Schacht entered upon his duties as Commissioner for National Currency on November 13th, 1923. - Schacht, op. cit., ch. XXII, pp. 177-87.

Turner, op. cit., pp. 145-56.

¹² A detailed reassessment of the problems of the German inflation in the years 1918-23 has been recently undertaken. It has, for instance, been pointed out here that, contrary to opinions held up to today, it cannot be proved that the inflationary process even in its extreme phase had any large effect on productivity. - Laursen and Pedersen, op. cit., see especially ch. V., pp. 51-71 and ch. VII, pp. 75-88.

So far we have been discussing the impact of the war on Germany. The basis on which her economy was structured had been narrowed and recovery took place only after her economy had undergone a complete collapse. In France, the development was less abrupt; inflationary tendencies continued, but without leading to economic disaster. On the other hand, the war hadexcept for a few advances....left France from the point of view of economic strength in a condition of extreme feebleness.¹³

The structural changes of the French economy can be summarised as follows:¹⁴

1) General economic expansion resulting from the war, although it was limited in its scope. Increased state control which was relaxed after the war, although it remained still greater than in pre-war times; "War has proved to be the largest of state economic enterprises."¹⁵

2) Intensified industrialisation in connection with an increase in the average size of private enterprises. Paris became a major centre of large industry, while before the war, mainly small plants were predominant there.

3) Increased dependence on foreign trade, thus proving the objective of greater self-sufficiency to be illusory.

4) A change from the pre-war state of a creditor nation to that of a debtor, thus making a favourable balance on the current account essential.

5) Increasing urbanisation; for the first time in her history, the population of France classified as urban exceeded that classified as rural. In 1936, the proportion was 52.4 per cent to 47.6 per cent respectively (in communes of more than 2,000 inhabitants).

6) Degressive increase in population.

7) Increasing dependence on foreign workers.

During the depression development went into reverse.

Foreigners in France (in millions)¹⁶

¹³ Clough, op. cit., p. 293.

¹⁴ Hoegel, op. cit., pp. 15 ff.

¹⁵ Clough, op. cit., p. 261.

1911	1.1
1921	1.5
1926	2.4
1931	2.7
1936	2.2

8) The gaining of control of Alsace-Lorraine with a population of 1.9 million, and its large-scale iron-mining industry.

9) Temporary extension of control over the Saar for fifteen years, which offered far more than mere compensation for the war-time destruction of the coal mines in Northern France, since the latter were to reach their pre-war level of output by 1925.

Despite heavy losses, the economic potential of Germany remained far above that of France, although the "blocking mechanism" of the Treaty tended to disguise this for some time. Nevertheless the reconstruction of the devastated areas of France was accomplished fairly quickly. In fact, by 1925/6, reconstruction of these areas was completed and this despite the delay in restoration caused by the lack of foreign capital. It has been suggested that, had the European countries received foreign loans sooner, inflation might have been controlled and recovery facilitated.¹⁷ Thus the recovery of France is quite outstanding, particularly in view of the fact that the flow of reparations was rather slow. The invaded areas had provided 55 per cent of France's coal, 90 per cent of her iron-ore and 63 per cent of her steel production. The pre-war population of these areas of 4.7 millions had fallen to 2.1 millions in 1918, and at the end of 1925 stood already at 4.3 millions.¹⁸

¹⁶ It will be noted that the post-war influx of foreigners did little more than replace the French war losses of 1.3 million lives. The decline in the number of foreigners in the 1930's was due to increasing naturalisation, and the efforts during the Depression to repatriate foreign workers in order to create more employment for Frenchmen.

A. Guenther, Frankreich und sein Ueberseereich in der Weltwirtschaft, Stuttgart, 1936, pp. 143-5.

D.R. Gillie, France, Survey, 1939-46, The World in March, 1939, p. 168.

¹⁷ Lewis, op. cit., pp. 34-7.

¹⁸ Pommery, op. cit., p. 109.

H. Heaton, Economic History of Europe, New York, revised ed. 1966, p. 675.

The coal mines of the Nord and the Pas de Calais surpassed the pre-war level by 1.3 million tons in 1925.¹⁹ Thus the French control over the Saar was no longer justifiable in terms of its compensatory function.

The year 1925 can be taken as the end of the post-war period of readjustment. Economic discrimination against Germany ended in the main on January 10th, and this year became the turning point in economic affairs, as well as in the political sphere. The Treaty of Locarno marked a new beginning and economic recovery came within reach. The three main factors making this recovery so slow and painful were:²⁰

- 1) the post-war slump
- 2) the shortage of capital.
- 3) the hindrances to trade.

It has been maintained that France emerged from the war as a leading Power on the Continent and yet economically and politically, as a Power bound to meet with a large degree of failure. This should be modified however. She did not merely return to the status quo ante but had actually increased her ability to produce. Experts reckoned that about ten years would have been necessary to reconstruct her devastated areas. As we have already seen, this was achieved by 1925/26.²¹

¹⁹ a) Coal Production of the Bassin du Nord and Pas de Calais
(million tons)

1913	-	26.4
1921	-	13.4
1925	-	27.7

b) Total French coal production reached the pre-war level of 40.1 million tons for the first time in 1924 - Pommery, op. cit., p. 72 and pp. 109-12.

A.L. Bowley, Some Economic Consequences of the Great War, London, 1931, second impression, ch. VII, pp. 166-195. N.B. Bowley deals mainly with Britain, offering, however, from his particular viewpoint a rather valuable record, despite the fact that his book is in many respects outdated.

²⁰ Lewis, op. cit., p. 35.

²¹ Clough, op. cit., p. 313.
Pommery, op. cit., p. 110.

Nevertheless, some further points should be raised here. It seems necessary to consider the economic mentality and the whole structure of the French economy. France carried her policy of "defensive hegemony" (Defensive Hegemonialpolitik) into the economic sphere as well. For instance, the Grand-Duchy of Luxemburg ceased to form part of the German Zollverein as from January 1st, 1919 (Peace Treaty, Art. 40); this provision was to be of course, in France's favour. From September, 1919 the Grand-Duchy belonged to the French Customs Union, but it joined the Belgian Customs Union in May, 1922. This was mainly due to the antagonising forces within France. The comparatively small Grand-Duchy had very productive deposits of iron-ore immediately adjoining similar deposits in France and a highly developed smelting industry which processed more than half of her ore production. Thus she was at first regarded as offering a "natural" extension for France, similar to that of the Saar. The French iron and steel industry however, became alarmed, fearing the competition of Luxemburg where labour was cheaper than in France and thus conflicting interests between Luxemburg and France soon led to the former's withdrawal from the French Customs Union.

In addition, it should be remembered that the French had originally insisted that they must have a Treaty right to German labour for the purpose of restoring the devastated regions of Northern France. Provisions requiring Germany to provide up to 500,000 labourers to work in these devastated areas were eliminated at the last moment, mainly due to objections raised by the French trade unions.²²

This brings us to the French population problem and the "static state of mind" especially of the lower middle-class citizens, les petits bourgeois, who were so characteristic of this country, where the population was concentrated in "small towns from which the energy was ebbing while the power of the vote remained."²³

²² J.F. Dulles, The Reparation Problem, E.J., vol. 31, 1921, p. 183.

²³ a) D.R. Gillie, France, Survey 1939-46, The World in March, 1939, pp. 168 and 170.

In the 1930's, when France had to face up to a militant Germany, it became clear that in political life especially, the younger generation did not succeed in replacing the older, either in quantity or in quality. It has been calculated that 18.2 per cent of Frenchmen of military age lost their lives in World War One, whereas the figure for Germany was 15.5 per cent. This and the traditional socio-economic pattern of French society can to a large extent explain the attitude of France towards Germany in the interwar years. Despite the overwhelming spirit which accompanied the reconstruction of her devastated areas, France remained a country where

inefficiency was quite respected, if not positively encouraged....and it was therefore thought to be in bad taste to try to lower costs and push less efficient firms out of business....The newcomer was pushed out, if possible, but once he was in, everything was done to help him to stay in.²⁴

23 (Continued)

b)	<u>Rate of Natural Increase</u>			
	<u>France</u>		<u>Germany</u>	
	2.1	1921-25	8.8	
	1.4	1926-36	6.6	
	0.8	1931-35	5.4	
	- 0.3	1937	7.1	
	<u>Net Reproduction Rates (1935)</u>			
	France	0.866		
	Germany	0.880 (0.906) ^{3E}		

^{3E}Figure arrived at Burgdoerfer's method.

N.B. It should be emphasised that reproduction rates tended to decline in both countries; in some interwar years they were even in favour of France. In the late 1930's there was a slightly higher rate in Germany.

c)	<u>Population (in millions)</u>			
	<u>France</u>		<u>Germany</u>	
	39.6	1910	64.9	
	39.2	1920	59.2	
	41.8	1930	64.5 ^{3E}	
	42.0	1938	74.8 ^{3E}	

^{3E}Incl. Saar Territory and Austria.

Source: Statistical Yearbooks of the League of Nations.

Clough and Cole, op. cit., p. 667.

Such economic realities were only too often completely ignored by many French post-World War One politicians, as illustrated in the words of Tardieu:²⁵

France is a land of boundless resources, material and moral, a land that loves its liberties.... a land that has faith in the future, because it has faith in its work.

It is true that France used her liberties and perhaps laid more stress on that than any other nation. But how did she cater for her own future? Her material resources were not boundless, but she was fairly adequately endowed with them. The war effort contributed largely to the idea of economic expansion in France, partly due to mere imperialistic ambitions, but also partly due to rational economic considerations. On the other hand, the bridging of the gap between ambitions and socio-economic realities proved to be beyond the powers of any ambitious eloquence. An example of this was the French attitude towards her colonial Empire. On the one hand she fell back into complacency when recalling that "Greater France" was a nation not of forty millions but of one hundred millions. On the other hand, little was done to overcome the extreme backwardness of most of the French Empire.

By and large, France tended more and more to follow a protectionist economic policy yet she aimed at political alignment, as for example in the case of the creation of the "Little Entente". Thus the French concept of security in her foreign policy can be applied to her efforts to become more and more self-sufficient. This emphasis on nationalism of course fluctuated and policies of co-operation in the economic sphere were never completely abandoned, but they had no great significance in French national economics.

²⁴ This statement made at a conference by Professor Leduc on September, 11th, 1957, should illustrate from a rather impartial historical perspective the general atmosphere in France, which largely governed economic forces in the interbellum period.

E.A.G. Robinson, ed., Economic Consequences of the Size of Nations, London, 1963, p. 346.

²⁵ Tardieu, op. cit., p. 408.

In conclusion, while the middle-class establishment was shaken by the depreciations of the late 1930's, the structure of the French economy changed little over the interwar period and the French economic mentality changed even less. The Economist commented as follows:²⁶

The French citizen, le brave bourgeois and the peasant, wants to feel economic terra firma under his feet.

In following pages some remarks will be made on the different entrepreneurial mentality prevailing in France and Germany at that time. In anticipation of what will be discussed there, it may be suggested that the Franco-German antagonism would have been even stronger than it actually was, had the Frenchman resembled more closely the German in terms of the latter's "dynamic" entrepreneurial drive, which was worlds apart from the "rentier" mentality largely to be found in France.

²⁶ Economist, January, 25th, 1936, p. 171.

What we call social stability in France is in fact the maintenance, artificially even, of that category of independent artisans of the lower middle-class, threatened by progress....The maintenance of a former social order at the centre of a stream of economic changes, themselves always more profound, is instability itself.

Ch. Morazé, La France Bourgeoise, XVIII^e - XX^e Siècles, Paris, 1946, p. 189.

2. ALSACE-LORRAINE - A SCENE OF CONFRONTATION.

At the Peace Conference, France knew exactly what she wanted - firstly the return of Alsace-Lorraine in accordance with the eighth of Wilson's Fourteen Points,¹ secondly security and thirdly reparations.² Only the first of these demands was actually realised in full. Through her incorporation of Alsace-Lorraine France increased her population by 1.9 millions and gained control over iron-ore deposits which considerably increased her resources. Furthermore, the German potash monopoly was broken through the acquisition of such deposits near Mulhouse (Alsace).

The French claim for Alsace-Lorraine was on one hand sentimental and strategic and on the other, economic. It has already been stressed how economic considerations gained importance during the war. It is a matter of opinion to argue whether the French attitude was "fortified by economic considerations" only³ or whether these "economic considerations" were fortified by others.⁴ The truth probably lies between the two. From their viewpoint, the inhabitants of this area possessed a culture and nationalism of their own. They had detested the German rule, although it had brought them a fair amount of autonomy, but quite soon it became evident that France was not quite La Mère Patrie that she had seemed to be in 1918. They saw their Petite Patrie threatened by French centralism and assimilation policies.

The unsettled state of affairs in this area, termed Le Malaise en Alsace, followed on the lines of that of Ireland without, however, reaching the same dimensions.⁵ The advice later

1the wrong done to France by Prussia in 1871 in the matter of Alsace-Lorraine.....should be righted in order.....

Keesing's, 1918-31, p. 10.

2 Cobban, op. cit., p. 119.

3 Clough, op. cit., p. 291.

4 Hoegel, op. cit., pp. 3-7.

5 H. Callender, Alsace-Lorraine since the War, F.A., vol. 5, 1926-7, pp. 427-37.

offered by General Smuts to France when dealing with French post-war policies, namely "You cannot be a patriotic Frenchman unless you are also a good European"⁶, could also have been applied as regards their attitude to Alsace. It was in particular the right of the French Government to expropriate without compensation all German property in Alsace-Lorraine which had far-reaching consequences. This involved both individual German citizens and German companies resident or situated within Alsace-Lorraine. At the time of the Armistice there were more than 300,000 Germans resident in Alsace-Lorraine. Exemption was granted to some 75,000 to 80,000 who had the opportunity of becoming naturalised and to a few others who were allowed to remain.⁷ In 1871, French private property had remained untouched, but this time things were different. French heavy industry in particular realised considerable gains. The French Government sold this former German property at pre-war prices, thus realising only about a quarter of its actual value, which was then credited to the German reparations account. So it was, for instance, that Schneider-Creuzot acquired the former property of the Roehling-Group, the Deutsch-Luxemburger A.G., the Gelsenkirchener A.G. and Dillingen with 16 blastfurnaces altogether. The Minière et Métallurgique d'Alsace-Lorraine, which again was in the main owned by Schneider-Creuzot and de Wendel, took over the Werke des Lothringischen Bergwerks- und Huettenevereins, and the important Hadinger Thyssenwerk became the property of the Groupement des Consommateurs des Produits Métallurgiques et Industrielles.⁸

The most important economic consequence of the incorporation of Alsace-Lorraine was the shift in economic resources which became available to France, in particular as far as iron-ore deposits were concerned.

⁶ The Times, October, 24th, 1923.

⁷ Keynes, op. cit., pp. 63-7.

Callender, op. cit., p. 431. The German Government was supposed to compensate those who were affected by expropriation carried out by French authorities. See Treaty of Peace, Art. 297, Temperley, op. cit., pp. 261-5.

⁸ Hoegel, op. cit., p. 20.

The following table should illustrate this.⁹

TABLE I

	<u>Iron-ore production</u> <u>of the Lorraine Basin</u> <u>(1913)</u>	<u>Total iron-ore production</u> <u>of each country (1913)</u>
	(approx. figures in million tons)	
Germany	21	29
France	20	22
Luxemburg	<u>7</u>	<u>7</u>
Total	<u>48</u>	<u>58</u>

This high-phosphoric iron-ore of the Lorraine Basin (minette) was only exploited on any large scale shortly before the turn of this century. However, its output figures then grew rapidly. The above table indicates the importance of these deposits in relation to total iron-ore production of each country. Assuming for instance, the pre-war level of output to be calculated within the post-war boundaries, France would have produced 41 million tons of iron-ore in Lorraine, having once eliminated the presence of Germany there.

In 1929 the output figures for all producing areas of Germany, France and Luxemburg respectively were as follows:¹⁰

<u>TABLE II</u>	<u>Iron-ore</u>	<u>Metal content</u>
	(million tons)	
Germany	6.4	2.1
France	50.7	18.0
Luxemburg	7.6	2.3

Thus it can be seen that whereas Germany's iron-ore production surpassed that of the comparatively small Luxemburg by four times in 1913,¹¹ in 1929 the latter's output surpassed that of Germany. On the other hand this loss of Germany's prior position as an important iron-ore producing country had no real antagonising effects on Franco-German relations. The world market offered this

⁹ See Appendix A VI and Friedensburg, Kohle und Eisen, op. cit., p. 14.

¹⁰ Statistical Yearbook of the League of Nations, 1913/32, Table 70 and 1938/39, Table 74.

¹¹ Stolper, op. cit., p. 42.

material in sufficient quantities and in any case, the Swedish iron-ore was of a higher grade and in many ways was much more suitable for German requirements.

France soon realised her increased dependence on marketing her considerable amount of iron-ore which was not processed at home since despite the fact that her production of pig-iron and steel had about doubled from 1913 to 1929, her iron-ore production had increased by nearly two and a half times.¹²

The iron and steel industry of Lorraine thus tried to retain Germany as its main customer. This was, however, only to a certain extent possible. Thus quite often this sector was forced to restrict output, which made it impossible to make full use of capacities available, so affecting adversely the whole cost structure of the industry.

The rapid economic expansion in the decades following 1871 had made Alsace-Lorraine dependent to an ever increasing degree on the German market for its products. After 1871, Alsace-Lorraine had been for two years a free-trade area, in order to facilitate its incorporation into the German economy. After 1919, France did not follow such a liberal policy and relied on the provisions of the Peace Treaty (Art. 268a), whereby for a period of five years from the coming into force of the Peace Treaty (January 10th, 1920 - January 10th, 1925) natural and manufactured goods which came from Alsace-Lorraine were exempt from all customs duties when entering Germany. France was entitled to fix each year the amount to be sent to Germany, but had to base these deliveries on the average of the amounts sent annually in the years 1911-13. France was, however, unable to make full use of these quotas, since the economic conditions in Germany did not always create the necessary demand and in addition, German boycotts had adverse effects. These provisions included the free importation from Germany and free re-exportation into Germany of those textile materials and textile products, which

¹² See Table III and Table IV of this section (Pt.2). From Table IV of part 1 of this chapter it can be seen that the French export surplus increased from 8 million tons in 1913 to 15 million tons in 1929.

had undergone or were to undergo any finishing process in Alsace-Lorraine.

In addition to the fact that the French market for iron-ore as well as for iron and steel products was limited, so that an outlet was sought in Germany, France feared the competition of the highly developed agricultural sector and the advanced textile industry of Alsace-Lorraine, particularly since the latter's production capacity amounted to about 25 per cent of the French total. Thus we find both the French fear of competition and her limited domestic market necessitating the maintenance, at least to a certain extent, of trade relations which had developed to an ever increasing degree over nearly five decades preceding World War One between Alsace-Lorraine and Germany. The importance of the German market for Alsace-Lorraine can be seen when looking at the Franco-German post-war trade figures. The German imports from Alsace-Lorraine amounted in 1925, the year when discriminatory provisions were lifted, to nearly three-fifths of the German imports from the whole of France, whereas German exports into Alsace-Lorraine amounted to only one-fifth of total German exports into France. This reveals the importance of the German market for produce from Alsace-Lorraine, a fact which in trade negotiations strengthened the otherwise rather vulnerable German position.¹³

The extent to which this period proved to be one of maladjustment is illustrated in the case of French iron-ore exports into Germany.¹⁴ Since the struggle for the political control of

¹³ Statistisches Jahrbuch fuer das Deutsche Reich, Statistisches Reichsamt, vol. 45, Berlin, 1926, pp. 186-9.

¹⁴ Apart from iron-ore, it is interesting to note that German exports of coal to France did not actually decline (except during the times of the Ruhr conflict) mainly due to German reparations made in coal. In 1926, coal exports reached their peak for the whole of the interwar period, although this was partly caused by the General Strike in Britain. Statistisches Jahrbuch fuer das Deutsche Reich, Statistisches Reichsamt, Abt. VII, Auswaertiger Handel, vol. 41-59, Berlin, 1920-1941/42.

the Franco-German unit stretching from the Channel to the Ruhr was lost for Germany, she re-orientated herself and relied to a greater extent on ore supplies especially from Spain and Sweden. After the war, French iron-ore exports had slowed down, but as from 1924 they increased, reaching their peak for the 1920's in 1928, although remaining slightly under the pre-war level. They slowed down again up to 1932, and due to the recovery in Germany increased rapidly thereafter, reaching their peak for the interwar period in 1936, well above the pre-war level. When comparing these with the Swedish iron-ore exports to Germany, it becomes clear how political circumstances influenced the preference scale of the German customer.¹⁵ Thus France could only maintain a moderate share of the German market. In absolute figures, this share in general compared favourably with the pre-war level, but since exports from Alsace-Lorraine were included in the French post-war figures, France's position in respect to her iron-ore exports to Germany was in fact seriously affected. In the late 1930's, between 65-70 per cent of German iron was made from foreign ores and the great expansion in the output of German heavy industry at this time caused an increase in both French and Swedish ore exports to Germany. The later moderate recession can be attributed to the move towards greater autarky, as illustrated by the building of the Hermann Goering Works.¹⁶

15 French and Swedish Iron-Ore Exports
to Germany

(approx. figures - in million tons)

<u>Exporter</u>	<u>1913</u>	<u>1929</u>	<u>1932</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
France	3.8	3.3	0.6	6.8	6.0	5.0
Sweden	4.6	7.4	1.5	8.1	9.5	9.0

Source: Statistisches Jahrbuch fuer das Deutsche Reich, Abt. VII, Auswaertiger Handel, vol. 41-59, Berlin, 1920-1941/42.

Economist, August 5th, 1939, pp. 266-7.

J.W.F. Thelwall and R.P.F. Edwards, Economic Conditions in Germany to July, 1930, Department of Overseas Trade, London, H.M.S.O., 1930, p. 75.

¹⁶ Economist, July 29th, 1939, p. 215.
Sweezy, op. cit., pp. 34-5 and 85-9.

The following tables offer a comparison between the developments in the iron and steel industry in both countries.¹⁷

TABLE III

Pig-iron Production
(million tons)

<u>Germany</u>		<u>France</u>
16.6	1913	5.2
9.2	1922	5.3
9.6	1926	9.4
13.2	1929	10.4
3.9	1932	5.5
18.6	1938	6.1

TABLE IV

Steel Production
(million tons)

<u>Germany</u>		<u>France</u>
17.6	1913	4.7
11.2	1922	4.5
12.2	1926	8.6
16.0	1929	9.7
5.6	1932	5.6
23.2	1938	6.2

One should keep in mind that after the war the metal content of the iron-ore deposits of Lorraine amounted to about 700 million tons, while post-war Germany remained with about 300 million tons.¹⁸ The former German Alsace-Lorraine became in the interwar times responsible for more than one-third of the French pig-iron and steel production. This again illustrates that behind political sentiments remained a forceful economic basis.

It has been pointed out already that we find in the years

¹⁷ Statistical Yearbooks of the League of Nations, 1931/32 and 1938/39.

Pommery, op. cit., p. 450.

¹⁸ Stolper, op. cit., pp. 34-5.

preceding World War One an increasing degree of economic interdependence spreading out from the Ruhr District to the Channel. The expanding policy as undertaken by big enterprise, took place quite often irrespective of political frontiers. Thus some kind of Grosswirtschaftsraum started to develop, which during the war stimulated the drive for political expansion. Before the war, German heavy industry became particularly active in French Lorraine and Northern France. At this time French enterprise played a rather insignificant role in the then German Alsace-Lorraine, largely due to the different degrees of industrialisation and the different types of entrepreneur prevailing in the two countries - in France it was to a large extent the "rentier" type of entrepreneur who shaped economic behaviour patterns, while in Germany, it was a more "dynamic" type of entrepreneur who took the lead.¹⁹

The events of the war had little impact on the prevailing mentality of both types of entrepreneur. In this context it is interesting to look at the economically active population of the two countries and to compare the pre- and post-war percentages of those engaged in Commerce and Industry.²⁰

TABLE V

	<u>1906/7</u>	<u>1925/6</u>
Germany	45.4	48.9
France	38.5	42.7

In fact, France was lagging behind as far as both her degree of industrialisation and the prevailing "capitalist" spirit of the average entrepreneur were concerned. This should be qualified in respect of a sometimes quite aggressive drive developing, with strong support as given by the French State. For instance,

¹⁹ Before World War One German capital had secured control of about 15 per cent of the mining sector in French Lorraine. C.K. Leith, *The World Iron and Steel Situation in its Bearing on the French Occupation of the Ruhr*, F.A., vol. 1, 1922-3, pp. 136-51.

²⁰ Statistical Yearbook of the League of Nations, 1931/32, Table 4.

after taking over the potash industry after the war, the French producers, consisting of some state works and only one private firm, realised a considerable advantage over their German competitors. The marketing of the whole French potash production was undertaken by an organisation where the French State held 70% of its interest (Société Commerciale des Potasses d'Alsace) and having large state subsidies at its disposal. The German producers, albeit organised in a compulsory cartel and subject to state control in this respect, were in a less favourable position since they had no subsidies and no state agency behind them. The Franco-German competition raged especially on the very important American market, and was extremely harmful to German producers not relying on any state assistance.²¹

Generally speaking, such an aggressive drive on the part of the French was to a large extent dependent on either direct or indirect promotion by the State, and it remained restricted to a few fields of activity. In the above instance, the Franco-German antagonism was overcome by agreement in 1924, in respect of the American market and in 1926, in respect of the world market as a whole.

Furthermore, when looking at the response to the post-World War One conditions, again in respect of the potash industry, the different degree of industrialisation and differing entrepreneurial behaviour patterns can be seen. The German producers concentrated more and more on special manufacturing processes and the chemical utilisation of potash, in order to combat the consequences of the loss of the potash industry in the Alsace, whilst the French potash producers restricted themselves to expanding and increasing the mining productivity of this newly acquired industry. This can in both cases be classified as "dynamic" entrepreneurial behaviour, although in the case of the latter, it was considerably less dynamic than in the former.

Despite the fact that the wartime experience transformed France's industrial structure, there is not much evidence that the war stimulated the growth of a new kind of business élite. Such an élite had already existed in Germany for over one generation.

²¹ Levy, op. cit., p. 103.

Clough, op. cit., p. 34.

In France however, "the cautious, conservative attitude typical of French business continued dominant into the post-war era."²² To give a full explanation of this is not easy. The rapid reconstruction of the devastated areas indicates that France was able to take up a challenge not only in the military, but this time also in the economic sphere and this despite the slow flow of German reparations. Thus it may perhaps be suggested that the upheaval caused by the war "...was both too great and not great enough for a nation faced with the problem of converting itself to twentieth-century conditions."²³

It should be emphasised that the French claim to Alsace-Lorraine in particular and to the Rhine frontier in general, must not be seen to be directly in connection with moves towards the breaking up of the national unity of Germany as happened for instance, in connection with the occupation of the Ruhr District. A look back to the Peace Conference can illuminate this. No doubt Clemenceau, one of the Big Four at the Paris Peace Conference, showed one of the most uncompromising of all attitudes towards Germany. On the other hand, it was Clemenceau who was too much the "Jacobin", being convinced that the national unity of Germany was an accomplished fact. He strongly believed in the future of the nation-state in Europe.²⁴ This belief he tried to reconcile with the French policy of security. Thus national security of Germany had to stop on the west bank of the Rhine and north of the Alps - Austria and the Rhineland had to be treated as separate unities in an attempt to ensure that "European hegemony might be remedied for many generations."²⁵

It can be argued that Clemenceau underrated the driving force of nationalism, something he himself believed in so much. On the other hand, he has been blamed without much justice for having tried to undo the national unity of Germany. However, there is an interpretation of his attitude that does not justify

²² G. Wright, France in Modern Times, 1760 to the Present, London, 1962, p. 403.

²³ *Ibid.*, p. 404.

²⁴ Mantoux, *op. cit.*, pp. 46-9.

²⁵ Keynes, Consequences, *op. cit.*, p. 32.

this if one is prepared to think along broader lines.²⁶

The French claim to the Rhine as Germany's frontier at the Peace Conference can be summed up as follows:

- 1) Alsace-Lorraine: Economic, strategic, sentimental.
- 2) Saar Territory: Economic.
- 3) Rhineland: Strategic.

There were no territorial demands by France as regards extending her sovereignty over the Rhineland. This is the crucial point. All that was asked for was the demilitarisation of the Rhineland and the creation of a buffer state there, which was to be admitted to the League of Nations, in order to safeguard its own interests. The Rhine bridges were to be occupied by an inter-Allied force, and the western frontier of Germany was to be fixed at the Rhine.²⁷

All this was not simply the break-up of the national unity of Germany, despite the loss involved for her. It is of course open to question whether France was morally entitled to make these demands of a nation, even though it remained a potential aggressor. As far as the economic implications are concerned, Germany would have been reduced to altogether five-sixths of her pre-war resources. However this would not have implied any drastic changes in the Franco-German economic "balance of power", leaving aside the German eastern frontier question. The "remedy for many generations" did

²⁶H. Nicolson, Peacemaking, 1919, London, 1943, p. 52, p. 67 and p. 72.

A. Tardieu, The Truth about the Treaty, London, 1921, pp. 353-75.

A.J. Mayer, Policies and Diplomacies of Peacemaking, Containment and Counterrevolution at Versailles, 1918-1919, London, 1968, pp. 517-8.

It should be noted that the three authors express quite different views. Since the French attitude towards German national unity is of crucial importance for an understanding of the underlying problem of Franco-German relations, I have attempted to reconcile the various viewpoints in the light of their relevance for developments in the economic sphere.

²⁷Tardieu, *op. cit.*, pp. 145-201.

not lie in the economic field²⁸ - it might have remedied the French security complex and from the French point of view might have offered a solution for peaceful co-existence. Whether such a solution would have been too much in France's favour, thus further antagonising Germany, is quite a different question.

The realisation of the French claim for the separation of the left bank of the Rhine from Germany would have meant that the latter's losses at her western frontier were roughly equal to her actual losses both in the west and east together. The resulting creation of a Rhenish buffer state could have been accompanied by the maintenance of Germany's pre-war eastern frontier with perhaps the exception of a few districts entirely inhabited by Poles. Assuming for instance, Germany had been represented at the conference table in Paris in 1919 and had been faced with such an alternative frontier settlement, she would probably have chosen the first, since it would not have put two and a half million Germans under Polish sovereignty while it would have preserved de jure and de facto the national identity of the population of the Rhineland. In addition, the French security complex would have been overcome.

The following table offers a detailed record of the losses involved for Germany at her western frontier under such a hypothetical peace settlement.²⁹

TABLE VI

(In thousands)	Germany in 1914 (excl. Luxemburg)	Alsace- Lorraine	Left Bank of the Rhine	Percentage losses to Germany
Area (sq. km)	540.8	14.5	28.0	8 per cent
Population (1913)	64,925.0	1,874.0	5,500.0	11 " "
Railway Lines (km)	61.0	1.8	4.3	10 " "
Wine (hectol.)	921.0	144.0	480.0	67 " "
Wheat (tons)	3,927.0	182.0	199.0	9 " "
Rye (tons)	10,426.0	77.0	516.0	5 " "
Potatoes (tons)	45,570.0	873.0	2,758.0	8 " "
Coal (tons)	190,109.0	3,846.0	20,201.0	12 " "
Lignite (tons)	87,233.0	-	20,256.0	23 " "
Iron-ore (tons)	28,700.0	21,000.0	-	73 " "
Steel Ind. (tons)	17,690.0	2,290.0	3,230.0	31 " "
Textile Ind. (tons)	400.0	56.0	63.0	30 " "

.....footnotes 28 and 29/

If the other Allies had agreed upon such an "appendix operation" against Germany it might well have induced France in turn to offer concessions in her reparation demands. This would also have been in the interests of Germany and would have been a sounder foundation stone for post-war Europe than were many other devices. It can be suggested that the occupation of the Ruhr would have been avoided and despite an immediately embittering effect on the German attitude, a Franco-German rapprochement could have been envisaged earlier. The French side, freed of her "security complex", might have offered concessions on a large scale. It can only be stressed again and again that the Franco-German antagonism was in essence due to the high degree of French frustration in the matter of her security. On the other hand, she did not achieve much by further antagonising Germany the more she wanted to rectify her precarious position. This vicious circle in their relations remained an unsurmountable barrier.

The positive attitude of Clerenceau towards the maintenance of German national unity, as already discussed, should not conceal the fact that a large body of public opinion in France and many of those in influential positions both in political and economic life, were quite prepared to exploit any opportunity to divide up Germany into at least three parts - a predominantly Prussian North with the exception of Westphalia, a Bavarian-led South and some kind of buffer state lying mainly on the left bank of the Rhine. When comparing this with Napoleonic days, a certain amount of "moderation" can be observed on the part of France. In those days the "natural boundaries" of the Rhine became the western frontier of France, and the so-called Rhine Confederation formed a buffer state which was comprised exclusively of German territories on the right bank of the river. After World War One, the idea of establishing a buffer state emerged again, without implying direct French claims to territory beyond Alsace-Lorraine and the Saar.³⁰ At the time of the occupation

²⁸ Even Keynes was overstating his point here. Refers back to note (25).

²⁹ Tardieu, op. cit., pp. 168-9.
Stolper, op. cit., p. 42.

³⁰ Haller, op. cit., pp. 266 ff.

of the Ruhr, the creation of a Rhenish Westphalian buffer state became almost a reality.³¹ This would have given France indirect control of the eastern part of the Ruhr-Lorraine-Channel unit as well, and an optimum degree of security. If a far-sighted statesman, such as perhaps Clemenceau, had been in power at that time instead of Poincaré, it is possible that the former might have realised the opportunity for France to gain both in terms of economic influence and in "real" security. It is also possible that Germany might even have accepted such a solution where a demilitarised but fully autonomous Rhenish-Westphalian buffer state would have become a member of the League of Nations, while its neutrality and territorial integrity could have been guaranteed by the Allies and by Germany.

France was able to offer a "great deal" in return. For instance, agreements on inter-Allied indebtedness permitting, France could have renounced all her claims to reparations. She could have been compensated with the right to levy a moderate customs tariff on goods imported from or exported to this Rhenish-Westphalian state in its trade with Germany, for a period of perhaps ten years. Furthermore, France could have offered her support for German demands for the return of the lost parts of Upper Silesia and the "Corridor" separating Eastern Prussia from the Reich. That France was able to make such concessions in the east, ignoring thereby the sensitivity of her Polish ally, is illustrated at a later stage in the French propensity to compromise during the so-called Luxemburg Conversations of the early 1930's - talks held between French and German industrialists with the full knowledge of and guidance by their Governments.³²

30 Continued

G. Zeller, La France et l'Allemagne depuis 10 Siècles, Paris, 2nd edition, 1948.

The so-called Rhine-Republic was proclaimed by Separatists on October 20th, 1923. However, it only lasted up to November 30th, of that year. Keesing's, 1918-1931, p. 13.

³¹ Gebhardt, op. cit., pp. 136-7

³² Doc. G.F.P., series C, vol. 1, The Third Reich, The First Phase, No. 2, pp. 2-5; No. 18, pp. 38-41.

This hypothetical case does not underestimate the French attitude towards reparations. On the contrary, in the course of the occupation of the Ruhr, France realised the limits of making Germany pay. However, the likelihood of Germany's being prepared to lose in the west in order to gain in the east, is a matter open to speculation.

Another possible way of bridging the Franco-German antagonism might have been conceived. It is fairly easy to blame the then prevailing nationalism for all the evils and for the general disorder and maladjustments to the new conditions created after World War One. Nevertheless, another possible way of bridging Franco-German antagonism can be suggested. It may be questioned whether the French claim for security and especially her moves towards the Rhine frontier, accompanied by her endeavours to gain more of the pre-war economic unit stretching from the Ruhr to the Channel had to remain necessarily incompatible with German interests. Generally speaking, conjectures should be avoided when writing on historical problems. Nevertheless, under the given circumstances after the war it might have been possible to make Germany accept the Rhine frontier and France that of 1871, while at the same time creating some neutralised free-trade area, as had been agreed upon with regard to the Congo Basin in the 1880's.³³

It would have been advisable to include Belgium and Luxemburg, forming some kind of Rhenish Confederation with optional rights for the Netherlands to join.

As far as nationality problems were concerned, the Swiss model offered wide scope for application. A moderate customs tariff would probably have been advisable for goods other than those exchanged between this Confederation and France and Germany. This would have facilitated economic recovery and might have proved to be a first step towards further economic unity in Europe and would have solved many of the problems which stood in the way of a lasting Franco-German understanding.³⁴

³³ S.E. Crowe, The Berlin West African Conference, 1884-1885, London-New York-Toronto, 1942, pp. 105 ff.

34 It can be suggested that at that time there was no reason to believe in the possibility of establishing any European "common market". Nevertheless, the successful foundation of such a Confederation might well have led to developments which came about only after World War Two. - Henderson, Common Market, op. cit., pp. 139-70.

3. THE SAAR AND ITS COAL MINES - A CONFRONTATION OVER OWNERSHIP.

The Saar, a territory covering 1,900 square kilometres with a population of 800,000, experienced adjustment problems in many ways similar to those experienced by Alsace-Lorraine and Franco-German relations were further strained over the question of the ownership of this region's coal mines.

In line with the rapid expansion of the Lorraine iron-mining industry especially as from the turn of the century, the supply of coal from the Saar became increasingly important despite the fact that the Saar coal is more suitable for domestic fuel than for industry, so that the Ruhr coalfields continued to supply Lorraine to a large extent.

The Saar was a main coal-producing area and notwithstanding its well-developed iron and steel industry, only about a quarter of its coal output was taken up by its own household and industrial consumption.

The pre-war output of the Saar coal mines was about 15 million tons, amounting to about 8 per cent of the total German pre-war output of coal.

The stipulations of the Treaty dealing with the Saar are found in Articles 45-50. In Article 45 "Germany cedes to France in full and absolute possession....the coal mines situated in the Saar Basin...."¹ for a period of 15 years. Similarly to provisions made for Alsace-Lorraine, the Saar was subject to special conditions for the first five years after the coming into force of the Treaty, whereby the Saar remained de facto within the German customs frontiers. After that period, it became for the next ten years de jure as well as de facto part of the French customs system. During the first period no customs were levied for exports from the Saar to Germany and imports from Germany were also exempted from customs, as far as they were destined for local consumption. However, quotas were introduced for exports to France. Furthermore, France started paying salaries in francs to the employees of the French controlled coal mines. This considerably raised the real

¹ Treaty of Peace, Temperley, op. cit., p. 132.

income for about a third of the population during the time of the rapid devaluation of the mark. On one hand, this measure was in the French interest in so far as it offered some satisfaction to their employees, who were generally not pro-French, thus probably tending to increase efficiency in the running of the mines. On the other hand it caused strong resentment among the rest of the population who continued to be paid in marks.

The administration of the Territory remained in the hands of a Commission of the League of Nations. Provisions were made in the Treaty for an elected "Advisory Council", but without meeting the demands of the population for a "parliament". This besides other things, increased the already existing tension. Since a plebiscite was to come only after 15 years, Germany as well as France developed some kind of "business as usual" attitude, and in trade negotiations three main topics appeared again and again; the customs, the coal, and the currency questions.²

Nevertheless, on the international as well as on the local scene, things remained rather precarious, with a deep-rooted resentment on the German side which was difficult to overcome. The one-sided manner in which the provisions of the Treaty were quite often carried out, can be illustrated as follows. The actual value of the Saar mines amounted to about 1 milliard goldmarks. However, on her reparations account Germany was credited for only 320 million goldmarks. On the other hand, the destruction incurred by the coal mines of the Bassin du Nord was estimated at about 12 milliard goldmarks. In other words, reconstruction of the destroyed coal industry of the Bassin du Nord with a pre-war output of 18 million tons of coal, exceeding that of the Saar by about one and a half times, was estimated to be 37 times the value of the Saar mines.³ Annex II, 11 to Article 244 reads, however, that the Reparation Commission "shall be guided by justice, equity and good faith.

² E. Dittrich, Die deutsch-franzoesischen Wirtschaftsverhandlungen der Nachkriegszeit, Berlin, 1931, pp. 41-2.

Ch. H. Haskins, The Saar Territory as it is Today, F.A., vol. 1, 1922-3, pp. 46-58.

³ Solmssen, op. cit., vol. 1, pp. 202-3.

Its decision must follow the same principles and rules in all cases...."⁴.

After the Peace Conference, the French claim to the Saar had in particular aroused opposition from Wilson and Lloyd George. Thus France only succeeded in attaining temporary control over this territory and her hopes for a plebiscite in favour of at least an autonomous Saar proved to be not very realistic. The official French interpretation of the status of the Saar was defined as "a new object of international law". On the other hand, Germany maintained that the Saar remained a part of the Reich, which for a certain period only was to be regarded as not being under German sovereignty.

There is little doubt that the Saar suffered severely under her new status. The domestic market of this territory was not important for her industry. Particularly after 1925, the Saar had drastically to re-orientate herself as far as her supply situation and customers were concerned. The French administration of the mines did not hesitate to exert pressure by restricting coal supplied to the Saar. For instance, in late 1924, the Roechling Works in Voelklingen were forced to close down for some time due to insufficient coal supplies. In addition a customs levy was introduced for coal imports. This and the German obligations regarding reparation deliveries of coal made things worse than they already were.⁵ Furthermore, the geographical position of the Saar on the north-eastern customs frontier of France increased transport costs to a very large extent.

⁴ Treaty of Peace, Temperley, op. cit., p. 221.

⁵ Germany became temporarily a coal-importing country despite the rapid expansion of her lignite mining sector. For instance, in 1913 Germany realised an active balance of 486 million marks in her coal export trade. In 1923, it became a passive balance of 690 million marks. Up to 1932 the total German reparation deliveries in coal to the Allies (excluding Saar coal) amounted to 2.4 milliard goldmarks; more than half of this accrued to France. Niebuhr, op. cit., pp. 61 ff.

In addition, the Saar mines, under the administration of the Administration des Mines Domaniales Francaise du Bassin de la Sarre, only reached their pre-war average output level per man-hour in 1928. Remembering that the output of the French coal mines in the devastated areas reached the pre-war level in 1925, the coal deliveries from the Saar to France in the years 1926-35 can be regarded as supplementary reparation payments over and above compensation for the destruction of the coal mines in the north of France. They amounted to about 2 milliard goldmarks, representing some kind of "over-compensation" made by the Saar and thus indirectly by Germany.

It is true that the Saar was to a large extent essential for France as far as her increased dependence on foreign coal supplies was concerned, due to the incorporation of Lorraine Annexee. In Article 46 of the Treaty, two reasons were given for the cession of the Saar by Germany; firstly, "to assure the rights and welfare of the population", and secondly, "to guarantee to France complete freedom in working the mines." The first, without much exaggeration, can be described as window-dressing.⁶

According to the letter of the Treaty, the only industry which was to be taken over by France were the coal mines. It has already been mentioned that through her ownership of the mines France exerted pressure on the privately owned sector of the Saar economy, in particular on the iron and steel industry. Some of those concerns were forced to sell more than half of their shares to French enterprises. At one time, out of the big concerns of the Saar, only the Roechling Group successfully maintained its full financial independence. Such moves towards establishing French control over the private sector of the Saar economy were in the main later abandoned, largely due to the fact that French enterprise found it much more difficult to realise profits in the Saar than elsewhere and by 1925, some lessening of tension between France and Germany was to a certain degree apparent. On the other hand, behind the French customs walls, small post-war industries developed

⁶ R. von Kuehlmann, The Future of the Saar, F.A., vol. 12, 1933-4, pp. 428-35, esp. p. 430.

in the Saar, which would not have been competitive on the German market. It was in particular in the development of a boot and shoe industry, a furniture industry and breweries, serving local consumption and filling the gap in the supply of commodities, where there was no strong French competition. Such industries had therefore to fear the consequences of a re-union with Germany, although their share in total output was too small to endanger a smooth re-adjustment of the Saar economy after March, 1935.⁷

After the provisional agreements of July 11th, 1925, August 5th, 1926 and November 6th, 1926, the Saar Agreements of February 23rd, 1928 finally brought about a settlement for the rest of the 15 year period. This agreement provided for special tariff arrangements, going beyond those of the Franco-German Commercial Treaty of 1927 to be discussed later. It was agreed to lower the tariff walls between the Reich and the Saar, in order to facilitate the exchange of goods and services, which was of such vital importance for the Saar economy. No customs duties were to be levied on most of the Saar exports into Germany and imports into the Saar from Germany were to be permitted at reduced rates.⁸

By this France had to a large extent revised her earlier policy and acted in accordance with her obligations towards the well-being of this territory.

Economic conditions in the Saar had been of an extremely precarious nature, particularly during the years preceding 1925. It had been a long time before Saar industrialists succeeded in making arrangements with the French owned coal mines in the Saar which secured the necessary fuel for their industry. Furthermore private arrangements were made with French industrialists in order to obtain an adequate iron supply.

It was ironical that the Saar industrialists often entered into business with a French firm which had been their property up until the end of the war. Each side depended on supplies from the

⁷ Economist, May 12th, 1934, pp. 1017-8.

⁸ Dittrich, op. cit., pp. 131 ff.

Hoegel, op. cit., pp. 112 ff.

Schultess¹, vol. 69, 1928, p. 63.

other with the difference however, that France was in command of the coal for which the Saar had to bargain. In addition, France did not offer an adequate outlet for the finished or semi-finished goods of the Saar. On the one hand, there was the competition from Lorraine and on the other, the demand of the French metallurgical industry, which was rather limited in comparison with the demand of the German domestic market. Thus the Saar industry could only re-orientate itself with great difficulty and the crucial importance of the Saar Agreements in offering an outlet for Saar products to Germany can hardly be underrated. Thus France was in a very strong position on entering into negotiations with Germany and she had not hesitated to threaten her with the stopping of trade between the Saar and the Reich.⁹

On the other hand, the maladjustment to post-war conditions should not be over-emphasised. The Saar territory remained de facto within the German customs frontiers up to 1925. Furthermore, the successive agreements from July 1925 to February 1928 helped to alleviate the situation and to facilitate the full incorporation of this area into the French customs system.

As against this, the unrest and the discontent of the people maintained the tension and placed an added strain on Franco-German relations. In addition, the situation was sometimes aggravated by the high degree of sensitivity on the part of public opinion in Germany, similar to the French reactions to the pre-war German measures in Alsace-Lorraine.

This particularly strong emotional involvement and its antagonising effects must be seen in the light of the fact that the population of the Saar consisted almost exclusively of Germans.

After 1933, French hopes for a plebiscite that would not be in favour of re-union were nourished by the political events in Germany. Such a calculation, however, underrated German nationalism. Despite the fact that the vast majority of the Saar population was Catholic, and that the German Centre (Zentrum) was the leading political party, 90 per cent of the votes cast were in favour of re-union with Germany.

⁹ Niebuhr, op. cit., pp. 83 ff.

The causes for this overwhelming majority are manifold. It can be taken as a certainty that the population of the Saar Territory would not have consisted in its majority of Nazi supporters before 1933. This demonstrates to what an extent the average voter regarded the Peace Treaty as a kind of stigma to be eliminated at all costs and even the Catholic clergy was divided over the plebiscite. Re-union with Germany meant by no means that the Saar would be economically better off. For instance, the coal-miners could hardly expect to derive any economic benefits from a change in the ownership of the mines. The introduction of longer working hours, restrictions imposed upon their bargaining position and various laws interfering with the mobility of labour were pending in the event of a German take-over, all of which was implicitly accepted with the vote in favour of Nazi Germany. The reasons for this lie in the political sphere. After the war, every third household in the Saar became economically dependent on wages received from the French administration of the mines. Despite marked improvements in pay the miners resented this foreign management, and quite often anti-French feeling was deliberately inflamed by making the French seem responsible for every disagreeable circumstance. Thus the conflicting interests of capital and labour were magnified in the struggle between Frenchmen and Germans and the vast majority of coal-miners had become exceedingly susceptible to Nazi propaganda.¹⁰ But other sections of the population of the Saar were also affected in their general attitude by the existing state of affairs, even when The Economist suggested that the vote in favour of Germany would have been 99 per cent instead of 90 per cent, if the Weimar Republic had been still in existence.¹¹

The plebiscite of January 13th, 1935 was preceded by Franco-German negotiations concerning various financial matters and in particular the question of re-purchase of the mines as provided for in the Peace Treaty.¹² An agreement was signed in

¹⁰ Economist, January 26th, 1935, pp. 166-7.

¹¹ Economist, January, 19th, 1935, pp. 109-10.

¹² For further details, see F. von Papen, Memoirs, London, 1952, pp. 300-2, (Von Papen was at that stage appointed Reich Commissioner for Saar Affairs.)

Rome on December 3rd, 1934, by which Germany was to buy the Saar mines for 135,000,000 goldmarks (£12 million).¹³ On January 30th, 1935, negotiations started between the Bank for International Settlements, the Bank of France and the Reichsbank, on book-keeping operations concerning the said amount to be paid by Germany for the Saar mines. Agreement was reached on February 6th, 1935. The final transfer protocols between the two contracting Powers were signed in Naples on February 18th, 1935. Thus with the conclusion of these "Accords of Naples", the way was cleared for the re-union of the Saar with Germany which took place on March 1st, 1935.¹⁴

Further Franco-German negotiations had to be carried out in order to accomplish a full consolidation of bilateral exchange matters and to secure certain tariff measures in favour of the Saar industry. Provisions were agreed upon which provided for the newly erected tariff barriers between France and the Saar to be reduced and thus the incorporation of the Saar into the German economy was facilitated. On the other hand, the gradual reduction of French coal imports from the Saar from 4.5 million tons annually to 2.0 million tons from 1935 onwards, had good effects on the depressed state of the French coal mining industry. The reduction in imports per annum was estimated to be equivalent to twelve extra working days for the French coal miners.¹⁵

Thus one major source of Franco-German antagonism had been removed. However, while it was a settlement which took demographic realities into consideration, it failed to offer any constructive step forward in settling the problems arising out of the economic interdependence of French and German heavy industry, and the abolition of customs frontiers could only be envisaged after World War Two.

¹³ Keesing's, 1934, 1462 G.

¹⁴ Keesing's, 1935, 1539 G and 1553 I.
Schultess' vol. 76, 1935, pp. 20, 29, 31-9 and 154.

¹⁵ Keesing's, 1935, 1516 C.

CHAPTER IV

FROM RECOVERY INTO THE "GREAT DEPRESSION".

1. YEARS OF PERPETUATED FRANCO-GERMAN ANTAGONISM.

The years 1925-29 were no less a period of readjustment to the effects of the war, than had been the years between 1919 and 1924. Although these effects were no longer visible on the surface, to a critical observer it became apparent by 1929 at the latest, that a precarious state of affairs was only artificially concealed.

Nevertheless, in the year 1927 especially, it seemed that both France and Germany had regained a stability and equilibrium such as had not existed since the outbreak of the war, and this was a time when it came to be commonly accepted that a settlement of Franco-German economic problems on more permanent lines was drawing near. France in particular realised how important her German trading partner was. In 1926, Germany ranked third in both the import and export trade of France, and in September of that year, the idea of capitalising and thus commercialising part of Germany's reparation debt, was envisaged by Briand and Stresemann at their meeting at Thoiry. However, it became clear that in those years, only through far-sighted efforts could such "a problem as a Franco-German rapprochement be solved by a gradual advance".¹ The de facto stabilisation of the franc at the end of that year reduced the urgency in this matter. Nevertheless, it should be emphasised that the later Poincaré of 1926/8 was not the same as the earlier of 1923. He now realised that in the long run the French position could not be maintained by force alone. The revision of the Dawes Plan started at Thoiry, but it was not before August, 1928 that both sides accepted this as an objective worth working for. It could be suggested that the actual turning point was the meeting between Stresemann and Poincaré in August, 1928.

The agreements leading to both the Dawes Plan and the Young Plan did not cancel out the German "war guilt" clause of Article 231 of the Treaty. The Dawes Plan did not even make provisions for a revision of the total Allied claim for 132 milliard

¹ G. Stresemann, His Diaries, Letters and Papers, edited and translated by E. Sutton, vol. 3, London, 1940, pp. 82-3, (Article by Stresemann dated January, 1st 1927.)

goldmarks. Political considerations maintained their preponderance as illustrated again when the total evacuation of the Rhineland formed the political accompaniment of the Young Plan. Several times France tried to use her comparative financial strength to re-direct German policy. For France, "commercialisation" meant the ultimate achievement of the same ends by different means, and she displayed "an almost blind veneration for the Versailles status quo".² Thus commercialisation became, as far as Franco-German relations were affected, more a specific behaviour pattern than a change in attitude. However, everyone had to play his role within the given framework. Even when the Young Plan came into force, fixing the total German obligation, without including interest, at 35 milliard goldmarks, it was maintained that this "new plan", as far as Germany was concerned, did not settle the reparation problem "finally and completely".³ Revision was legitimate from the German viewpoint, but for the French it was an offence against international morality.

The main characteristic of all agreements reached between the Dawes Plan of 1924 and the Lausanne Agreement of 1932, was that economic considerations came first.⁴ They were of course still greatly overshadowed by political ambitions, but the actual outcome was orientated by economic data. The emphasis had finally shifted from arguing what Germany ought to pay, to estimating what she could pay.

A provision of the Dawes Plan introduced the so-called transfer protection, by which an account was opened up at the Reichsbank for the Agent General of the Reparation Commission. German reparation payments were made into this account and the Agent under the authority of the Transfer Committee, was in charge of transferring

² Bennett, op. cit., pp. 5-8 and p. 310

³ C. Bergman, Germany and the Young Plan, F.A., vol. 8, 1929-30, pp. 583-97, esp. p. 589.

⁴ R.R. Kuczynski, A Year of the Dawes Plan, F.A., vol. 4, 1925-26, pp. 254-63.

C.J. Friedrich, Reparation Realities, F.A. vol. 7, 1928-29, pp. 118-31.

S. Morgan, Constructive Functions of the International Bank, F.A. vol. 9, 1930-31, pp. 530-91.

these payments to the Allies, only if this was not to endanger the harmonious working of the German economy. In addition, a prosperity index was employed to calculate the amount to be paid by Germany each year.

During the working of the Dawes Plan, the transfer protection did not ever have to be put into operation. Nevertheless, the role of the Transfer Committee was, economically speaking, a very sound blocking mechanism for the maintenance of the stability of the German currency. This blocking mechanism would have gained crucial importance if Germany's capacity to pay had not become a capacity to borrow. From 1924-1931, Germany borrowed a net figure of about 21 milliard goldmarks largely on a short-term basis with interest rates as high as 8-9 per cent. However, over that period she paid reparation of only 11.2 milliard goldmarks.⁵ This was a potential source of considerable disturbance and by 1929 French capital was being withdrawn from Germany in response to mounting German opposition to the "59 years of enslavement" imposed by the Young Plan.

The Young Plan came into operation on May 17th, 1930. Thus all foreign reparation controls as provided for in the Dawes Plan were abolished. On one hand Germany regained her full sovereignty and on the other she was entirely responsible for the transfer of her reparations. One part of the annuity amounting to 612 million goldmarks had to be paid unconditionally, and was destined to compensate for the war losses of the Allies. As regards conditions of payment, the same applied to the service of the 7 per cent German Foreign Loan of 1924, which had started off the Dawes scheme. The remaining larger portion of the annuity could be postponed for two years at the most.⁶ These rigidities of the Young Plan could be ignored as long as a bottleneck did not appear in the foreign capital supply. This, however, happened and the economic crisis of 1929, followed by increasingly depressed economic conditions, revealed the ever-present vicious circle of inter-Allied indebtedness

⁵ Lewis, op. cit., pp. 40-1.

Clough and Cole., op. cit., p. 750.

Appendix A, IV.

⁶ C. Bergmann, Germany and the Young Plan, F.A., vol. 8, 1929-30, p. 592.

and reparations paid out of loans - loans which themselves were quite often not invested in Germany to increase productive capacities. Added to the general economic upheaval, Franco-German relations were further strained over the Austro-German project of 1931 for a customs union,⁷ and it has been estimated that at this time France withdrew short-term loans from Germany amounting to about 1.3 milliard marks.⁸ Thus for the second time within three years antagonism was furthered by the withdrawal of French capital from Germany.

The Young Plan did not only mean that reparation payments ceased to be tied to a prosperity index, but in addition deliveries in kind were drastically reduced.⁹ After the war, France had in particular been interested in deliveries of coal and products of the German chemical industry and she had quite often re-exported such commodities by applying dumping techniques, which led other States to introduce anti-dumping measures. Britain especially, was sometimes deeply concerned about such practices. Despite these side effects which were detrimental to the smooth working of international trade, what were at first sight "sound" provisions laid down under the Young Plan, later proved to be far more detrimental than any other previous provision. It also became apparent that it was of great disadvantage to the German economy that reparation had not been made by means of the Allies taking up a share in German industrial enterprise. In the German counter-proposals made in Paris in May, 1919, such a device had already been offered and this would not only have linked up the Allied interest in reparation with prompt economic recovery in Germany, but would also, during the working of the Young Plan, have made the French in particular, more conscious of the necessity for assisting Germany in the struggle to combat the depressed state of affairs in her economy.

The drastic reduction of deliveries in kind had aggravated the transfer problem to such a large extent that Germany would have

⁷ O. Hauser, Der Plan einer deutsch-oesterreichischen Zollunion von 1931 und die europaeische Foederation, HZ, vol. 179, Jan.-June 1955, pp. 45-92, esp. pp. 79-80.

⁸ H. Hoover, Memoirs, vol. 3, The Great Depression 1929-1941, New York, 1952, p. 62.

⁹ Clough, op. cit., p. 325.

had to achieve an export surplus of at least £150,000,000 by 1929. Assuming the means for reparation payments were not available through foreign loans, this meant an increase in exports over imports of approximately 25 per cent, which was either simply not attainable, or as described by Keynes, it was at best a "formidable task".¹⁰ It would have been ideal if the German factors of production could have been made to produce nothing but exports and to consume nothing but imports, with the former exceeding the latter by the amount mentioned above. Such a model, however, had little in common with reality, particularly when the relatively inelastic foreign demand for German goods as against a more elastic German demand for foreign raw materials is remembered. In addition, when assuming that Germany would have been able to surrender an adequate amount of purchasing power to pay reparations, the effects of this would have had to be faced in view of the inelastic market demand and its repercussions on the foreign exchange market.

The complex nature of the possible results of transfer payments on both the economy of the paying and of that of the receiving country can be demonstrated by applying certain rigidities to a model. Besides the fixed-exchange-rate assumption, the following simplified model of trade between the two countries is held under the further assumption of constant prices and constant interest rates. The assumptions of unemployment, rigid monetary wage structures, competitive industries and constant returns are sufficient to ensure that changes of monetary demand will affect levels of output rather than prices. But still no broad generalisation can be offered. The following table illustrates some possible causes of events.¹¹

¹⁰ J.M. Keynes, *The German Transfer Problem*, E.J., vol. 39, 1929, pp. 1-7, esp. p. 5.

¹¹ L.A. Metzler, *The Transfer Problem Reconsidered*, Readings in the Theory of International Trade, American Economic Association, vol. 4, London, 2nd Impression, 1953, pp. 179-97, esp. 195.

SUMMARY OF TRANSFER RESULTS.

	Income affected directly in both countries	Income affected directly in paying country only	Income affected directly in receiving country only
Both countries stable in isolation	1. Income falls in paying country, rises in receiving country 2. Trade balance moves in favour of paying country by less than amount of transfer	1. Income falls in both countries 2. Trade balance moves in favour of paying country by less than amount of transfer	1. Income rises in both countries 2. Trade balance moves in favour of paying country by less than amount of transfer
Paying country stable in isolation, receiving country unstable	1. Income rises in both countries 2. Trade balance moves in favour of paying country by more than amount of transfer	1. Income falls in both countries 2. Trade balance moves against paying country	1. Income rises in both countries 2. Trade balance moves in favour of paying country by more than amount of transfer
Paying country unstable in isolation, receiving country stable	1. Income falls in both countries 2. Trade balance moves in favour of paying country by more than amount of transfer	1. Income falls in both countries 2. Trade balance moves in favour of paying country by more than amount of transfer	1. Income rises in both countries 2. Trade balance moves against paying country

The Bank for International Settlements, which was a further step towards "commercialisation" of the reparations, did not justify the hopes that had been put into the working of this Institution. At first it was a body created to facilitate the transfer of payments under the Young Plan, without, however, having any far-reaching powers. Its role as trustee and agent of the Central Banks concerned became

rather insignificant during the Depression.¹² It was, for instance, Schacht's plan to make the B.I.S. an organ for promoting international trade in general. His main intention was however, to promote Germany's export trade through economic development in overseas territories. This was a far-sighted enough approach, which however met with opposition insofar as it was considered a disguised claim for the return of the former German colonies. In 1936, Schacht, when visiting Paris, was again to develop similar plans. At that stage it would have been a miracle if France had responded to such a move. The claim for colonies had already become strong during the Weimar Republic. After Germany's admittance to the League of Nations in 1926, Stresemann in particular became increasingly involved in this issue. Even Briand conceded Germany the moral right to own colonies. Schacht was very active in this matter when he represented Germany at the Conference of Experts, leading to the conclusion of the Young Plan. He connected the discussion of German reparation directly with this issue. For him, the ceding of colonies meant that Germany would have access to colonial raw materials. He put forward the idea of chartered companies to operate purely in the economic sphere, leaving aside the question of sovereignty. He was unsuccessful, but nevertheless this might have offered the basis for a future Franco-German rapprochement.¹³

Quite soon it became apparent that in any case reparations as such did not offer any far-reaching scope for future developments towards economic co-operation. The Hoover moratorium was in direct response to the depressed economic conditions of the countries concerned. Finally it was the Lausanne Agreement of July 9th, 1932 that became a "piece of healthy destruction".¹⁴ It was

¹² R. Auboin, The Bank for International Settlements 1930-1955, Princeton, 1955.

¹³ T.W. Lamont, The Final Reparations Settlement, F.A., vol. 8, 1929-30, pp. 354-5.
Schacht, op. cit., pp. 378-84.
W.W. Schmokel, Dream of Empire: German Colonialism 1919-1945, London, 1964, ch. 3, pp. 76-136, esp. pp. 81-7.

¹⁴ W. Ashworth, A Short History of the International Economy 1850-1950, London-New York-Toronto, 1952, p. 212.

never ratified, but in fact marked "the ending of the long tragedy of reparations."¹⁵ This ending was not unreservedly applauded by either side. The French viewed with dissatisfaction the fading away of their hopes for being adequately compensated for their war effort. The Germans felt little gratitude for a denouement which they regarded as having been long overdue. Thus while a major stumbling block had been removed, it did little to draw the two nations together. However, as we have seen, this stumbling block had lost much of its significance by the mid-1920's and there were other spheres of contact and confrontation which were to play an important role in Franco-German economic relations. They by and large were divorced from the reparation issue, although this issue remained an arrière-pensée throughout these years.

¹⁵ M. Baumont, La Faillite de la Paix, 1918-1939, Paris, 4th edition, 1960, quoted from 2nd edition, 1946, p. 401.

2. FRENCH AND GERMAN PARTICIPATION IN CARTEL PACTS.

Despite the perpetuated Franco-German antagonism, especially as far as the delicate question of a final settlement of the reparations problem was concerned, one sphere which showed signs of a mutual understanding was that of cartels. Common interest led French and German industrialists to co-operate and participate in bilateral and multilateral cartel pacts.

Cartelisation in the international sphere as it existed before the war was largely affected by the events of the years following 1914. The International Railmakers' Association (I.R.M.A.) for instance, founded as early as 1884, after being destroyed by the events of World War One, was re-established only in 1926. In various other international cartels, both French and German businesses worked hand in hand, together with economic enterprises of other States, in order to divide the markets on a territorial basis, or to fix prices or production quotas.¹

Germany enjoyed up to the end of the war the "natural monopoly" as far as potash mining was concerned. There were two distinct districts of potash deposits, those situated in Middle Germany and those in the southern part of Alsace, the latter gaining importance only in the beginning of this century. The German Potash Cartel (Kalisyndikat) of 1881 was the world's first world monopoly in the mining of a raw material and in 1910 the German Government introduced the Potash Law, thus forming in industry the first compulsory cartel (Zwangssyndikat), in order to ensure an effective exploitation of foreign markets and in particular that of the United States.

After the war, Alsace-Lorraine was handed over to France and Germany lost her potash monopoly. In the first years after the war France took the lead in competing very aggressively on the world market, with the wholesale monopolist organisation of German potash mines. The whole French production was controlled by the Société Commerciale des Potasses d'Alsace, which was heavily subsidised by the French State. This competition proved to be detrimental for both sides, especially for the German, where the syndicate could

¹ Levy, op. cit., ch. 7, pp. 86-107.

not rely on a State subsidy. Finally, an agreement was reached between French and German representatives in Lugano on April 10th, 1926, which led to a Convention in Paris on December 29th, 1926.² A division of markets, price control and the reservation of home markets were agreed upon. The German market share was fixed at 70 per cent and the French at 30 per cent. There was no production control, but the marketing arrangements went into great detail. France succeeded in securing for herself a much bigger share than she would have been entitled to in view of her actual resources. This convention was concluded after years of semi-official negotiations between industrialists on both sides. But even in the business sphere, where emotions were not such an important factor, success was finally secured only after the political situation had improved.³

Thus a community of interest brought the two parties concerned together in the mutual pursuit of "restoration" of the pre-war monopolistic state of affairs in the potash industry. It should be emphasised again that the French and German potash producers had already made a move in this direction "....at a time

² Ibid., pp. 34-8 and p. 103.

It is interesting to note here that a provisional agreement had already been signed in August, 1924, between the two groups, applying, however, only to sales in the United States. It divided the American market on the basis of 68.8 per cent, for Germany and 31.2 per cent for France. However, this caused dissatisfaction on the part of the German producers, since in fact the French share was considerably in excess of French potash exports to America in 1923.

J. Klein, *International Cartels*, F.A. vol. 6, 1927-28, p. 452.

L. Domeratzky, *Cartels and Business Crisis*, F.A., vol. 10, 1931-32, pp. 47-8.

³ Schultess', vol. 67, 1926, p. 299.

H. Rosterg, Der deutsch-franzoesische Kalivertrag, Diss., 1928, pp. 14 ff.

...when it was not safe for a Frenchman and German to come within striking distance of each other."⁴

Thus the disrupted German monopoly was replaced by a mutual agreement, establishing a new, largely untouched, monopolistic position for the Franco-German potash industry. In both States this industry consisted only of a few firms and the State participated either in ownership or in control of the operation of the mines. The former was the case in France, the latter in Germany. This helped to maintain a high degree of centralisation and conformity but on the other hand national politics could only with difficulty be ignored.⁵

It has been maintained that the discovery and development of potash deposits in other countries largely destroyed this Franco-German monopoly.⁶ This is true to a certain extent. The potash industry in the United States and to a lesser extent in Poland, expanded rapidly - a development especially noticeable in the 1930's, at a time when Russia started producing potash in large quantities as well.

Nevertheless, the combined output of France and Germany still amounted to more than four-fifths of the world's total at the end of the interwar period. On the other hand, the application of substitutes for potash in agriculture such as nitrogen affected the demand on the world market and consequently the monopoly pricing. Over-production of nitrogen is a problem of its own. It was only in mid-1932 that the main European producers and Chile reached a

⁴ Domeratzky, op. cit., pp. 39-40.

⁵ It is interesting to note, however, that the German potash industry was not always very prosperous, mainly as a result of over-production and also too many producers, thus leading to drastic reduction in the dividends of the great concerns.. On the other hand, the high degree of concentration can be illustrated when keeping in mind that the Wintershall Group in that industry had a quota allocated of over 40 per cent.
Levy, op. cit. pp. 36-7.

⁶ Stopler, op. cit., p. 35.

marketing agreement based on world demand.⁷ The development of potash production is illustrated in the following tables.³

Table I.

<u>Potash Production (million tons)</u>					
	1922	1925	1929	1932	1937
Germany	1.30	1.58	1.79	0.87	1.97
France	0.23	0.34	0.53	0.31	0.50
<hr/>					
Franco-German Total	1.53	1.92	2.32	1.18	2.47
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U.S.A.	0.01	0.02	0.06	0.06	0.26
U.S.S.R.	-	..	-	0.01	0.24
Poland	0.01	0.04	0.06	0.06	0.10
<hr/>					
World Total	1.79	1.98	2.47	1.37	3.10

This "Potash Entente" has been discussed in some detail, since it was perhaps the most important field at the time where there was scope for the development of a Franco-German companionship-in-arms on the world market.

Economic co-operation also developed through cartelisation in other fields. The International Steel Cartel between the iron and steel-producing companies of Germany, the Saar Territory, France, Belgium and Luxemburg which came into operation on October 1st, 1926,

⁷ Levy, op. cit., pp. 103-4

⁸ Statistical Yearbook of the League of Nations, 1931/32, Table 96, and 1938/39, Table 103.

The following table indicates the development of the world's nitrogen production and consumption. (million tons)

	<u>1925/26</u>	<u>1929/30</u>	<u>1932/33</u>	<u>1937/38</u>
Production	1.33	2.20	1.68	2.88
Consumption	1.26	1.95	1.75	2.87

Statistical Yearbook of the League of Nations, 1938/39, Table 104.

League of Nations, World Production and Prices, 1925-1934, p. 91.

was to be prominent. This agreement differed in many respects from similar international agreements that had been concluded before the war. It dealt only with the exports of its members and by this aimed at controlling production indirectly by introducing a system of penalties for over-production and compensations for under-production. No provision was made for the control of prices nor for the apportionment of markets among the different members. In a separate agreement, however, it was agreed to fix the amount of iron and steel to be exported to Germany from Lorraine, Luxemburg and the Saar, in order to provide a stable outlet in Germany for the producers concerned. This was the Lorraine Quota Agreement.⁹

The main problem arose out of the fact that France, after having restored her devastated regions, was in possession of a steel-making capacity considerably in excess of her pre-war level without being able to make full use of it. However, Germany also experienced the problem of being faced with surplus capacity, despite the fact that in 1925 her productive capacity was still under her pre-war level.¹⁰

Table II

Output of Raw Steel.
(million tons)

	<u>Production</u>		<u>1925</u>	<u>1925</u>
	1913	1925	ingot capacity	surplus capacity
France	4.6	9.0	11.7	2.7
Germany	17.6	12.5	17.0	4.5

These productive capacities greatly exceeded "effective" demand, yet in 1924, when the first steps were taken towards the establishment of an international steel cartel, world steel production barely exceeded the pre-war level, while world capacity for producing iron and steel had come to be about 40 per cent higher than before the war. It is interesting to note that the negotiations

⁹ Survey, 1928, The International Steel Cartel, pp. 133-43.

¹⁰ W.S. Tower, The New Steel Cartel, F.A., vol. 5, 1926-27, pp. 249-66, esp. 254-7.

for the International Steel Cartel and those for a Franco-German commercial agreement took place over almost the same period, with each series of negotiations influencing the other. The French desire was to export to Germany as large a tonnage as possible of iron and steel and it was for instance the German consuming industries' association (A.V.I.), which successfully opposed the proposals put forward by industrialists in German heavy industry for a prohibitive tariff upon French iron and steel imports.

Eventually the Commercial Treaty of 1927, which will be discussed in part 3 of this chapter, provided for 3.75 per cent of the German consumption of rolled products to come from France.¹¹

The repercussions of the war can again be seen in the changed share of both countries in the world export markets for iron and steel products, showing how dependent France became on new outlets for her products, while Germany had great need of re-adjustment and re-orientation in her relations with her trading partners.¹²

Table III

Exports of Iron and Steel Products.

(million tons)

	<u>1913</u>	<u>1925</u>
France	0.4	4.4
Germany	6.4	3.0
World Total	15.7	15.8

We are not here concerned with details regarding the working of the International Steel Cartel. However, it should be mentioned that there were many drawbacks, particularly due to the fact that the agreement failed to cover three important points; **actual** quotas, division of markets and price policy. The rules and formalities of the Steel Cartel were frequently changed, followed by a re-organisation in 1930. Nevertheless, the rather complicated structure of the Cartel was designed to reconcile the various conflicting interests. After the stabilisation of the mark, the

¹¹Survey, 1928, op. cit., pp. 139-40

¹²Tower, op. cit., p. 257.

German steel producers were at a considerable disadvantage in their export trade. Among the German delegates it was Fritz Thyssen in particular who can be credited with having played the most prominent part in the negotiations preceding the Cartel. His influence in the settlement of both economic and political problems outstanding between the two countries can hardly be over-estimated. His responsibility for later making Hitler acceptable to the Establishment or "salonfaehig", emphasizes his tragic involvement in the politics of the 1930's. His achievements as an industrialist in the 1920's, as far as moves towards both a détente and a rapprochement between France and Germany are concerned, remain undisputed. It is an irony of history, to remember further that in World War Two it was Fritz Thyssen who met Léon Blum and Hjalmar Schacht in the same concentration camp.¹³

Among other developments in the realm of international cartels, one should mention the creation of the European Aluminium Cartel of 1926, an undertaking where both French and German interests weighed heavily, and which favoured further contacts between industrialists of the two countries. Particular reference should be made here to the Vereinigte Aluminiumwerke A.G. on the German side, and L'Aluminium Français on the French.¹⁴

After the "Potash Entente" was concluded a second bilateral cartel between France and Germany, namely the Franco-German Dyestuffs Cartel of 1927 was formed. It involved a division of markets, the establishment of export quotas, and an agreement upon price policies. Furthermore France, having the less developed dye-stuffs industry, agreed to refrain from manufacturing certain grades which were to be supplied by Germany, while the partial exchange of patent rights and technical aid improved competitive ability largely in favour of France. Generally speaking, the joint arrangements reduced overhead costs by about one-third.¹⁵

In the late 1920's, a Franco-German mutual financial interdependence could be seen particularly in the distribution

¹³Schacht, op. cit., pp. 439-40. (i.e. Concentration Camp Dachau.)

¹⁴Niebuhr, op. cit., pp. 153 ff.

¹⁵Klein, op. cit., pp. 453-4.

sector of the two countries. It is difficult to judge how far this was done purely through the economic egoism of the respective enterprises and how much it was due to far-sighted concepts of future co-operation in the economic field. In fact, both motions added to the complexity of the Franco-German relationship at that time.

Last but not least, should be mentioned the Tin Plate Agreement, concluded between Great Britain, the United States, France and Germany, in July, 1934. This illustrates the "business as usual" attitude that largely prevailed, where the development of international co-operation in the economic sphere was not necessarily influenced by current political events.¹⁶ In other words, co-operation within cartels was not directly affected by the increasing degree of Franco-German antagonism which flared up with the Nazi take-over in Germany, just as the drive towards cartelisation in the 1920's generally disregarded stumbling blocks which were overcome with more difficulty in the sphere of trade relations for instance, as with the Commercial Treaty of 1927.

¹⁶Levy, op. cit., p. 104.

3. COMMERCIAL POLICIES AND THE MOVES TOWARDS AN ECONOMIC RAPPROCHEMENT.

Co-operation within cartel pacts was reflected in the wider field of commercial relations generally, albeit to a lesser extent. These two spheres of contact and working together themselves influenced each other at times, as in the formation of the International Steel Cartel already discussed. In each case this interaction was the result of efforts to overcome finally the legacies of war and the subsequent Peace Settlement.

Unlike the indirect involvement of government circles in moves towards cartelisation, where primarily representatives of a specific industry were involved, commercial negotiations brought the two nations face to face on a governmental level. Here the whole spectrum of antagonising forces had to be taken into account and political considerations quite often were predominant, although sometimes the resulting bottlenecks were overcome by semi-official or private contacts. Nevertheless, the establishment of harmonious commercial relations was in the long-term interests of both nations.

On January 10th, 1925, five years after the coming into force of the Peace Treaty, Germany regained her freedom in commercial policies. She was released from unilaterally granting most-favoured-nation treatment to France and the other Allies. Thus where there were no new agreements reached, Germany imposed the highest import duties of her customs tariff, as in the case of France.

Stimulated by this unsatisfactory situation, Franco-German commercial negotiations began on October 1st, 1924, and by the end of the year, both sides had become increasingly involved. France had made the preliminary moves towards negotiation, for in 1924, Germany was economically speaking, still largely isolated and France saw an opportunity to secure for herself, out of her comparatively strong position, as many as possible of the preferences she had enjoyed up until 1925. On the other hand, French foreign trade depended to a greater extent on Germany than vice versa; thus it was realised in France that tactically speaking, the German representatives at these negotiations could if necessary, take a

firm stand. The negotiations continued over a period of nearly three years. The new and rather specific relation between official and private contacts became here one of the main features. Both sides stressed their willingness to co-operate cordially, and to ignore as far as possible, any bitterness which had resulted in particular from the Ruhr conflict. In most of the French press, Poincaré's Ruhr adventure was even attacked as having impeded any earlier approach towards a settlement of Franco-German commercial relations. It was only the press on the extreme right wing which explicitly attacked Herriot for having given up the productive securities (gages productifs) of the Ruhr "much too early", thus depriving France of her "strong" bargaining position.¹

The following example should illustrate how politics affected the commercial sphere. The former German General Nathusius was imprisoned during a visit to France in 1924, just at the time, when Franco-German commercial negotiations were under way and when a general election campaign was being held in Germany. This General was not on the list of "War Criminals", but had been prosecuted in his absence by a French Military Court in accordance with Article 229 of the Peace Treaty. Originally he had been condemned to five years imprisonment for alleged thefts of private property when stationed in Lille during the First World War. After a re-trial, this time with the General present, he was sentenced to one year's imprisonment and this despite the fact that the prosecution had failed to make its case, being unable to find adequate proof of such thefts.² This aroused a storm of indignation in Germany and might have had far-reaching consequences if the General, being already in his seventieth year, had not been released after a pardon was signed by the French President. This was only one out of many incidents which at this time were detrimental to moves towards a Franco-German détente.

Nevertheless the negotiations had been opened by Edouard Herriot, head of the French Government, in a spirit of "writing a

¹ Hoegel, op. cit., pp. 95-7.

² Survey, 1924, pp. 401-3.

new chapter of peace".³ Both sides were not only anxious to facilitate trade between the two countries, but also to consolidate the unsettled state of affairs in general. Thus these negotiations tended to embrace economic as well as political problems. However, it was commonly agreed that correct economic relations were the basis for any further understanding. Further, it was agreed that a revision in the commercial sphere should be based on a mutual re-adjustment of the existing tariff regimen.

The main problem here appeared to be that two different tariff policies had to be reconciled with each other. One could speak of two diametrically opposed principles of law; on one hand the principle of reciprocity, on the other that of most-favoured-nation treatment. In general, the most-favoured-nation clause was favoured by countries with moderate tariff protection, in our case Germany. The principle of reciprocity found its appreciation in countries such as France, with high tariff protection. France at first was only prepared to accept the most-favoured-nation treatment for certain commodities, in order to protect her home industry as far as possible. Germany on the other hand, urged her French partner to accept in general the principle of free competition in international trade. Germany would also have had to reduce her tariffs, which had largely increased in post-war times, but it was much easier for her to offer this, since German industry was in most cases able to compete favourably with that of France. As far as certain luxuries and textiles were concerned, however, France was not in an unfavourable position on the German market. Industrialisation had been stimulated in post-war France, firstly through the war as such, secondly through the recovery boom and thirdly through the annexation of Alsace-Lorraine. The iron and steel industry developed comparatively slowly. France could no longer at this stage sit back as the world banker - le banquier du monde - and rely on her agricultural and highly specialised textile and cosmetic industries. The times had gone when one could say that the agricultural sector was the mainstay of the French economy - "Labourage et pâturage sont les deux mamelles de la France".⁴

³ Le Temps, October 3rd, 1924, quoted from Hoegel, op. cit., p. 96.

⁴ Quoted from Dittrich, op. cit., p. 20.

France was faced with a dilemma. On one hand, her industry, with certain exceptions, was not fully competitive with that of Germany. On the other hand, her home market was not large enough for home produced goods, both manufactured and others. Further, the exchange of raw materials between the Ruhr and Lorraine had to be maintained, while in addition the world market could not absorb any more French wine, so creating a crisis in the wine industry - the so-called crise viticole. Germany's wine industry at that time also had to struggle along but nevertheless there was still some scope for marketing French wines in Germany. For Germany, the French market remained of secondary importance. The German attitude was guided in the main by considerations regarding the re-establishment of pre-war conditions, with the relatively free play of economic forces and in addition, she wanted to prevent France from economically isolating the Saar from the rest of Germany more than absolutely necessary.

Despite a promising start, no agreement was signed before January 10th, 1925. After this date, both sides, independently of each other, applied their own tariffs, but contacts continued to reach some sort of modus vivendi. In March, 1925, a second phase was begun with the Saar question creating serious difficulties - for tactical reasons the issue had up to this time been ignored.

By July, the problem was overcome at the conclusion of the first of several subsequent Saar Agreements. It was of considerable significance that France also became aware of her responsibility towards the Saar when accepting the so-called Saarbeduerfnis, i.e. the interests as such of the Saar industry as a basis for an agreement. This was an important concession since Alsace-Lorraine had claimed that the special treatment of the Saar was going to affect her position seriously as an important trading partner of both the Saar and the rest of Germany.⁵

Several commercial conferences were held between German and French representatives and various provisional agreements were reached before a final treaty could actually be concluded. The years 1926 and 1927 showed relatively stable economic conditions and

⁵ Dittrich, op. cit., pp. 131 ff.

the French hostility towards the most-favoured-nation treatment tended to become less rigid. Further, the formation of the Franco-German Potash Cartel and of the International Steel Cartel, were in the main achieved through prior initiatives by private business, creating an atmosphere favourable to further economic co-operation. In particular the Lorraine Quota Agreement should be mentioned here, which was based on the provisions made through the Steel Cartel and which regulated the exchange of steel products between France, Luxemburg and Germany.

Thus the general development facilitated the conclusion of a Commercial Treaty. But France still felt threatened by such an agreement. In a final attempt to improve her bargaining position, the French Government increased tariffs after being empowered to do so on July 27th, 1927. This induced her German partner to enter into a treaty with France the following month.⁶

On August 17th, 1927, the Franco-German Treaty was signed in Paris by Briand, the French Foreign Minister, and von Hoesch, the German Ambassador to France. It was based on the principle of bilateral and unconditional most-favoured-nation treatment and marked the end of one-sided and discriminatory practices.⁷ Furthermore, it had repercussions on the French tariff policy towards other states and about half of the rates of the French tariff were actually consolidated.⁸

⁶ C.J. Gignoux, L'Economie Francaise entre les Deux Guerres, Paris, 1942, pp. 176 ff. See also Clough op. cit., pp. 320-4.

⁷ Schultess¹, vol. 68, 1927, pp. 300-1.

⁸ Haight, op. cit., p. 136. It should be mentioned, however, that it is rather misleading to speak of this Treaty as a final arrangement, as far as technical matters are concerned. It was still necessary to convene supplementary meetings between the representatives involved. These were held in Berlin in April, 1928, and in Paris in June, 1928. This however, did not affect the actual substance of the Treaty. On the other hand, the signing of the subsequent protocols on June 20th, 1928, brought the Franco-German commercial negotiations to their final ending. Dittrich, op. cit., pp. 52 ff.

Thus the pre-war principle of general and unconditional most-favoured-nation treatment had been restored. France had to consolidate the duties of the general tariff and after April, 1928, Franco-German trade finally enjoyed conditions of the pre-war kind. The Treaty has been compared with the epoch-making Anglo-French Treaty of 1860. In both cases it was a bilateral agreement and became a model for similar agreements with other states. Unlike the ten-year treaty of 1860, it was only a short-term arrangement, and could be withdrawn with effect from March 31st, 1929. Nevertheless the first steps had been taken towards a permanent policy. A Franco-German détente had been achieved in the economic field, which contemporaries did not hesitate to describe as an "economic Locarno" and as the "greatest single contribution to liberal trading policies" of the interwar period.⁹

However, this "economic Locarno" did not lead to any lasting consolidation in the economic field. Beneath the apparent reconciliation and achievement of stable conditions, economic affairs remained in reality precarious under the potential threat of renewed disruption. Admittedly, stabilisation had been accomplished in the two countries, especially in the monetary field. It is open to question whether the stabilisation in domestic affairs and the settlements in foreign trade relations provided the necessary prerequisites for any lasting order. In addition, the problems in connection with inter-Allied indebtedness and reparations made both Europe and Northern America highly interdependent as far as the maintenance of economic stability was concerned. Assuming stabilisation in both France and Germany could be successfully implemented, there would still remain the potential danger of disruptive events in other countries, especially the United States, which would have their direct bearing upon the economic well-being of the world as a whole.

France and Germany were to enjoy stable conditions for only a few years. Monetary stabilisation in Germany had preceded that of France by about three years. However, Germany did not in actual fact recover economically until mid-1926. The "stabilisation

⁹ Haight, *op. cit.*, pp. 137-8.

crisis" lasted in Germany from mid-1925 to mid-1926 and was followed by comparative prosperity until the end of 1928. These years were a period of consolidation and rationalisation, of reorganisation in short, and especially of concentration of economic forces.¹⁰

On the other hand, after a short recession in 1921, due to the post-war slump, French production increased at a relatively high rate throughout the 1920's. The inflationary tendencies, accompanied by large budget deficits, can be also attributed to the post-war "reconstruction boom", but were under control by the end of 1926. Nevertheless, a comparison of French wholesale price indices for different years (1914=100) shows that the "miracle" of stabilisation as undertaken by Poincaré had only to a certain extent any lasting effects. It is true that this index declined from 854 in 1926 to 591 in 1930, but it still remained above that of 1925, however, which amounted to 550.¹¹ On the other hand, the fact that the franc remained slightly undervalued stimulated French export trade. Up to 1932, the balance of payments surplus brought gold into France. Whilst Germany before the stabilisation of the mark in 1923 had successfully competed with French products on the world market and whilst for instance, the French textile industry, largely increased in her capacities due to the annexation of Alsace-Lorraine, had lost one customer after the other, things were reversed in the late 1920's. Further, mainly due to the artificially maintained exchange rate of the franc, French producers could now fairly easily surmount the German customs walls and secure for themselves a strong position on the German market.

Despite the fact that the preferential treatment of the Allies provided for in the Peace Treaty ended in January, 1925,

¹⁰ J. Menken, *The German Economy and Reparations, Survey*, 1930, pp. 528-51.
Lewis, *op. cit.*, pp. 40-1.

¹¹ For further details see F. François-Marsal, *French Finance and the Franc, F.A.*, vol. 5, 1926-27, pp. 189-204.
J.A.M. de Sanchez, *Stabilising the Franc, F.A.*, vol. 7, 1928-29, pp. 64-71.

French exports into Germany had continued to rise during that year. After a drop in 1926, her exports into Germany reached their maximum for the whole interwar period in 1927. They amounted to 6.6 milliard francs (1.0 milliard marks) and represented 12 per cent of total French exports, which again relatively speaking, was the highest percentage obtained in that period. On the other hand, they represented 7 per cent of total German imports, thus being fairly well above the average percentage of 5.1 for the interwar period.

German exports into France took longer to reach their peak. They only attained their maximum for the whole period in 1930, amounting to 1.3 milliard marks (7.9 milliard francs), which represented 11 per cent of total German exports, and 15 per cent of total French imports. Both percentages were again record figures for the interwar years.

The last is a good example of the way in which the Depression in Germany tended to contract imports and to stimulate exports, thus creating a favourable balance of trade.¹²

The continuing prosperous economic situation in France in 1929-30 had favourable repercussions on German business. Foreign demand to a certain extent compensated some industries for the contraction of demand in the home market. But in 1931 the Depression also reached France. Franco-German trade slowed down rapidly from 1932-36, and even after the devaluation of the franc it only slightly recovered.

This can be attributed to various causes. The time lag in the ending of deflationary policies in the two countries was, however, only one cause out of many. Another is that different commercial policies were applied in the 1930's, due to the completely different political systems, although a parallel can be traced between French protectionism and the German policy of autarky. In any case,

¹² Here we are not concerned with the foreign trade policy of the Bruening Government. The record German export surplus of 2.9 milliard marks in 1931 is discussed by W. Roepke, Crisis and Cycles, London-Edinburgh-Glasgow, 1936, p. 29.

the main underlying cause might be attributed to the different economic mentalities and the specific structure of each economy. When comparing France not only with Germany, but also with other equally advanced industrial countries, it can be said that the French economy had advanced, but was still backward. In this sense, she was a late-comer and economically speaking, France thus had to face up to those further problems confronting a late-comer on the scene of the world-wide Depression.

During the second half of the 1920's, the danger of a depression was not taken very seriously. But when 1930 ushered in a new decade, the world looked back with wistful eyes over a period which had turned out to be one of deception or as both Frenchmen and Germans were to term it, "les années d'illusion".¹³

Thus the "Great Depression" became an acknowledged fact and a revised Franco-German trade agreement was seen to be necessary. A supplementary agreement to that of 1927 was reached on December 28th, 1932. The unconditional most-favoured-nation treatment remained intact in letter but not in spirit. Duties were deconsolidated and the granting of the most-favoured-nation treatment was limited to a restricted range of commodities.¹⁴

This became the starting point for the introduction of restrictive devices, such as quotas and clearing agreements. In fact, many of the developments in the 1930's were in fundamental contradiction to the principle of most-favoured-nation treatment. Despite this, the most-favoured-nation clause remained officially in force mainly due to political and tactical considerations.¹⁵

¹³ A. François-Poncet, De Versailles à Potsdam, 1919-1945, Paris 1948, pp. 138 ff.

¹⁴ Schultess, vol. 67, 1926, p. 133.
G. von Haberler, The Theory of International Trade, London-Edinburgh-Glasgow, 1937, pp. 362-71 and 377-83.

¹⁵ HDSW, vol. 7, 1961, pp. 285-8.
S.H. Bailey, Reciprocity and the Most-Favoured-Nation Clause, Economica, vol. 13, 1933, pp. 428-56.
R.C. Snyder, The Most-Favoured-Nation Clause and Recent Trade Practices, P.S.Q., vol. 55, 1940, pp. 77-97.

Both sides were aware of the dangers of an open conflict situation in the commercial field as it had existed at many times before the re-introduction of the principle of bilateral and unconditional most-favoured-nation treatment in the "economic Locarno" of 1927. The remaining antagonism had lost some of its strength. The "quota-quarrel" of the 1930's was still to be experienced in full. Nevertheless, "cold-war" conditions belonged to the early 1920's. Pragmatic attitudes tended to prevail, and the re-establishment of "normal" trade relations was aimed at when in 1937, a new commercial agreement was concluded between France and Germany abolishing the previous clearing system.

4. THE BRIAND PLAN AND THE ABORTIVE AUSTRO-GERMAN CUSTOMS UNION.

Both cartelisation and commercial relations had created a Franco-German détente in the late 1920's despite a moderate degree of antagonism which still remained as exemplified in the continuing of the reparations question up until 1932.

However, notwithstanding this easing of tension, there was no comprehensive settlement and no far-reaching economic co-operation. It was generally realised that the increased balkanisation of Europe after the war due to raised tariffs and new frontiers, could be overcome in two ways; either by the gradual diminution of tariff barriers and the establishment of some kind of European economic community, or by the division of Europe into economic blocs, which need not necessarily have led to a permanently divided Europe but which might have been a preliminary stage to further unity.

The Briand Plan was an example of the first alternative, while the project for an Austro-German customs union fell in with the second alternative. Although the necessity for unification was realised neither move was to be successful.

The Young Plan was concluded at the Hague on August 21st, 1929, and France agreed to have her troops evacuated from the Rhineland by June 30th, 1930. Thus the main obstacles which had stood between a lasting Franco-German understanding had been removed.¹

In accordance with this new state of affairs, Briand's plan for the creation of a closer union of the European States was quite logical, as put forward by him on September 5th, 1929 in the tenth session of the Assembly of the League of Nations. He urged his audience to consider the state of Europe, still haunted by the war, and he suggested the formation of a Union Européenne where

¹ P. Renouvin, ed. Histoire des Relations Internationales, vol. 7, Les Crises du XX^e Siècle, 1914-1929, Paris, 1957 pp. 259 ff.
P. Renouvin and J.B. Duroselle, Introduction à l'Histoire des Relations Internationales, Paris, 1964.
Doc. B.F.P. 1919-1939, edited by E.L. Woodward and R. Butler, 2nd series, vol. 1, 1946, No. 333, pp. 525-7, (Sir H. Rumbold to A. Henderson.)

"....there should be some kind of federal bond....Obviously this association will be primarily economic, for that is the most urgent aspect of the question...."²

It was none other than Gustav Stresemann who, replying on September 9th in what was virtually his farewell performance on the international political scene,³ wholeheartedly supported Briand's initiative, although he diverted the entire issue into the economic sphere beyond the bounds which Briand had envisaged.⁴

....I am not here considering the political side of the Versailles Treaty, for I may assume that my views of it are known. But I would like to lay stress on the economic side of it, and say that you cannot create a large number of new States, and wholly neglect to adapt them to the European economic system. What has been the result of this sin of omission? You see new frontiers, new measures, new weights, new usages, new currency, and constant obstacles to trade....New industries are founded for reasons of national prestige. They must be protected, they must themselves find new markets, and can often scarcely find such markets at home as will enable them to pay dividends. Where in Europe do we find European currency, or European postage stamps....Every rationalization of economic relations would not merely benefit European competitors, but those who supply us from abroad. If therefore it is thought fit to discuss such an idea in an institution like the League, which we have created for the purpose, and establish fresh negotiations and fresh agreements, which will in this connection simplify the situation, and help the exchange of goods, in order to limit the struggles and rivalries of competitive industry, you will always find us ready to take up any proposals that may be put before us....

Stresemann believed in the "primacy" of foreign policy, with a strong bias towards economic realities. He described his political objectives as those of Bismarckian Realpolitik, which represented for him "a realistic acceptance of the unpleasant facts of Germany's weakness and a readiness to sacrifice material

² Survey, 1930, The Briand Plan for Closer Union in Europe, pp. 131-42. J.B. Duroselle, Histoire Diplomatique de 1919 à nos jours, Paris, 1953, pp. 161 ff.

³ Stresemann died on October 3rd, 1929.

⁴ Stresemann Papers, op. cit., vol. 3, pp. 611-20, esp. p. 619.

advantages...."⁵ Thus he was prepared to accept the post-Dawes Plan reparations burden. He fully supported the moves undertaken by Briand to bring about the "liquidation of the war"⁶ and to foster economic unification in Europe wherever possible. However, up to the very end of his career, Stresemann never became a "European" in the sense of directly urging for a politically united Europe. In home politics he had been called a republican in mind though not in heart (*Vernunftrepublikaner*) and it can be suggested that he similarly became in foreign affairs, a European in mind though not in heart (*Vernunfteuropaeer*).⁷

Nevertheless, there is little doubt that he sincerely worked for a European rapprochement especially between France and Germany. In his speech quoted above, he made it quite clear that he aimed at a rapprochement with the ultimate objective of establishing some sort of European common market. It could be suggested that in comparison with Briand Stresemann's pragmatic attitude was more promising. His early death and the shadows prefiguring the Depression marked the beginning of the breakdown of both the facade of the restored gold standard and the hope for a new economic order in Europe.⁸ It was only after Europe had experienced another world war that such a new order could be envisaged for her.

It seems advisable here to make some brief remarks on the development of the concept of a united Europe, once the "horrifying slaughter" of the First World War was over.⁹ President Wilson, for instance, had already urged for the replacement of the former

⁵ Turner, op. cit., p. 179.

⁶ W. Lipgens, *Europaeische Einigungsidee 1923-1930 und Briands Europaplan in Urteil der deutschen Akten*, *HZ*, vol. 203, 1966, Part I, p. 73.

⁷ Lipgens, op. cit., Part I, p. 82.
Turner, op. cit., pp. 68-113, 152.

⁸ See chapter *Weltwirtschaftskrise* *HDSW*, vol. 11, 1961, pp. 618-22.

⁹ Alfr. Weber, *Die Krise des modernen Staatsgedanken in Europa*, Stuttgart, 1925, p. 109.

balance of power concept by that of a "community of power". No such Wilsonian Peace was achieved, but neither was the 19th century concept of the State thrown overboard. Some kind of hyper-nationalism had developed through the national hubris brought on by war, and it retreated slowly, always leaving a small pocket of resistance. The Pan-European Union, founded by Count Coudenhove-Kalergi in 1923, never reached the masses and its influence remained limited to a few intellectual circles. Walther Rathenau, for instance, had been one of the few politicians who had detached themselves from the earlier ideas connected with the expansionist "Central Europe" plans of the war period.¹⁰ But Rathenau was soon to die,¹¹ and his plans for European economic co-ordination (Gemeinwirtschaft) were buried with him. The Pan-European Union had some prominent members such as Paul Loebe, Aristide Briand and Léon Blum, but any success in this direction was bound to fail even before its actual "take-off". The question remains as to how far this was due to immanent forces of the system and how far the disturbances within the economic sphere of the interwar period attributed to this failure. Even Stresemann was very reluctant to involve himself and when both Herriot and Briand on the French side took up plans for closer union in Europe, it was he who stressed the point that a new orientation towards common European interests could only be achieved through a revision of the whole post-war politico-economic order. It has been suggested that "France and Germany seemed to be haunted in different ways by the contrast between their respective positions....and their respective economic

¹⁰ Fr. Naumann, Mitteleuropa, Berlin, 1915, (English translation: Central Europe, London 1916). It is interesting to note that Gustav Stolper, who as editor of the economic journal Oesterreichischer Volkswirt had played an active part in the Mitteleuropa campaign during World War One, completely ignored the Mitteleuropa issue when writing his book, "The German Economy" in the United States in 1940.

H.C. Meyer, Mitteleuropa in German Thought and Actions, 1815-1945, The Hague, 1955, p. 179.

¹¹ Rathenau was murdered on June 24th, 1922.

....potentials."¹²

Thus the effort to reach a rapprochement during the late 1920's seems from a later perspective to be a mere episode in the history of Franco-German relations.¹³ On May 17th, 1930, the final draft of the Briand Plan was handed over to the Governments of Germany and 25 other nations. At first sight it looked as if there was a change in emphasis in comparison with the Briand speech of September 5th, 1929. This shift in emphasis seemed to establish some sort of subordination of the economic to the political problems, in particular as far as security was concerned, thus favouring the traditional French national interests.

It is questionable whether this memorandum was drawn up in order primarily to serve European interests or whether it was in fact nothing but a perpetuation of the Versailles Settlement (Verewigung des Status von Versailles).¹⁴ The latter interpretation was adopted by the German Government, and thus the project had little chance of survival. It is true that the memorandum dealt primarily with political problems, and thus the implicit French attitude was that the settlement of economic problems was a function of the solution of outstanding political problems. However, Briand himself stressed the point that the priority of political problems meant nothing but that a new economic order had to be achieved through the existing political bodies. Thus he did not imply that political considerations were more important than economic, and it must be kept in mind that in Part IV of the memorandum the formation of a European common market was the ultimate objective.

Both Bruening and his Foreign Minister, Curtius, differed from Stresemann's policy in one important respect, and that was their more reserved attitude towards France. Furthermore, Tardieu was at the head of the French Cabinet, and there is sufficient evidence to show that, due to pressure within the French Cabinet, Briand was induced to make rather ambiguous provisions in the final draft of his memorandum. However, it was always difficult

¹² Bennett, op. cit., p. 310.

¹³ R. Lauret, France and Germany, London, 1965, pp. 77-84.

¹⁴ Lippens, op. cit., passim.

to judge what would primarily serve French national interests and her security, and what would promote a permanent stabilisation of the whole of Europe.¹⁵ In France as well as in Germany this plan was heavily attacked by the right wing press. On one hand the "illusionists" and "pacifist traitors" were attacked, and on the other the "new enslavement in disguise", the cementing of the territorial status quo.

The security question was given special attention by Briand and some reasons for this have been given above. He was not only guided by tactical considerations, but he was convinced that any economic well-being of the Continent depended ultimately on the maintenance of peace. Even Britain realised that if the Briand Plan had been universally accepted it would probably have led to a European common market. But for obvious reasons this was not in her interest at this stage, and so she refused to participate, thus also playing her part in the downfall of the Plan.

The negative reaction of the German Government¹⁶ was not only due to the general attitude of the decision-making personalities but also to internal German politics. The Bruening Government was in a precarious position, but it is still questionable as to how wise it was to join the chorus of right wing extremists in an attempt to make their unpopular Government "popular". In any case, Bruening did not succeed in becoming popular, and his policy of preserving democracy in Germany by combating depression with rather "pro-cyclical" measures proved to be a fatal error. He proved to be equally unsuccessful in overcoming the deep-rooted "anti-democracy complex" in the German nation.¹⁷ It still remains open

¹⁵ When speaking here of Europe this does not apply to the Soviet Union, where any European co-operation was branded as a bourgeois move for intervening against Communism.

M. Beloff, The Foreign Policy of the Soviet Union, 1929-1941, 2 vols., London, 1947-49.

¹⁶ The German answer submitted in Paris on July 15th, 1930, was rather evasive. In fact, the Briand Plan was offered "a first-class burial" (Curtius), Lipgens, op. cit., Part II, p. 341.

¹⁷ W. Conze, Bruenings Politik unter dem Druck der grossen Krise, HZ, vol. 199, 1964, pp. 529-50, esp. p. 537.

to question whether he would have succeeded if he had not been prevented from doing so in the final straight (100 Meter vor dem Ziel).¹⁸

In this case, however, Bruening's policy, as far as the Briand Plan is concerned, was a complete failure, and it has been suggested that the negative German reaction was perhaps the greatest mistake of the Bruening Cabinet in its foreign policy.¹⁹ The last chance for a Franco-German rapprochement had been passed by, and this became particularly clear with the tremendous success of the National Socialists in the September elections of 1930.

It could be suggested that the maintenance of a democratic government in Germany after 1932 might have had favourable repercussions on France's recovery from the Depression. The turning point towards recovery was reached in Germany by 1932/33, at a time when the Depression in France was still in its early stages. The German drive towards autarky made France less inclined than ever to move away from her protectionism. However, it is difficult to make any broad assumptions in this case. In particular the French and German adherence in different ways to the gold standard stood in the path of any liberalisation in their foreign trade relations. Another point arises when considering what the situation would have been without the stimulating effects of re-armament.

Following on from this digression, the main reason for the negative German reaction has still to be discussed. The Bruening Government sought success in foreign affairs in order to improve its precarious position in home politics and in particular to win support from the parties on the right. As early as February, 1930, during a visit to Germany by the Austrian Chancellor, plans for an Austro-German customs union were discussed. This was at the time when the final draft of the Briand Plan was still to be submitted. In fact, the German side looked upon the Briand Plan

¹⁸ *Loc. cit.*, p. 547. See also Kroll, *op. cit.*, p. 406.

A contrary view is held by T. Balough, *The National Economy of Germany*, *E.J.*, vol. 48, 1938, pp. 460-97.

¹⁹ Lipgens, *op. cit.*, Part II, p. 361.

with strong reservations and was determined to follow a policy of departmentalising the Continent into different economic blocs. In March, 1931, Curtius went to Vienna for negotiations and a preliminary treaty of an Austro-German customs union was published on March 20th, 1931. There is no doubt that both the German and the Austrian side regarded this agreement not only as an expediency on account of the depressed state of their economies, but also as a first step towards greater economic unity in Europe, and their arguments in this respect were not only based on tactical considerations.²⁰ It could be said that the achievement of a European customs union at that time was a vain hope. The unsuccessful outcome of the Briand Plan later proved this point. But at the same time the customs union proposal failed to recognise the limitations of Germany's post-war position. The International Court at The Hague soon afterwards decided, after the project of the customs union had already been abandoned, that it was not in accordance with the obligations of Germany and Austria under their respective Peace Treaties, although this was more a political majority decision than actual legal opinion. Thus the Austro-German claim was declared not to be legal, although it was legitimate. Stresemann, after the conclusion of the Locarno Pact, has already emphasized that equality meant the right to claim not only a customs union, but also the Anschluss for Germany.²¹ In fact, the French side was not very mistaken in assuming that a customs union might ultimately become the Anschluss, despite the fact that this was explicitly excluded in the preliminary Austro-German Agreement. Briand felt himself and his efforts to be pushed on one side and in addition, the keeping secret of the Austro-German project until after agreement had been reached, aroused suspicion and increased French opposition. Briand even exclaimed in the Chamber of Deputies "Et l'Anschluss - c'est la guerre".²²

²⁰ Hauser, op. cit., p. 51.

²¹ Turner, op. cit., pp. 210-11.

²² Quoted from Hauser, op. cit., p. 69.

Baumont, op. cit., 2nd edition, 1946, pp. 403-5. It could be suggested that "l'Anschluss" meant for the French the same as meant for Bismarck "le cauchemar des coalitions".

.....footnote 22 continued/

Thus the French attitude became uncompromisingly rigid and unexpected diplomatic and financial pressures were brought to bear. French diplomacy started a counter-move early in April, 1931. They disclosed the general nature of their "counter-plan" (plan constructif) to the British Government at the end of the month, while only informing the German Government on May 11th due to tactical considerations - in order "to hinder the Germans in their effort to criticise the plan, and possibly also simply to let them worry a little."²³

This plan constructif was not particularly constructive and while it was in many respects attractive to Austria, if offered little to Germany. The French plan can be summarized as follows:²⁴

1. Creation of a customs union between Austria and the States of South-Eastern Europe.
2. Preferential treatment for the surplus produce of the States of South-Eastern Europe to be granted by France, Germany, Czechoslovakia, Italy, Switzerland and Austria.
3. French loans for the States of South-Eastern Europe and for Austria.
4. Special preferences for Austrian products to be granted by the countries mentioned under (2).
5. Development of international cartels for the marketing of the exports of the States of South-Eastern Europe and the extension of such cartelisation to certain industrial products (including raw materials such as coal etc.) of France, Germany and other European countries.
6. French loans to be extended to Germany under the pre-condition that the latter agreed to abandon her policy of revision.

It is open to question how far the French side considered the realisation of her counter-proposal possible. Its implementation would have tended to preserve the existing status quo and thus there was little hope for German acceptance. In addition, it was unrealistic to assume that France on her part would be prepared to

22 Continued

E. Eyck, A History of the Weimar Republic, London, 1964, vol. 2, p. 306.

23 Bennett, op. cit., p. 92.

24 Bennett, op. cit., pp. 93 ff.

Hauser, op. cit., pp. 76 ff.

implement the promised preferential treatment for the surplus produce of the States of South-Eastern Europe - a promise she would hardly have been able to support when faced with her protectionist economic system in general, and problems in connection with marketing her own agricultural produce and that of her colonies in particular.

The only point which was original and which offered some scope for implementation, was the envisaged creation of international cartels. This was the brain-child of André François-Poncet, the then Under Secretary of State to the French Premier and later Ambassador to Berlin. The proposed cartelisation would have implied active support on the part of each Government in the forming of international cartels, by means of threatening reluctant industries with the removal of tariff protection. The objective was here not to overcome the effects of protective tariffs as such. On the contrary, once industries had been cartelised internationally, these industries would obtain protection even in the event of the elimination of tariff barriers between the countries concerned, since the cartels would aim at creating market imperfection comparable to that maintained under protective tariffs. Although the German Ministry of Economic Affairs generally regarded the creation of any form of European customs union as favourable for German industry and hence did not share the negative attitude of the Chancellor and the Foreign Office towards the Briand Plan,²⁵ it was rightly pointed out by this Ministry that the French counter-proposal did not aim at improving the internal division of labour in Europe.²⁶

The plans for cartelisation envisaged the counteracting of any reduction of protective tariffs, thus offering no constructive step forward. Due to her financial strength, France could expect to play a dominant role in such cartels. On the other hand, the high degree of cartelisation in Germany might have led to the latter's gaining of a similarly strong position. In fact, apart from the detrimental effects of cartels on competitiveness in general, this provision of the French proposal showed that in many respects, it favoured both France and Germany and might have offered

²⁵ Lipgens, op. cit., Part I, pp. 77-8 and 88-9.

²⁶ Bennett, op. cit., p. 95.

the basis for a later rapprochement, assuming political conditions had remained favourable. On the other hand, Germany refused to substitute Franco-German negotiations for the Austro-German customs union project. She was however, willing to pursue simultaneously the attainment of both a Franco-German agreement on South-Eastern Europe and the Austro-German customs union. But France made it clear that Germany would have to suspend discussions with Austria first.

Thus, it can be shown that one of the objectives of the French counter-proposal was tactically aimed at diverting or delaying the Austro-German customs union, without being prepared to reach any real compromise in this matter. Since the Austro-German plan made provisions for third countries to join the customs union between the two States, France was entitled to ask for entry and thus to challenge the sincerity of Germany in respect of Article I of the Agreement, where the political independence of Austria and thus the Versailles status quo was recognized.²⁷

In the light of French policy, the Briand Plan loses much of its significance since France was not really interested in venturing into any large-scale diminution of tariff walls in Europe. She hoped to counter-balance German economic interests in that part of Europe where German influence was traditionally fairly strong, although by no means as strong as it was to become during the south-eastward expansionist drive of the Third Reich. The reaction of the countries concerned, especially that of Yugoslavia and Rumania was all but enthusiastic, since it was soon realised that the French move was largely political. On the other hand, it could be suggested, assuming that the countries concerned had been willing, that a Grosswirtschaftsraum resembling that of Austro-Hungary would have been of tremendous benefit for all participants.²⁸ On the

²⁷ Hauser, op. cit., pp. 58-9.

²⁸ Bennett, op. cit., pp. 40-112. It is interesting to note that Britain strongly opposed the French cartelisation plans, when seeing that by this her own economic interests would be affected.

Hauser, op. cit., p. 78.

other hand, Curtius even went as far as to suggest a Franco-German customs union.²⁹ But all such moves were to a large extent nothing but tactical expediencies and the heated political atmosphere hardly allowed any serious approach towards a Franco-German understanding.

It was in particular the critical financial position of both Austria and Germany after the withdrawal of large loans that influenced the decision of both countries to abandon their project for a customs union on September 3rd, 1931.

Up until recently it has not been clear, however, whether the collapse on May 8th, 1931, of the Creditanstalt, the famous Austrian banking house founded by the Rothschilds in 1855, was a direct result of French interference. In a recent study³⁰ it has been shown that this bankruptcy was not primarily due to French withdrawals. But French financial circles were at least indirectly involved. The Creditanstalt had for some time concealed its losses, and thus French pressure came to be the final stroke for this institution. It should be kept in mind, however, that the Creditanstalt itself was not in favour of the customs union proposal, fearing the competition of the German banking sector. Furthermore, one of the Directors of the Creditanstalt in 1931 was M. Schneider of Schneider-Creuzot. The collapse of the Creditanstalt was certainly not mere coincidence, but it can hardly be maintained that the French "High Finance" was directly involved in this bankruptcy.

In conclusion, when viewing the moves made by both France and Germany towards overcoming the lack of economic unity in Europe, due recognition must be given to questions such as national prestige and power politics in general. Neither nation was prepared to leave to the other the credit for having achieved a new order. Even when maintaining that Germany was more in favour of removing tariff barriers than was France, it is always a debatable question whether either side was really prepared to make substantial

²⁹ Schultess, 1931, p. 562.

³⁰ Bennett, op. cit., pp. 100-4.

sacrifices for any re-organisation towards integration in European economic affairs.

On looking back it will be seen that the year 1931 marked a watershed in Franco-German relations. Although France succeeded in maintaining the post-Versailles status quo, thereafter she accepted implicitly that Germany was not to abandon her policy of revision.

CHAPTER V

THE EMERGENCE OF A NEW ERA IN FRANCO-GERMAN RELATIONS.

1. THE SALIENT FEATURES OF ANTAGONISM AND EVENTS PRELUING THE RISE OF THE THIRD REICH.

France, imposing her will on Germany for the last time in the interwar period when making her abandon the Austro-German customs union project, by her policy brought about an increase in Franco-German antagonism which had died down in the late 1920's and now, towards the end of the Weimar Republic, came to the fore.

Admittedly, the German Government had not taken into due account the French "security complex" in its dealings over the Austro-German customs union. On the other hand, the French side did not conceive that the abandonment of this project, at a time when the effects of the Depression were being increasingly felt, would finally undermine confidence in the Weimar Republic within Germany, where the Bruening Government had already lost its support in Parliament and had had to resort to Presidential emergency orders under Article 48 of the Constitution, for its very existence.¹ The right-wing parties proclaimed the bankruptcy of the "system of Weimar" and the slogan that without power politics there can be no solution to economic problems, came to be more and more accepted in Germany.² On October 11th, 1931, only five weeks after the abandonment of the customs union project, the so-called Harzburger Front was formed between the National Socialists and other groupings on the Right in a final assault on the Weimar Republic.

France did not fully realise the dilemma arising from conditions emerging in Germany. On the one hand, the Weimar Republic needed outside support; on the other, developments in Germany did not encourage such support. This reveals the tragedy of the Weimar Republic and of Europe as a whole, where Franco-German relations were foundering on the barrier of mutual distrust.

Any hopes for co-operation which might have been raised

¹ W. Conze, Bruenings Politik, unter dem Druck der grossen Krise, HZ, vol. 199, 1964, pp. 541-5.

² O. Hauser, Der Plan einer deutsch-oesterreichischen Zollunion von 1931 und die europaeische Foederation, HZ, vol. 179, January-June 1955, p. 89.

by the Briand Plan were now lost in the new currents of events, while the impact of the Depression was becoming more and more an all-embracing phenomenon whose effects Franco-German economic relations were not to escape.

In Germany, the repercussions of the world economic crisis were felt right from the beginning whereas France, as late as the second quarter of 1931, remained relatively immune from any great economic disturbance. After that, her economic situation deteriorated rapidly however. The German position was further complicated by virtue of the fact that as biggest borrower she also became the greatest sufferer. Due to these circumstances she did not see herself in a position to depreciate her currency.³ Under Bruening, Germany succeeded in drastically cutting wages and prices, as well as considerably reducing imports. Thus some sort of "stabilisation" was achieved, but at a very high cost. This extra strain laid upon the whole German nation, after reparation and other burdens resulting from the war, had fatal repercussions on German politics. The advance of both the Communists and the Hitler movement paralysed the working of a democracy and Germany became more than ever before, a "republic without republicans".⁴ Thus it would be misleading always to blame external influences for the collapse of the Weimar Republic. On the other hand, to a very large and sometimes overwhelming extent, they had their impact on home politics in Germany although this impact would have been greatly reduced if some sound economic policies had been pursued. It was in particular the

³ German external debt (milliard RM.) (July 1931)

<u>Short-term</u>	<u>Long-term</u>	<u>Total</u>
13.1	10.7	23.8

Kroll op. cit., p. 491.

⁴ It should be added here that already since the elections of June 6th, 1920, there had been no majority of the Weimar Coalition (i.e. Social-Democrats, Democrats and Zentrum) in the Reichstag. Thus from the very beginning we must recognise the "disguised agony" of the German Republic. Gebhardt, op. cit., p. 122.

mismanagement in the monetary sphere where the foundation for the collapse of the whole system was laid.⁵

Much of the misfortune of Germany can be laid at the door of bad monetary policies; too easy credit conditions up to 1923, and too severe restrictions after 1928. If there had been more restriction up to 1923, and more inflation after 1928 in Germany, the conditions which brought Hitler to power would not have been created, and the world's history would have been different.

In addition, it is a commonly accepted fact that the withdrawal of foreign funds from Germany revealed for everyone the

⁵ Lewis, op. cit., p. 63. How far the decisive figure of Schacht, the "political chameleon" is to be blamed cannot be discussed here. N. Mühlen, Schacht: Hitler's Magician, New York, 1939.

For quote see Introduction by J. Steel, p. vii.

Up until September, 1936, the French alternative to devaluation was to increase the tariff and extend import quotas. In both countries, the experience of the years of inflation preceding 1923 and 1926 respectively was to be largely responsible for the application of a deflationary policy. It was in the main the growing disparity between French and world prices which caused great concern and faced France with serious customs problems. Even after September, 1936 private investment failed to revive in France, and the growth of production could in the main be attributed to the effects of devaluation.

P.K. Debenham, The Situation in France, E.J., vol. 42, 1932, pp. 380-90.

H.V. Hodson, The End of the Gold Bloc, Survey, 1936, pp. 161-83.

M. Wolfe, The French Franc between the Wars, 1919-1939, New York 1951, p. 105 and passim.

M. Kalecki, The Lessons of the Blum Experiment, E.J., vol. 48, 1938, pp. 26-41.

Ch. Rist, The Financial Situation of France, F.A., vol. 16, 1937-8, pp. 601-11.

H.C. Eastman, French and Canadian Exchange Rate Policy, J.E.H., vol. 15, 1955, pp. 403-10.

vicious circle of international indebtedness, which was finally overcome by the Lausanne Agreement. This withdrawal of foreign funds had originally begun in 1928, due to speculation in Wall Street. In 1929, however, it was to a great extent France who, for political reasons in connection with the Young Plan, exerted financial pressure on Germany. The slump aggravated this situation, which became worse at the time of the Austro-German customs union project, when mounting French pressure again led to the withdrawal of large funds from Germany. We are here only concerned with the role played by France, although the withdrawal of American funds was certainly a more decisive factor at times. Nevertheless the French pressure can hardly be underrated. Up to 1931, she was in a position to help Germany financially. Of course, she had her reasons for not doing so, especially with the sudden success of the National Socialists starting as from the election results of September, 1930.

The events in Germany also precipitated the stock market and banking crisis in France, leading ultimately to the latter's depressed state of affairs in the 1930's. Both economic and political events were in these times of strain highly interdependent, reacting on each other, in such a way that it would not be far wrong to maintain that this laid the foundation for the panic-stricken conditions (*crise de confiance*) which flooded all over Europe.⁶

France's policies pursued towards the end of the Weimar Republic, reveal her often ambivalent attitude towards her eastern neighbour. On the one hand, she was justified in being alarmed at the increasing radicalisation of party politics in Germany, although her unrelenting attitude towards the democratic Governments in Germany tended to reduce their standing in the face of this rising political tide and even the final abandonment of the reparations question was only after the downfall of Bruening who, with certain reservations, can be regarded as the last democratic Chancellor of the Weimar Republic.

On the other hand, the French position as regards the Hitler movement was ambiguous and furthermore, after the actual take-over by the National Socialists, she was to adopt a surprisingly

⁶ Economist, June 10th, 1933, p. 5.

conciliatory attitude - an attitude which in turn was not to be honoured by the Nazi Government.

One quite often overlooked aspect is the support for Hitler before 1933 by means of financial contributions from various foreign sources and during the world-wide Depression it was not only some influential German industrialists who supported Hitler, but also for instance some French industrialists. The French armaments industry in particular was not at all interested in disarmament and the Disarmament Conference at Geneva was regarded as an alarming development among some of these circles.⁷

The activities of the Comité des Forges are here of especial interest. On one hand it was widely believed that Hitler, once in power, would soon have "mismanaged himself out of office", which might have created a chaotic situation as in 1923, and would have been favoured by the latent French "divide and rule" approach. It is worth remembering in this context that in 1923, both the Separatist movement in the Rhineland and the Hitler Putsch were welcomed by some French diplomats and other authorities, as offering further opportunities for breaking up the unity of Germany. How dangerous such a policy could become for the French as well, was only fully realised when it was already too late.⁸

On the other hand, a take-over by Hitler would have probably resulted in increased French expenditure on defence. Such a development would have been profitable to the French armaments industry which was heavily affected by the Depression.

The ambiguous nature of Franco-German relations at this time is illustrated for example, by the role played by André François-Poncet. It is difficult to estimate how far François-Poncet, who had been Ambassador in Berlin since September, 1931, was responsible for behind-the-scene activities towards the end of the Bruening era. François-Poncet had early links with French heavy industry - in 1919 he represented the Comité des Forges when the

⁷ H. Lutz, German-French Unity, Basis for European Peace, Chicago, 1957, pp. 112 ff.

⁸ *Ibid.*, p. 109.

Allies sent an economic mission to the United States and in 1923, during the Ruhr occupation, he was economic adviser to the Commanding General there. In the later twenties he directed the newspaper l'Avenir which fostered the interests of the Comité des Forges. Before being sent to Germany as Ambassador in 1931, he held offices as Under-Secretary for Foreign Affairs, Under-Secretary for National Economy and Under-Secretary of State to the Premier's office. It was also reported that through his marriage he had acquired substantial holdings in the Lorraine steel industry. Furthermore, it should be kept in mind that he was regarded as an expert on German affairs, and it might not be going too far to suggest that the unrelenting attitude of Tardieu's Cabinet towards the Weimar Republic and any disarmament, might to a certain extent have been influenced by François-Poncet.⁹ In addition it should be remembered that he was one of the most outspoken critics of Briand in the Chamber of Deputies. It proves little, but it should also be mentioned that he was uncompromisingly hostile towards the project for the Austro-German customs union and he was mainly responsible for the French plan constructif. It can be suggested that he underrated Hitler in the same way as did others. He probably favoured a new state of civil war in Germany, in order to pursue, in a final effort, the traditional French policy of separating the Rhineland from the Reich.

Thus it is understandable that the Bruening Government was rather shocked when Pierre Laval, the then French Premier, who had been a lawyer for the Comité des Forges, proposed François-Poncet as Ambassador to Germany. By this it was easy for German politicians to believe that influential French circles welcomed the rise of the Nazis, partly to justify their own armament claims and partly due to the widespread belief that Hitler's take-over would bring about a chaotic state of affairs in Germany.

This also explains to a certain extent why the Bruening Cabinet was very biased in its attitude towards France. For instance, to illustrate further the ambiguous French attitude, in February, 1932,

⁹ However, these are aspects he preferred to ignore in his memoirs, published after World War Two (1948).

Paul Faure, the Secretary General of the French Socialist Party, brought to the attention of the Chamber the fact that the Skoda Works in Pilsen (Czechoslovakia) had helped to finance Nazi elections in Germany. Faure pointed out that Skoda was then controlled by Schneider-Creusot, and such financial support could hardly have occurred without the consent of the French industrialists concerned. Faure's charges were never disputed.¹⁰

It is true that many of those who directly or indirectly supported the Hitler movement before its coming to power changed their minds soon after January 30th, 1933, and withdrew their support, although this does not in any way redeem them or exonerate them from the responsibility for their actions.

The mistaken French policies towards Germany found many critics even at this time without however, having much effect. Yet from 1933, the events in Germany soon made it clear that a "benevolent dictatorship" had not been established there. Tragically enough, Hitler himself did not conceive that those were not empty words on the part of the Allies, when they warned the German side that things might drift "as they (had) drifted between 1904 and 1914".¹¹

The scene at this time was more bleak than encouraging. However, it is necessary to point out that the leaders of each country's private industry, at this time of strain, were able to reach agreement on most questions which stood in the way of a Franco-German rapprochement, despite the state of mutual distrust between the two nations in the political sphere. Thus it will be seen that it was the responsible politicians in Nazi Germany and not the problematic nature of outstanding questions as such, which was to block any real settlement.

Of special interest are the so-called Luxemburg Conversations between French, German, Belgian and Luxemburg industrialists, beginning in 1931. These private discussions became increasingly semi-official, and not only were solutions to problems concerning private enterprise and economic co-operation between these countries

¹⁰ Lutz, op. cit., p. 113.

¹¹ Economist, May 4th, 1935, p. 1000.

sought, but also a revision of the whole political order established in 1919, in particular a revision of the Polish-German frontier.¹²

One should mention here the conversations held on January 29th and 30th, 1933, between French and German industrialists leading to the signing of a protocol, which revealed in a striking manner their mutual understanding regarding various important problems. The most prominent figure on the German side was Geheimrat Buecher, President of Allgemeine Elektrizitaets-Gesellschaft (A.E.G.) and on the French side, M. Duchemin, President of Etablissements Kuhlmann. The formation of the Hitler Government followed immediately after these conversations and on that same day, the French side enquired whether their German counterparts believed that the understanding reached in their conversations would find the approval of the newly formed German Government. At this stage this was not easy to answer - Hitler regarded it as not being opportune at that time to specify his future policy regarding Franco-German relations.¹³ The take-over by Hitler had for obvious reasons greatly alarmed the French Government and perhaps to an even larger extent the French public.

The degree to which the Depression, as a response to prevailing economic conditions, developed contacts between the respective leaders of commerce and industry, has been largely neglected. The agreements reached between them were laid down in the aforementioned protocol, dated January 30th, 1933. In this the French side made great concessions, especially in regard to the German colonial and "Corridor" demands. It was then of particular significance that the French Government approved this protocol as a basis for future negotiations.¹⁴ Thus businessmen had laid down the foundation for a Franco-German rapprochement. Of great importance

¹² Doc. G.F.P., series C, vol. 1, The Third Reich, The First Phase, No. 2, pp. 2-5 and No. 18, pp. 38-41 and No. 24, pp. 49-52.

¹³ Ibid., p. 52, (Buelow, German Foreign Secretary to Francois-Poncet, the French Ambassador on February 18th, 1933.)

¹⁴ Ibid., p. 41.

was the agreement on both sides that the Lausanne Agreement, which had resulted in much ill-feeling in France, no longer constituted an obstacle to a Franco-German rapprochement.

For the first time since the war, France had shown an unprecedentedly promising attitude towards compromise. This was, however, not honoured by the German Government in power. Baron von Neurath, the German Foreign Minister, simply pointed out that these provisions for a possible future settlement "...fall far short of the minimum we might consider acceptable".¹⁵

Thus a new chapter in Franco-German relations was to remain closed. On the other hand, it is very surprising how economic exigencies and political expediency soon resulted in various new moves, albeit under considerable ideological strain.

¹⁵ Ibid., p. 39.

2. COMMERCIAL POLICIES AFTER 1933.

The Nazi take-over of 1933 resulted in apprehension in France, but commercial relations were affected by this for only a relatively short period, although substantial consolidation was not reached before the Commercial Agreement of 1937. This consolidation was achieved in the face of political tension and bottlenecks arising out of the repercussions of the Depression in the two countries.

During the years of the German Depression of 1930-34, France on the whole suffered less than Germany as far as changes in national income were concerned. In the period 1929-32, the German economy suffered heavily. During 1932-34, however, things were reversed and the percentage rise in German national income was almost on a par with the percentage fall in the French national income.¹ After this Germany recovered very rapidly and industrial production in 1935 reached almost the level of 1928, a level which France did not even reach in 1938, despite the marked improvement of her economic conditions in the second half of that year, after successive depreciation had re-established a more or less competitive price level in France.²

Taking 1928 as a basis, her industrial production stood in 1938 at 83, whereas the German figure amounted to 125. It is true that Germany's recovery was purchased at a high cost; free enterprise was subject to far-reaching bureaucratic control and foreign trade to rigid regimentation. Further, the unbalanced character of Germany's recovery became more and more obvious. Nevertheless, her index for consumers' goods in 1938 stood at 107 (1928=100), thus generally surpassing the respective indices for

1

Growth in National Incomes in Percentages

	<u>1929-32</u>	<u>1932-34</u>	<u>1929-34</u>
France:	- 16	- 14	- 27
Germany:	- 39	+ 13	- 31

See League of Nations, World Economic Survey, 1935/36, pp. 104-5.

2

League of Nations, World Economic Survey, 1938/39, pp. 26-37.

France.³

The comparatively late start of the Depression in France had made her position anything but easier. It could be suggested that it was the economic conditions in France which in fact were to be the underlying causes of the weakened French position, which in turn explains why, despite her continuing apprehension, France's attitude towards the militant policies pursued by Nazi Germany became more conciliatory than had generally been the case during the Weimar Republic. As far as commercial policies were concerned however, France showed for some time considerable fighting spirit.

In the field of trade relations, the most obvious consequence of the Depression was perhaps that the most-favoured-nation treatment, as laid down in the Franco-German Commercial Agreement of 1927, became more and more insignificant, although it was never officially abandoned. Before Hitler took over in Germany, the foundation for a German policy of foreign exchange control was already laid down, although the high degree of sophistication of the control mechanism in foreign trade which developed after 1933 became rather unique.⁴ On the other hand, in 1931 France returned to her old-fashioned protective practices which she extended in many ways. In comparison with Germany, there was little uniformity in the French restrictions on foreign trade but nevertheless, the working of her quota system effectively reserved the French market for home industries, which would not have been achieved to the same extent by protective tariffs alone.

In both countries the introduction of increasing state control in foreign trade was at first regarded as a temporary expedient. In France, however, the question of free-trade versus protection never gained great importance. Protectionism was regarded on the whole as favourable to both agriculture and industry. Thus in the French case the protective policy of the 1930's was due to a change in mental attitude to a much lesser extent than was the case in Germany. In brief, the restrictive devices of both countries

³ See Appendix A, III.

⁴ M. Wolfe, *The Development of Nazi Monetary Policy*, *J.E.H.*, vol. 15, 1955, pp. 392-402.

as far as foreign trade was concerned moved in much the same direction, in a manner hardly conducive to bringing them closer together. Self-sufficiency rather than specialisation was the prevailing aim. International trade and the Franco-German trade developed on similar lines. Despite the striving for exports, trade relations greatly deteriorated.⁵ Even the later devaluation of the franc did not change France's passive balance either in her trade with Germany or in that with the rest of the world and the French export trade was over-proportionately contracted.⁶ The Agreement between France and Germany of December, 1932 supplementary to the 1927 Commercial Agreement, had permitted both sides to raise practically all tariffs unilaterally. This, however, implied the right of each side to take retaliatory measures in the event of negotiations for a compromise proving unsuccessful. On January 17th, 1934, France renounced the Agreements with effect from April 20th, 1934.

The French renoucement of the Treaty was based on the argument that Germany had restricted imports from France while negotiations were still in progress. The years 1933-34 were a period of relatively aggressive French trade policy, where an attempt was made to use the quota system as an instrument of reciprocity. However, it was soon afterwards realised that France herself was seriously affected when applying a too rigid quota policy. In particular the French textile industry was to suffer from the initial failure to reach a new agreement. A new working arrangement was not found before July and it came into force on August 1st, 1934.⁷

⁵ Economist, June 10th, 1933, p. 5

⁶ Percentage Share of France and Germany in the Total Export and Import Trade of the World

	<u>Imports</u>				<u>Exports</u>			
	<u>1929</u>	<u>1931</u>	<u>1932</u>	<u>1937</u>	<u>1929</u>	<u>1931</u>	<u>1932</u>	<u>1937</u>
France	6.4	7.9	9.0	6.2	6.0	6.3	6.2	3.7
Germany	9.0	7.7	8.0	8.1	9.7	12.1	9.9	9.4

Statistical Yearbook of the League of Nations, 1938/39, Table 119.

Economist, August 4th, 1934, p. 219.

Ch. Bettelheim, L'Economie Allemande Sous le Nazisme, Un Aspect de la Décadence du Capitalisme, Paris, 1946, p. 241.

However, such events proved to be the exception rather than the rule. In general, both sides were very anxious out of self-interest to make if necessary, some fresh arrangements for immediately regulating their commercial relations. The French quota system normally worked comparatively well, since decrees establishing quotas were generally not imposed before negotiations between French and German representatives had taken place. In most cases it was possible to come to some arrangement. Such quotas, which were accepted in these unofficial discussions and later given effect in official decrees, were called "bilateral" or "friendly" quotas, as opposed to "unilateral" or "autonomous" quotas which had been fixed without such prior consent. It should be emphasized, however, that the so-called "friendly" quota is a rather misleading term. In most cases such quotas were accepted under the threat of a more rigorous unilateral quota policy.⁸

The Franco-German "quota quarrel"⁹ became one of the main obstacles in the attempts to reach a new trade agreement. This was not achieved before July, 1937. In the meanwhile various provisional agreements were concluded after what were quite often long and difficult negotiations.

The Franco-German transfer and commercial agreement of July 28th, 1934, which was basically a clearing agreement, was at first only concluded for the period August - December, although it was prolonged by other provisional agreements. Thus clearing continued until the coming into force of the trade agreement of July, 1937.

The exchange clearing system involved many problems.¹⁰ The main difficulty in Franco-German trade relations arose out of the credit balance in favour of Germany, which amounted to more than 300 million francs in the first half of 1934. The clearing agreement

⁷ Economist, January 27th, 1934, p. 173.

Economist, June 23rd, 1934, p. 1373.

Economist, August 4th, 1934, pp. 220-1.

⁸ Haight, op. cit., p. 169

⁹ Economist, January 20th, 1934, p. 111.

¹⁰ Economist, May 16th, 1936, Banking Supplement, pp. 11-12.

provided for the payment of the commercial debts between these two countries to be made through the Reichsbank in Germany and in France at the Office Franco-Allemand, which became attached to the Paris Chamber of Commerce. Thus French and German importers had to make their payments in francs and Reichsmarks respectively. Further, out of the total amount paid to the Office Franco-Allemand by the importers of German goods, an amount of 15.75 per cent of the money collected was credited every day to a special account opened for the Reichsbank in the books of the Office Franco-Allemand. This special account was opened in order to pay off certain German debts. In part, the sum accruing in this account was to be used for the payment of the coupons of the Dawes bonds and the Young bonds and other debts, notably the interest on Standstill credits, while the rest remained at the disposal of the Reichsbank. This meant, however, that French imports of German goods had considerably to exceed French exports into Germany. This was in general the case. However, in the first phase of the working of this agreement, during August - December, 1934, a French export surplus occurred, reducing the aforementioned French import surplus of 300 million francs during the first six months to 237 million francs for the whole of 1934. Since the clearing was based on the existence of a French import surplus, various problems arose from the very beginning and perpetual adjustments had to be made. This was the reason why the agreement, when being prolonged at the end of 1934, was amended in various respects. For instance, provision was made for the creation of a permanent mixed commission, which had the function of supervising the development in Franco-German trade, and provision was also made for the relaxation of French imports quotas for German goods, in order to regain a sufficient French import surplus and to facilitate the settlement of outstanding German debts.

The significance of such agreements can be summarized as follows. They were concluded for a short period of several months only, in order to adjust the rather clumsy working of the clearing system to changes in trade occurring in the meantime. Both sides made a few concessions in the quotas concerned, but no comprehensive settlement of the obstacles to trade was reached at this stage. On one hand the French exporters had a guarantee of payment for their goods, on the other French importers lost the advantage of paying

for German goods with "blocked marks". They had to make their payments in accordance with the average exchange rate on the Berlin market, while the prospects for increasing French exports into Germany were limited.¹¹

A new round of Franco-German commercial negotiations started after the Saar Plebiscite of January 13th, 1935. On January 21st, 1935, they began in Berlin and were continued in Paris on February 9th. The main problems involved were those of Franco-Saar trade and German-Saar trade during the intermediary period. Of particular importance was the question of arranging for the entry of Saar coal into France, Franco-Lorraine ore into the Saar and French food products into the Saar. Furthermore, a revision of the agreement of July 28th, 1934 had to be envisaged, especially with regard to a further perfection of the clearing system including a revision of quota lists and the further reduction of French exports to Germany, in order to facilitate German debt payments. Thus no real improvements in commercial relations as such was to be achieved. Nevertheless, the envisaged further perfection of the clearing arrangements ensured that the best would be done under the given circumstances. A very promising sign for instance, was the increasing readiness of French banks to extend their credits in the case of outstanding German commercial debts.¹²

Nevertheless negotiations dragged along with varying success. The clearing system was continued and only by May, 1937, was general agreement reached for a new settlement. A comprehensive deal was made with the Franco-German commercial and financial agreements signed in Paris on July 10th, 1937, by the French Foreign Minister, M. Delbos, and the German Ambassador, Count von Welczeck.¹³ The clearing system was abolished and the bilateral most-favoured-nation treatment and mutual tariff reductions were applied. This bilateral agreement was a return to "normal" trade relations. Thus

¹¹ Economist, August 4th, 1934, pp. 220-1.

Economist, December 8th, 1934, pp. 1090-1.

Economist, June 29th, 1935, p. 1482.

¹² Economist, January 26th, 1935, p. 177.

¹³ Keesing's, 1937, 2656 D.

previously blocked channels in trade relations between France and Germany were opened up again. This did not mean, however, the liberalisation of trade as such. Nevertheless, the French quota policy and the German foreign exchange control were brought into accordance and the exchange of goods and services was no longer subject to clearing policies although it remained restricted in its scope. The conclusion of this agreement came about only after two years of preliminary negotiations. The times preceding it had revealed however, to both sides, the importance of a normalisation in their commercial relations. France depended largely on German coal and manufactured goods. On the other hand, Germany was particularly in great need of certain raw materials. The cordial telegrams exchanged between the French Minister of Commerce, Chapsal, and the German Minister of Economic Affairs, Schacht, on the occasion of the signing of the Agreement, indicated that both sides saw in this a new beginning in their economic relations.¹⁴

¹⁴ Schultess, vol. 78, 1937, p. 110.

CHAPTER VI

THE FRANCO-GERMAN CONFRONTATION IN UNDERDEVELOPED AREAS
IN THE LIGHT OF ENDEAVOURS TOWARDS
GREATER SELF-SUFFICIENCY.

1. FRANCE AS A COLONIAL POWER.

Both the genesis of the vast French Colonial Empire after 1870 and France's colonial policies of the interwar period were either directly or indirectly influenced by Franco-German antagonism.

In the course of World War One colonial consciousness had revived very strongly in France, and during the interwar period there was a great tendency to speak of the "invaluable" role that the French Colonial Empire might play in the years to come. Post-war Germany still had a population outnumbering that of France by more than 20 millions. Thus the French "security complex" had a direct bearing upon the vision of a "Greater France" comprising not 40 million people but more than 100 millions, which was propagated as if it were reality.¹ Numerous efforts were made to explore the economic potentials of the colonies² and very ambitious programmes were formulated. In particular the Association Nationale d'Expansion Economique vehemently demanded the formation of a self-sufficient economic bloc comprising the whole of the French Empire. It was urged that the colonies should be developed as suppliers of raw materials, and their purchasing power increased, in order to build up a large market for French industry.

The impact of the "colonial question" on Franco-German relations between the two World Wars can only be fully understood when taking into account the pre-war developments. In pre-war times, neither France nor Germany had made any great effort to promote economic growth in their colonies, although it must be emphasised that in many respects the limited potential did not warrant large-scale investments in these areas. This quite often tended to be overlooked in post-war Germany, even though "...Germany, her poor lands notwithstanding, made her colonies more productive than did France."³

The importance of a colonial empire as an economic

¹ H. Hauser, Greater France, F.A., vol. 2, 1923-24, pp. 211-29.

² i.e. French Colonies, Protectorates and Mandated Territories.

³ S.H. Roberts, The History of French Colonial Policy, 1870-1925, New impression, London, 1963, p. 665.

complement to the motherland depends both on the resources available and the state of economic development. The degree of economic progress in a colonial empire depends considerably on a nation's determination to engage itself in systematic colonisation. As regards France's policy, the predominant role played by Clemenceau, the "ambittered foe"⁴ of French colonial expansion, has to be taken into account. Like many other Frenchmen, he saw in colonial expansion a hindrance to the nation's economic advancement, which in any case could not keep pace with the economic growth experienced by pre-World War One Germany. Clemenceau thus emphasized "... France's need for using all her strength and all her resources to build up the power of the French Republic within the limits of France."⁵

On the other hand, there were always strong currents of opinion in favour of colonisation, which was quite often not only regarded as inevitable but also profitable and strengthening to the nation. The question of whether a colonial empire was a "wasting asset" or not, remained a controversial issue in France even up to the end of the Algerian War in 1962. The fact is that despite conflicting opinions the French Empire expanded its territory from one million square kilometres in 1870 to eight and a half million square kilometres in 1914.⁶

After 1871, Germany was at first in favour of French colonial advancement, as a "safety-valve" for the latter's national ambitions after the loss of Alsace-Lorraine. Germany also viewed French expansionist policies in Africa as providing a possible

⁴ Ibid., p. 23.

⁵ H.M. Hyndman, Clemenceau, The Man and His Time, London, 1919, p. 234.

⁶ A really constructive interest in colonisation can be found in France as from perhaps 1890. France could not compete with the scientific side of German colonisation, while welfare considerations for the natives gained ground earlier in French colonies than in German, where a fundamental change came about only with the appointment of Bernhard Dernburg as Head of the Reich Colonial Office in 1907. - Roberts, op. cit., pp. 8-31 and 666-7.

means of exploiting rival Anglo-French interests there, although with the conclusion of the Entente Cordiale of 1904, such ambitions were to boomerang back onto Germany. By this time Germany had become increasingly suspicious of French colonial policies and the Franco-German "duel" on the diplomatic scene over Morocco, culminating in the German "Panther-leap" to Agadir in 1911, revealed that French expansionism had reached a stage where Germany was openly hostile to the former's ambitious drive.

While Germany had hoped to divert French interests from the Rhine to Africa, France never fully abandoned her claim to the "return" of Alsace-Lorraine, even when apparently resigning herself to existing conditions.⁷ Time was to favour France, since post-Bismarckian Germany had succeeded only too well in isolating herself in world politics and her imperialistic drive was to fail, ending in the Versailles Peace Settlement.⁸

As from 1919, new issues such as reparations arose, which were to overshadow the colonial question, but the latter remained a latent source of uneasiness after Germany's loss of her colonies. France's policy of security led her to respond to the tense antagonism of the immediate post-World War One times, by taking steps to revise her attitude towards her colonies in an effort to improve her position in the face of the potential economic strength of Germany. It will be seen later that no drastic changes came about, due to a lack of consistency in French interwar policies, and even the increase in her colonial trade during the times of the Depression, was to have no decisive impact on "systematic" colonisation. In any case, immediately after World War One, France realised that reconstruction of devastated areas had to take priority over her ambitions in the colonial sphere.

However in 1921, the Minister of Colonies, Albert Sarraut, put forward a project to develop the French Colonial Empire systematically.⁹

⁷ Lichtenberger, op. cit., pp. 7-9.

⁸ Fischer, op. cit., pp. 3-49.

⁹ i.e. "Projet de loi portant fixation d'un programme général de mise en valeur des colonies françaises." Hoegel, op. cit., pp. 26-9, quoted from p. 26, note 1.

This was the first decisive governmental attempt in French colonial history towards a planned development of those areas. It was in particular Poincaré who stood behind such plans, which were of a complementary function to the French Continental policy, especially as far as Germany was concerned.

The application of such plans did not in fact change French pre-war colonial policies in any essential way. In many cases, France had followed a policy of assimilation, not only in the cultural and political spheres, but also as far as customs tariffs were concerned. Such assimilation policies did little, if anything, to develop her colonies economically. In 1914, only 8.8 per cent of French foreign investments was placed in her own colonies.¹⁰ Further, the French Empire with certain exceptions, was unprofitable as a purely business adventure. Thus French capital by and large, was not attracted by investment prospects in her own colonies, while for partly political reasons French investments were directed to countries such as Russia, where they amounted to nearly three times those in her colonies. Thus the economic basis for any re-orientation was largely missing, and this again revealed the dilemma of post-war French policies, where too often wishful thinking replaced sound economic considerations. On the other hand, it should be emphasized that there was some potential in many parts of the French Colonial Empire. To develop this potential, post-war France would quite often have had to start from the bottom; even the basic pre-requisites for ambitious development plans were in most cases lacking, thus making it difficult to attract private enterprise.

Notwithstanding this underdeveloped state of affairs, the French overseas possessions were to roughly double their share in France's foreign trade during the 1930's, since the Depression seriously affected her trade with the outside world.

The trade of metropolitan France with her overseas territories, including Algeria, developed as follows:¹¹

¹⁰ Clough and Cole, op. cit., pp. 658-9.

Cobban, op. cit., p. 72.

.....footnote 11/

TABLE I
(Percentage of total French
Special Trade.)

	<u>Imports into France</u>	<u>Exports from France</u>
1911-20	9.1	14.1
1921-30	11.4	15.6
1932	20.9	31.5
1936	28.5	33.3
1938	27.1	27.4

The event of the Depression had a direct bearing upon traditional French protectionism, aiming at an optimum degree of self-sufficiency. The over-proportionate contraction of exports as compared with imports as from 1929, made it increasingly difficult for France to pay for her imports and she regarded the stimulation of her colonial trade as a means of overcoming the problem of providing foreign exchange.

Thus an elaborate quota system was introduced which, especially in the years 1931-36, had an almost all-embracing impact on France's foreign trade. Trade within the Empire was vigorously stimulated by direct assistance given to colonial producers in the form of subsidies. The trade within the Empire was further protected by discriminatory customs barriers, which were built up against products from outside that "imperial economic bloc". This compensated to a certain extent for the loss of markets in foreign countries and resulted in the substitution of colonial products for numerous foreign products.¹²

When leaving the "abnormal" state of affairs of the 1930's aside, it can be seen that France's trade with her overseas possessions as a whole was similar in dimension to her trade with Germany. Since Algeria had been treated as an integral part of the motherland after World War One, it seems advisable to treat her separately when estimating here the importance of the Colonial Empire. In excluding Algeria's relatively important position,

¹¹ Haight, op. cit., p. 263.

¹² Clough, op. cit., pp. 327-30.
Haight, op. cit., pp. 245-6.

it becomes evident that the French overseas territories played only a minor role in French foreign trade.¹³

The Colonial Economic Conference - the so-called "French Ottawa" - was a spectacular event, opened in the presence of President Lebrun on December 3rd, 1934. According to M. Rollin, the Minister of Colonies, the main objective of this Conference was to achieve greater economic unity between France and her overseas possessions.¹⁴ Such a unity was never really achieved, in spite of some limited "systematic" development policy.¹⁵

¹³ France's trade with Algeria and the rest of her Empire in relation to total French trade. (milliard francs).

	Imports into France		Exports from France	
	1929	1935	1929	1935
Algeria	2.99	2.31	4.50	2.58
Tunis	0.70	0.46	1.01	0.57
West and Central Africa	0.91	0.66	0.68	0.28
Indo-China	0.69	0.57	1.01	0.44
Madagascar	0.37	0.21	0.41	0.18
Morocco	0.50	0.38	1.29	0.42
Syria	0.07	0.02	0.18	0.09
Total	58.22	20.95	50.14	15.47

See table in article "France's Colonial Markets", Economist, June 13th, 1936.

League of Nations, Review of World Trade, 1936, p. 22.

¹⁴ In a rather misleading way, Le Temps commented on this Conference as follows: "This does not mean that we intend to create a closed and self-sufficient economic unit. This Greater France that we have in mind has no intention of isolating herself economically from the rest of the world. On the contrary, we hope that we may be able to lower the tariffs and quotas that impede international trade on a basis of reciprocal concessions." (my emphasis.) Keesing's 1934, 1463 C.

¹⁵ Economist, June 13th, 1936, p. 594.

Although it revealed the conflicting interests of the various parts of the Colonial Empire, this Conference illustrates the importance France attached to her Empire since at this time, the latter was France's biggest trading partner. During these years of depression, the particular importance to France of her colonial markets can be seen in that, while the export industries of the manufacturing sector suffered most severely at this time, manufactured goods formed 60 per cent of France's exports to her overseas possessions. The considerable increase in the Empire's share in France's total trade should not conceal the fact that French colonial trade contracted by more than two-fifths, although it contracted less than did total French trade. Despite her Colonial Empire, France's total trade contracted along similar lines as did that of Germany. The following table illustrates these trends, expressed in terms of gold value.¹⁶

TABLE II
Developments in Foreign Trade
1929=100

	<u>1936</u>	
	<u>Imports</u>	<u>Exports</u>
1. France's Trade with Empire	56.1	50.5
2. France's Total Trade	39.5	27.9
3. Germany's Total Trade	31.4	35.4

France was faced with a dilemma. On the one hand, she recognized the growing importance of her Empire as a trading partner and quite often over-emphasized the role of her overseas territories when maintaining that they compensated her to a very large extent for losses caused by the Depression and that they were above all the pre-requisite for France's position as a "Great Power". On the other hand, the French Government found it increasingly difficult to refute Germany's demands for the return of her former colonies, since these demands were made on similar grounds. In fact, Germany was from an economic point of view in a far better position than was France to claim that her state of industrialisation was highly complementary to most food-stuff- and raw material-producing areas.

¹⁶ League of Nations, Review of World Trade, 1936, p. 22 and 26.

However, it will be seen that even without being in possession of any colonies, Germany successfully pursued some kind of semi-colonial policy in her trade relations with various underdeveloped countries, thus compensating herself in her own ways for the de jure non-existent colonies. In defending their own colonialism, the French could hence argue that the German claim to her former colonies was only a pretext for further expansionism, which threatened world peace.

During the Depression, France's trade with her colonies became proportionately similar to that of Germany with both Latin America and South-Eastern Europe together.¹⁷ Nevertheless, despite the various attempts to overcome the economic backwardness of the French colonies little had been achieved and this was brought home to France during World War Two, when the colonies were cut off from the mother country. Generally speaking, France had as little interest in industrialising her overseas possessions as had Germany when increasing her penetration into South-Eastern Europe. It should be mentioned, however, that in 1939 the claims for colonies by both Italy and Germany induced the French Government to take some definite steps towards a more systematic development policy. There was, for instance, the French National Economic Council that was going to prepare a plan for production in France and the colonies with a view to regulating colonial trade in such a way as to increase France's self-sufficiency, especially in foodstuffs, and

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Trade Blocs

(As percentages of France's and Germany's trade respectively)¹

	<u>Imports from Bloc</u>		<u>Exports to Bloc</u>	
	<u>1929</u>	<u>1938</u>	<u>1929</u>	<u>1938</u>
France: Empire	12.	27	19	27.5
a) Germany: Balkans ²	4.5	12	5	13
b) Germany: Latin America	12.	16	8	11.5
a + b	16.5	28	13	24.5

1) Frontiers of 1937.

2) Bulgaria, Greece, Hungary, Rumania, Turkey and Yugoslavia.

Source: Survey, 1939-1946, The World in March 1939, p. 486.

League of Nations, World Economic Survey, 1938/39, p. 186.

better to co-ordinate French and colonial activities. This was in line with earlier policies, but it indicates, however, how little had been achieved up to 1939.¹⁸

Furthermore, it can be shown that before the Depression, France had been, despite her colonies, approximately as equally dependent on imports of foodstuffs and raw materials as had been Germany.¹⁹

TABLE III

Imports of Foodstuffs and Raw Materials

Per Head of Population (in £ at gold parity in 1929)

	<u>1929</u>
Germany	8.7
France (with colonies)	9.6

In the 1930's, both France and Germany increasingly pursued a policy of "self-sufficiency" and "autarky" respectively to make their dependence on imports more "tolerable". Even so, they succeeded to a limited extent only. Ironically enough, France as a colonial Power succeeded less here than did Germany, which was largely due to the latter's more systematic and more far-going application of state control over foreign trade. Their degree of external dependence (measured by the value of their imports of merchandise shown as a percentage of national income) was in the late 1930's in the region of 12 per cent for France and 8 per cent for Germany.²⁰

This dislocation experienced during the 1930's in foreign trade can be illustrated by referring to Algeria. There was hardly any prospect of this French possession, although an important trading partner of France, being substituted for Germany after Franco-German trade, having contracted during the Depression, continued its downward trend notwithstanding recovery in Germany. Nevertheless as from 1933, Algeria exported considerably more to France than did Germany. Throughout the 1920's, France had imported about twice as much from Germany as from Algeria.²¹ Thus France had soon to face

¹⁸ Economist, February 4th, 1939, p. 245.

¹⁹ Economist, April 18th, 1936, p. 119.

heavy competition from her overseas territories (concurrency impériale) and she had to realise that the promotion of colonial trade turned out to be a mixed blessing. For instance, the influential lobby of French agricultural producers was often up in arms over this competition and it caused serious problems in home politics.²²

Thus the French euphoric drive for self-sufficiency became more and more detached from reality. It has been seen that this was in many ways applicable to Germany as well. In foodstuffs, both countries reached a self-sufficiency level of about four-fifths which is in this context of secondary importance, since the crucial point is that France was by virtue of her economic "bloc" simply unable to make her economy complementary to those of her colonies, as Germany was largely able to do as far as her own economic "bloc" was concerned. Again, the case of Algeria can illustrate this when faced with the virtually unsolvable problem of making Algerian wheat, wine and iron-ore complementary, as far as the French home market was concerned. Further, even when neglecting French protectionism, the question remains of how, assuming no bad harvests, France would have been able to absorb the amount of wheat that the Balkans were offering in their export trade.

It would be wrong to assume that the reduced level of Franco-German trade affected all commodities in the same way. German coal exports were in the 1930's sometimes even higher than in the 1920's. This was largely due to the fact that France had to import coal anyway, and in quota agreements it was Germany who was anxious to offer one of her few surplus raw materials. The German foreign trade was already by 1934 in the main based on a strictly bilateral basis - "Kaufe bei Deinem Kunden". (Purchase in the country of your customer). The German market demand for raw materials doubled from 1933-37. Despite various efforts towards greater autarky, she was greatly dependent upon imports of raw materials. The German steel production more than trebled in those years. Thus the resulting increased demand for iron-ore,

²⁰ Survey, 1939-1946, The World in March 1939, p. 483.

²¹ Haight, op. cit., Table VIII, p. 122; Table XII, p. 196.

²² C.J. Gignoux, L'Economie Française entre les deux Guerres, Paris, 1942, pp. 188 ff.

pig-iron, etc. was responsible for a rapid recovery in the export of such items from France and her North African possessions. This also applied to raw materials in general, including commodities like fruit and wine. She was even able to increase her share on the German market at the expense of the United States and Britain.²³

In fact, there was at times no less tension arising out of France's commercial involvement in her colonies than generally arose between France and Germany in their trade relations.

²³ Kroll, op. cit., pp. 703 ff.

2. THE GERMAN CLAIM TO COLONIES

The two French Mandates, the eastern half of Togoland and most of the Cameroons, were economically not very important and in the second half of the interwar period France showed signs of being willing to consider a revision of their status in favour of Germany, if in return the latter was prepared to make concessions as far as effective guarantees of France's security were concerned. Thus at times France was prepared to meet the German claim to colonies and to regard these as some kind of barter object.

When Germany called for the return of her former colonies, she based her claim upon the economically disadvantageous position she held in comparison with other colonial Powers, such as France, since she maintained she had been deprived of her free and unhampered access to raw materials. It is however questionable whether Germany was really at a disadvantage in comparison with France because she was not in command of a colonial empire and whether she would have been much better off if she had taken over her former colonies again.

Hence it seems necessary to compare from a purely economic point of view the positions of France and Germany as regards their actual and potential colonial possessions respectively. While we are concerned here with the interbellum period, and while Germany's time as a colonial Power came to an end before our period, this comparison must deal with Germany's actual colonial power status as well. Thus this time lag must be borne in mind when drawing any conclusions. Further, it must be taken into consideration that France was an old-established colonial Power, whereas Germany was a latecomer in the field of colonisation. Neither of the Colonial Empires were developed to their full potential and here again development has to be seen as a function of time. Keeping this in mind, a comparison will reveal some general features in the roles of the colonies as far as these two countries were concerned.

The French Colonial Empire was, both in population and area, roughly speaking four times bigger than that of Germany. In comparison with France's overseas possessions the German colonies played an even less important role in Germany's foreign

trade. In 1910, imports from her colonies amounted to only 0.54 per cent of her total imports and their percentage share in her export trade was 0.73. This and the large excess of expenditure over revenue in these territories can, of course, to a certain extent be attributed to the comparatively short duration of colonial rule.¹ Both Colonial Empires, after a further stage of economic development, might have become much more important to their mother countries, despite the fact that in many respects the trade between two advanced countries such as France and Germany offered greater potential for expansion.

In a period of growing discrimination in tariff policies as were the 1930's, the role of colonial empires changed to a very large extent. It is true that France was in a more favourable position in so far as she found it easier to exchange goods within her own currency circle. This world of exchange restrictions between the various economic blocs was, however, regarded as an expedient which was in due course to be abandoned.

The arguments between the "haves" and the "have-nots" were not primarily economic and could not be settled by logic alone. Germany felt herself to be within her rights to ask for the return of her former colonies, on the grounds that if the reasons put forward as arguments for declaring her incapable as a colonising Power were valid, then they applied with equal force to France.² It was a rather weak argument to point out that the German population in all her former colonies in 1911, was smaller than the number of Germans in the City of Paris. On the other hand, France had good reason to believe that Germany, once in possession of her former colonies, would demand more and would aim at establishing a German "Middle Africa", which would have included large stretches of French Central Africa. The arguments for and against the need for colonies as a means of absorbing "surplus savings", "surplus population" and trade, which however did not always follow the flag, cannot be traced back here. In the 1930's this was not of great importance. What did remain

¹ W.O. Henderson, Studies in German Colonial History, London 1962, Table 9, p. 135.

Economist, November 16th, 1936, pp. 950-1.

² Temperley, Peace Conference, op. cit., pp. 86-7, 95-6 and 120-1.

important were questions in connection with the supply of raw materials in exchange for industrial goods.

It is understandable that many Frenchmen at that time primarily thought in political terms. On the other hand the German claim, made on economic grounds, was not always solely politically motivated. There were some sound economic reasons to be considered here. For example, it might be worth remembering the following. In 1934, for instance, the total imports from former German colonies as a percentage of German imports from all sources were for the following commodities:³

TABLE I

1) Phosphates	75
2) Flax, Hemp, Sisal	63
3) Cocoa	36
4) Bananas	27
5) Tropical Wood	22
6) Oil-seed, Nuts, etc.	14
7) Coffee	11

Thus it can be seen that despite the fact that Germany's trade with her colonies would have probably increased if they had remained German, yet for this limited range of commodities Germany relied to no negligible extent on her former colonies.

It would be misleading to assume that the German claim to colonies started only in the Third Reich. From the early days of the Weimar Republic, Germany had made it understood that she did not regard the colonial settlement of Versailles as final. It was none other than Stresemann who, after Germany had joined the League of Nations, made it clear that Germany not only intended to benefit from the principle of equal access to Mandatory Territories which was provided for League members, but that she also reserved her right to make future claims to colonies. Thus from the official German viewpoint the Mandates were regarded as territories under international supervision on a temporary basis only. It was again Stresemann who realised however that an understanding

³ Keesing's, 1938, 3351 A.

with France had to come first and that only as a result of such an understanding could the colonial question be settled, and this again only in conjunction with France.⁴

In the time of the Third Reich, things changed completely. Colonial revision came to be regarded by Germany more and more as a right and not as a concession; thus her former colonies had to be returned unconditionally before she was willing to discuss other outstanding problems, such as her return to the League of Nations or the armaments question. France, on the other hand, insisted that the colonial question was not to be isolated from these issues.

When Schacht visited France in 1936 and 1937, Léon Blum showed much understanding for such German claims, and this in spite of British criticism. However, when the German Government did not take up the opportunity for a compromise, the French Government considered itself to be justified in complaining about the German "glacial silence", and in completely revising its attitude in the matter,⁵ particularly since Germany showed no willingness to accept the French view, in which the ceding of colonies to Germany was looked upon as a barter object.

It might not be far wrong to suggest that Hitler's ambitions were in the main directed towards Central and Eastern Europe. He was not primarily thinking on a global scale and his claims to colonies were to a certain extent lip-service paid to popular sentiment. He regarded colonies more as by-products of expansion, which could in any case be gained by Germany after having established a strong position on the Continent. That such reasoning was bound to end in disaster one day, was partly realised by Schacht. He, like Goering and others, thought mainly in terms of the "nation-state" (nationalstaatlich), in a typically traditional way. It has been further suggested that Schacht's

⁴ Stresemann Papers, op. cit., vol. 3, pp. 17-18 and 41.

⁵ Doc. G.F.P., series D, vol. 1, No. 71, p. 118.
Schacht, op. cit., pp. 378-84.
I.M.T., vol. 12, pp. 430-2.

ambitions with regard to colonies were rather "an honourable eccentricity."⁶

When meeting Léon Blum in August, 1936, Schacht again put forward an old idea of his which he had developed as early as 1926. He had suggested that Germany's former colonies should be transferred to her for the purpose of economic development only. Thus he made no claim for establishing German sovereignty over these territories. He had also, for instance, developed similar plans in connection with the discussions for the creation of the Bank for International Settlements but had not been very successful then. On the one hand, he wanted to provide a source of raw materials and foodstuffs for Germany, on the other to open up underdeveloped areas and to stimulate their demand for manufactured goods. In this he was ahead of his times, anticipating concepts to be implemented only after World War Two, and at first Léon Blum was prepared to consider the possibility of transferring the Cameroons to Germany for the purpose of economic development.⁷ The French Foreign Minister, Delbos, was stimulated by such ideas and developed his own plans. He argued that this might bring about the "re-integration of Germany into the economy of the Western world.... Thus he hoped the manufacturing genius of Germany could be turned from war to peace purposes."⁸

Taking into consideration the political opportunism of Schacht, it can still be suggested that he followed along the same lines as Delbos. His later memorandum of January 7th, 1939 now openly indicated his opposition to the German "war economy" as it had already developed in peace time - a war economy that he had helped to develop without fully realising that this entailed no escape from war.⁹

⁶ K. Feiling, The Life of Neville Chamberlain, London, 1946, p. 300, quoted from Schmokel, op. cit., pp. 103-4.
H. Schacht, Germany's Colonial Demands, F.A., vol. 15, 1936-37 pp. 223-34.

⁷ Schultess, vol. 77, 1936, p. 360.

⁸ Schmokel, op. cit., pp. 100-1.

It can further be suggested that Schacht realised the limited scope that the colonies would offer to German enterprise and he also had in mind the possibility of successfully inducing Hitler to a new orientation in his expansionist drive. That this was mere wishful thinking there is no doubt. At this time others also had envisaged, or still retained the vision of manipulating Hitler. This became not only very dangerous but proved to be a complete failure as well.

Of particular interest is the unofficial conversation between the American Ambassador Davies to the Soviet Union and Schacht on January 20th, 1937.¹⁰ At this time Schacht's position was still unchallenged, and by mid-1936, he had received permission from Hitler to take steps towards establishing a politico-economic modus vivendi with the Allies, and with France in particular. It remains open to question how far Schacht's moves were looked upon by Hitler as only being some sort of window-dressing. On the other hand it should be kept in mind that during those years it was not yet clear whether Hitler would be removed from office by a Putsch by the Wehrmacht or whether, remaining in office, he would be induced to retreat from the stand he had taken in Mein Kampf. In this conversation with Davies, Schacht developed his plan for a comprehensive settlement of all main outstanding problems. He maintained that he had been authorised by his Government to submit proposals to France and Britain which, as their main objective, would be concerned with guaranteeing European peace, reducing armaments and ceding colonies to Germany. Finding France relatively co-operative he further suggested that she should approach Britain. He urged that a feasible plan could be developed which would restore a free

⁹ Schacht's memorandum dealing with Germany's irresponsible monetary policies in particular since 1938 led to his dismissal as President of the Reichsbank. He had already been removed from his post as Minister for Economic Affairs in November, 1937, and Walther Funk now succeeded him in both functions. I.M.T., vol. 36, 369-EC.

¹⁰ I.M.T., vol. 37, 111-L.

flow of international trade and he suggested that President Roosevelt should follow up his initiative and call an international conference in Washington for this purpose. Ambassador Davies was most impressed by this meeting and was convinced of Schacht's sincerity, when cabling an immediate report to Washington.

Not too much attention should be paid to Schacht's plea for the restoration of free trade. It had become quite fashionable at that time to deplore the existing state of affairs, while arguing on the other hand that the partition of the world into economic blocs was inevitable and also the answer to the problems involved.

As far as a comprehensive settlement was concerned, some doubts in respect of the sincerity on the German side in general must be expressed. Schacht's Ministry for Economic Affairs succeeded in making creative plans for Germany's foreign policy, but without actually having any long-lasting influence on the line taken in foreign affairs. In pursuing his demands Hitler exploited hopes for the preservation of peace. France in particular was willing to make colonial concessions as part of an over-all settlement and it was just this that Hitler deliberately avoided.

When Schacht visited Paris again from May 25th - 29th, 1937, it was already clear when, and it became even more so during the following months, that under him the efforts of the Ministry for Economic Affairs were increasingly being pushed into the backwaters by the currents of Nazi policies.

Schacht's visit was officially of a representative nature. He was to open the German Pavilion at the International Exhibition. In fact this representative nature of his visit did not last very long. He negotiated with the French Minister of Commerce and agreement was reached on all important points concerning the Franco-German Commercial Agreement, which was to be signed in July. Schacht's luncheon speech of May 28th, was widely taken up in the press. He again emphasised that Germany would be willing to discuss armaments and a "firm guarantee of European peace". This he tied up with demands "to give a great nation a reasonable outlet for colonial activity."¹¹ This might have been acceptable

¹¹ Keesing's, 1937, 2600 C.

but one great deficiency remained. Whatever goodwill might have existed on the part of Schacht, it was not easy for the French side to believe unreservedly in the goodwill of those on whose behalf he was putting forward these demands.

Schacht's conversation with Léon Blum revealed on the one hand the uneasiness in Franco-German relations, and on the other that the French Premier, despite much disappointment, was still very anxious to reach an understanding with Germany and to negotiate with respect to the proposals already made by Schacht at their previous meeting of August, 1936. This was on condition, however, that all outstanding issues were incorporated into a "general plan" and that the colonial question was not pushed forward on its own.¹²

In his own memorandum of this conversation, Léon Blum expressed his basic reasoning as follows: "How can a country be expected to contemplate economic conventions capable of increasing the strength of another country which it fears may be an aggressor?"¹³

Thus Blum urged first of all for a political settlement, when stating that "there is no longer any question of presenting the colonial claim as a preliminary question."¹⁴ It was Schacht who largely recognised this French view and who drew attention to it in Berlin without, however, to any great extent influencing German foreign policy. In a rather arrogant way the Wilhelmstrasse maintained that "German-French relations are correct."¹⁵ Thus it was only a matter of time before Léon Blum's memorandum "possessed only historical value."¹⁶ The French Government became increasingly aware of the fact that the ideas

¹² Doc. G.F.P., series D, vol. 1, No. 72, pp. 119-21.

¹³ Ibid., No. 83, p. 137.

¹⁴ Loc. cit.

¹⁵ Ibid., No. 7 p. 12 (October 15th, 1937).

¹⁶ Ibid., No. 83, p. 135.

developed by Schacht on behalf of the Reich Government were in fact not fully, if at all, acknowledged by the latter.¹⁷

It would be evasive to blame only the lack of communication and co-operation between the German Ministries concerned for this state of affairs. The German claims to colonies were misleading to those who took them for granted,¹⁸ unaware of the fact that such moves did not as obviously dominate German foreign policy as they appeared to do, but tended to disguise rather than to reveal the real aims of Nazi Germany.

Nevertheless, Germany maintained again and again that "colonial possessions are an indispensable basis for the economic existence of the German people."¹⁹ Yet France was more deeply concerned about the Italian than about the German claim to colonies. Only at a later stage, especially after "Munich", did the French attitude become completely uncompromising towards Germany in this matter.²⁰

Nevertheless, it will be seen that after von Ribbentrop's visit to Paris, France offered in early 1939 to open up her portion of former German colonies - the Cameroons and eastern Togoland - to German enterprise. However, Nazi Germany refused to accept. This demonstrates that the latter

¹⁷ Marginal notation by von Neurath: "I cannot understand how Blum or Poncet could think that this vague conversation could serve as a basis for negotiations." Ibid., note 7. (My emphasis).

¹⁸ B. Bennett, Hitler over Africa, London, 1939.
A.L.C. Bullock, Germany's Colonial Demands, London 1939.

¹⁹ Doc. G.F.P., series D, vol. 1, op. cit., No. 137, p. 239.

²⁰ On November 16th, 1938, the French Premier, Daladier, declared for instance that there could be "no question of any cession of French overseas territory."
Keesing's, 1938, 3351 A.

was primarily interested in political gains and thus was not prepared to substitute rights of sovereignty for economic concessions. From this angle, the urgent economic "need" for colonial outlets, as claimed by Nazi Germany over and over again, becomes extremely ambiguous.²¹

²¹ Doc. G.F.P., series D, 1937-1945, vol. 4, The Aftermath of Munich, October 1938 - March 1939, No. 391, pp. 503-4. Notwithstanding recovery, economic conditions in Nazi Germany were described by The Economist as resembling those of the inflation period of 1919-23. This is in line with remarks made in part 1 of chapter II, where it has been maintained that the "reparation effort" of the early 1920's laid a similar strain on the German economy as did the "armament effort" of the late 1930's. On the other hand, The Economist tended to overstate its point when referring to Germany as a country "miserable and underfed" and when under-estimating the latter's chances in the case of the outbreak of war. Although this was partly true, it can be interpreted as a typical example of self-complacency and self-deception, which was widely found in the Western Democracies. Thus in spite of Germany's "scarcity economics" and the relatively limited nature of her resources available, she was still able to fight a long war. Economist, December 5th, 1936, p. 466. Economist, March 19th, 1938, pp. 620-2. For the limited recovery of consumption in Germany, see Sweezy, *op. cit.*, pp. 220-4.

3. THE ROLE OF SOUTH-EASTERN EUROPE.¹

The rise of the Third Reich produced some sort of diplomatic revolution. Poland, France's ally in the East under Marshal Pilsudski, proposed preventive military measures as early as 1933. France rejected this and in January, 1934, Poland was induced to sign a ten years' non-aggression pact with Germany. Furthermore, the assassination of King Alexander of Yugoslavia in October of that year and Fascism taking over in Rumania meant the loss to France of two important allies. At this time, doubts as to the value of the Franco-Russian pact of mutual assistance of May, 1935, were already being expressed and it did little to counter-balance the weakening of the French position on the Continent. Thus the French security system was undermined in a vital point and only Czechoslovakia could be relied upon. After the re-militarisation of the Rhineland in March, 1936, France would have then been entitled to intervene, which had hardly been the case in 1933. She lost this opportunity and through that she also lost any confidence that her allies on the Continent might still have had in her. This had a stimulating effect on planned German economic penetration into many parts of Eastern Europe.

The repeated French attempts in post-war times to solve the economic problems of the States of South-Eastern Europe were bound to meet with failure. France was a purchaser of their agricultural products only to a very limited degree, depending largely on the results of her own harvests. Her financial assistance had been given through military rather than economic considerations. Generally speaking, French interests in the Balkans were of a political nature without having a real economic basis. On the other hand, French financial interests were in many cases considerably greater than those of Germany and this could in particular be observed in the mining sector of Yugoslavia and the oil industry of Rumania. In comparison with Germany South-Eastern

¹ The terms the Balkans and South-Eastern Europe are used synonymously, to include Bulgaria, Greece, Hungary, Rumania, Turkey and Yugoslavia.

Europe was no important trading partner of France and during the Depression, France quite often sought the solution of her economic difficulties in an "Imperial direction".² However, in response to German activities French interests revived. In 1938, for instance, she granted Bulgaria a commercial credit of 500 million francs.³ Her own financial difficulties were the main cause of her abandonment of plans to extend such credits to other States. The years 1937-39 showed increasing French activities and various trade agreements were concluded. For example, a Franco-Yugoslav agreement granting a measure of preferential treatment for certain Yugoslav raw materials was signed on February 10th, 1939.

The degree of progress in French economic involvement did not, however, remove doubts from the minds of the Balkan Statesmen about the prospects of having the Allies as trading partners in time to come. In the earlier 1930's both Britain and France had largely departed from the markets of South-Eastern Europe and by this had indirectly assisted the first steps of Nazi Germany towards planned economic penetration into these areas. In fact the activities of France as well as of Britain were sporadic and were neither systematic nor planned. Both countries were unable, as well as unwilling, to counteract German moves adequately, thus "enabling German statesmanship to erect a political structure of German hegemony upon a previously established economic basis."⁴

When going to the Balkans in June, 1936, Schacht remained - and this still after the "honeymoon" visit of May, 1935, by Goering - an "itinerate vendor". However, when Funk visited these States in late 1938, the German position was unchallenged despite the previous credit offers made by France and Britain.⁵

² European Reactions to German Trade Policy, Survey, 1938, vol. 1, p. 67.

³ Economist, August 6th, 1938, p. 276.

⁴ Germany's Economic Drang nach Suedosten, Survey, 1936, p. 526.
A. Basch, The Danube Basin and the German Economic Sphere, London, 1944, pp. 165 ff.

⁵ W. Treue, Das Dritte Reich und die Westmaechte auf dem Balkan, Zur Struktur der Aussenhandelspolitik Deutschlands, Grossbritanniens und Frankreichs 1933-39, VfZG, vol. 1, 1953, pp. 45-64, esp. pp. 48, 50 and 59.

Germany had succeeded in paralysing the "Little Entente" and both Rumania and Yugoslavia openly withdrew their support from French efforts towards a revival of this de facto dead pact.⁶ In February, 1933, the members of the "Little Entente" had still tried to re-organise themselves. At this time they founded the so-called Pact of Re-organisation, in order to unify their foreign and economic policies more closely. The Economist had already stressed then that from an economic point of view this revealed the weakness rather than the strength of the "Little Entente".⁷

The Danubian countries plunged deeply into autarkic experiments in the 1930's. Thus to an increasing extent their trade became a function of existing clearing agreements. For instance, in most cases Germany offered to take more than half the wheat exports of these countries, offering a price about 30 per cent above that on the world market. France was not prepared to compete here, since not only could her home markets not absorb such large quantities, but in addition her protectionism was too orthodox to become active here. Germany on the other hand, was willing to import even more than she actually needed. In the case of wheat for instance, she was prepared to sell it in London and Rotterdam below the world market price. She made a loss only in so far as her actual trade balance in South-Eastern Europe was concerned, for on the other hand, she not only gained politically but also received foreign exchange which she urgently required.⁸ These German trade measures were undertaken on a very large scale in comparison with France. However, it should be mentioned that throughout 1936/37 France relaxed import restrictions, thus stimulating imports of wheat from Yugoslavia and petrol from Rumania. In addition the devaluation of the franc in September, 1936, rendered large profits on blocked accounts in these countries and equally had stimulating effects. Nevertheless it should always be kept in mind that the scope and scale of French foreign trade remained limited and it was subject to various fluctuations.⁹

⁶ Ibid., pp. 55-6.

⁷ Economist, February 25th, 1933, p. 400.

⁸ Treue, op. cit., pp. 49-50.

⁹ Haight, op. cit., p. 158.

In brief, Germany sought to achieve the benefits of devaluation without actually devaluing. In her clearing agreements with the Balkans, she bought either at above world prices, or offered special rates of exchange for the mark. Furthermore she subsidised exports. This export trade entailed in general a bounty of between 40-60 per cent in order to adjust the domestic market price to that of the world market and in addition to overcome the general apathy of German industry towards export trade, which was largely due to increased demand at home. Germany's share in the trade of the States of South-Eastern Europe, which in 1932 had stood at about 15-20 per cent,¹⁰ was eventually roughly trebled due to this export drive, thus bringing about the surrender of these States to "Germany's skilful blend of patience and pressure."¹¹ On the other hand, German investments remained in comparison with France, relatively low and increased considerably

¹⁰ The role of Turkey as one of the outstanding "traditional" German trading partners has not been explicitly mentioned. Her trade with Germany developed on similar lines, and can be regarded as largely representative. The following tables illustrate this.

TABLE I

Imports as Percentage of Total Turkish Imports

a. From Germany ¹²		b. From Germany, Austria and Czechoslovakia.
<u>1929</u>	<u>1938</u>	<u>1938</u>
15	47	51

TABLE II

Exports as Percentage of Total Turkish Exports

a. To Germany ¹³		b. To Germany, Austria and Czechoslovakia.
<u>1929</u>	<u>1938</u>	<u>1938</u>
13	43	47.5

¹² Excluding Austria and the Sudetenland.

Source: League of Nations, World Economic Survey, 1938/39, p. 202.

¹¹ Economist, April 1st, 1939, p. 9.
Economist, April 22nd, 1939, p. 196.

only at the end of our period, largely due to the territorial expansion of the Reich.

Germany undertook obligations to promote industrialisation in these countries only reluctantly. There is little doubt that her future aim was to reduce their role to some sort of "colonial status".¹² However, Germany was very anxious to promote productivity in the export sector of the Balkans and furthermore to develop their infra-structure. For instance, during 1931, I.G. Farben took the lead in the development of soya bean cultivation in Rumania and Bulgaria. About 60,000 hectares of land in Rumania and more than 30,000 hectares in Bulgaria were taken over by German concerns for this purpose. However, such a development was partly checked mainly due to the fact that these countries became reluctant to substitute German products to a still larger degree for those of other countries.¹³ On one hand Germany applied an indirect method of depreciation by the use of registered marks, compensation marks etc., while on the other she resorted to the opposite method of fixing an artificially high exchange rate for the Reichsmark with the currencies of the States concerned. Thus German importers could afford to offer prices well above the world market price and the internal price level in these countries tended to rise correspondingly. It therefore became increasingly difficult for the States of South-Eastern Europe to compete on the world market, which again increased their dependence on Germany. France on the other hand, underestimated the lasting nature of the German involvement in the Balkans. Furthermore, she was faced with the problem of market surpluses of her colonies and thus the basic requisites for anything more than half-hearted action on her part were lacking. It should be emphasised again that the French domestic market was not in a very complementary position as far as the Balkans were concerned and in addition, recovery was still incomplete in France.¹⁴

¹² Treue, op. cit., p. 54.

¹³ A.G.B. Fisher, German Economic Policy in South-Eastern Europe, Survey, vol. 1, 1937, pp. 459-65, esp. p. 462.

G. Schacher, Germany Pushes South-East, London, 1937, p. 157.

MAP II RHINE-MAIN-DANUBE CONNECTION.



The States in South-Eastern Europe had sacrificed to a large extent their economic independence in favour of short-term advantages. In the late 1930's, their combined trade with France, Britain and the United States amounted to only about half the figure of that with Germany.¹⁵ The Anschluss of Austria in March 1938, and the dismemberment of Czechoslovakia strengthened still further the German position. On the German side there were various ambitious projects envisaged and during 1939/39 special attention was paid to the development of the existing waterways. A Reich law was passed in May, 1938, which made provisions for the completion of the Rhine-Main-Danube connection by 1945, linking the North and the Black Seas.¹⁶ Furthermore, Goering, among others, urgently demanded that "the Oder-Danube canal must be constructed as soon as possible".¹⁷ In line with this, German firms were to construct a 45 kilometre canal to bypass the Rumanian Danube between Cernavoda and Constanza.¹⁸ Thus the development of a German-dominated Grosswirtschaftsraum from the Baltic to the Black Sea was taken for granted.

The way in which German influence increased in the immediate pre-World War Two times, can be illustrated in the case of investment of foreign capital in Yugoslavia. The high share of Czechoslovakia's capital holdings there is of particular interest, since it indirectly represented French interests. Thus the pre-war territorial expansion of Germany had far-reaching repercussions beyond those annexed territories, seriously affecting in our case the previous position France held in the capital market of Yugoslavia.¹⁹

¹⁴ Survey, 1939-1946, The World in March, 1939, pp. 258-67.
P. Einzig, Bloodless Invasion, German Economic Penetration into the Danubian States and the Balkans, London, 1938, passim, esp. pp. 47-56.

¹⁵ Economist, May 14th, 1938, pp. 353-6.

¹⁶ Keesing's, 1938, 3185 A. See attached map.

¹⁷ I.M.T., vol. 27, 1301-BS, p. 163.

¹⁸ Economist, June 25th, 1938, pp. 708-9.

TABLE I

Investment of Foreign Capital in Yugoslavia

(recorded on April, 15th, 1939)

(in million dinars)

Czechoslovakia	741
Austria	366
Germany	<u>55</u>
Total of above	<u>1,162</u>
France	<u>1,056</u>

It is true, however, that the States of South-Eastern Europe tried as far as possible to maintain their liberty of action. Germany for instance, was entitled under the Rumanian-German Economic Treaty of March 23rd, 1939,²⁰ to import oil to the value of 25 per cent of her total purchases from Rumania. This quota was already filled by August 1939, and the Rumanian Government took a stand against German pressure by refusing to extend it.²¹ However, such moves proved little, when remembering on the other hand that Rumania had granted far-reaching concessions to Germany in the above mentioned Treaty. The Economist was not completely wrong when maintaining with reference to Rumania, in August 1939, that "German commercial control is far from being an established fact."²² On the other hand, such self-complacency was to be rather deceptive.

The confrontation between France and Germany in South-Eastern Europe never really took on serious dimensions and was largely of an indirect nature. The great advantage of Germany was that these countries formed some sort of "natural" economic hinterland for her. Thus economic penetration became the starting point for exerting political influence. France on the other hand, lost more and more of her political influence in the Balkans mainly due to the fact that the economic basis of this relationship was

¹⁹ League of Nations, World Economic Survey, 1938/39, p. 220.

²⁰ Keesing's, 1939, 3496, G.

²¹ Economist, August 26th, 1939, pp. 392-3.

²² Economist, August 26th, 1939, p. 403.

too small for an ambitious undertaking such as the "Little Entente".

In addition, such Franco-German confrontation as there was, was accentuated by the antagonising forces of different politico-economic systems. The expansionist policies of the Third Reich were intended to establish German hegemony on the European Continent, which was of a far greater scope than that of French hegemony after World War One. Generally speaking, the policies pursued by the two nations as far as underdeveloped areas were concerned, were of a similar nature although they differed in degree and direction. France was primarily occupied with her Empire, while Germany's interest lay mainly in Eastern Europe. Thus the latter's claim to colonies was in the main exploited for its propagandistic value, being by and large a by-product of her expansionist drive in the East. This was the child of a totalitarian ideology - just as France's colonial economic policy was once described as being "indeed the child of the economic crisis."²³ However, France's policy was also the child of traditional French protectionism and her security policy. A major difference between the French and the German approach was that the former was loud in advocating a policy of "systematic" development without achieving much in this direction, while the latter implemented a system of exploitation which went far beyond what the former had ever advocated. Thus economically speaking, "Great Germany" became far more of a force to be reckoned with than did "Greater France".

Franco-German antagonism was basically little aggravated by their confrontation in underdeveloped areas due to the different degree of importance attached by each nation to the various regions, with on the one hand, Germany pushing south-eastward and France, despite some counter-moves, retreating, while on the other hand there were strong French moves in an "Imperial direction", under the envious eye of Germany, declaiming the "robbing" of her colonies. Nevertheless, despite these conflicting interests, and prevailing distrust, only a few open clashes resulted. It will be shown in the following chapter that resulting

²³ Economist, June 13th, 1936, p. 594.

from the visit of von Ribbentrop to Paris in December, 1938, large-scale co-operation such as the construction of roads and bridges in the Balkans, was envisaged between the two Powers. However, the prelude to another war cancelled out any prospects for the realisation of such plans.

CHAPTER VII

THE UNSUCCESSFUL MOVES TOWARDS A MUTUAL UNDERSTANDING.

In the late 1930's, the horizon was clouded by the increasing tension in the political field and in the face of this, economic relations remained comparatively unstrained. As a major consequence of the Commercial Agreement of 1937, the previously strong degree of antagonism in the economic field became moderated while still remaining distinct. A similar easing of tension was seen ten years earlier with the signing of the Commercial Agreement of 1927. At that time, the absence of ideological strain meant that the generally extreme antagonism of the post-war years was gradually reduced as from the conclusion of the Dawes Plan until it reached a moderate degree after the Agreement of 1927. Thus the ideological strain of the 1930's, due to the emergence of the Third Reich and the general resorting to protectionism in response to the world economic crisis and its consequences, maintained the degree of economic antagonism after the events of 1937, at a higher level than was the case in 1927.

This generalisation indicates the main currents running through the interwar period and in particular illustrates the all-embracing interdependence of the political and the economic fields.

The events in connection with the remilitarisation of the Rhineland made it evident not only that Hitler had succeeded in his greatest gamble,¹ but also that France's position in Europe had become undermined in more than one respect. She realised her weakness in the political and economic field and the social reforms as undertaken by the Popular Front were little inducement for the development of new strength for the French nation. In Germany, public opinion was the opinion of the Ministry of Propaganda, while in France the freedom of the press led to the expression of bitterly divided views as regards the German challenge. An ironic reversal of former constellations developed in France. The demand for resistance came chiefly from the Left, whereas that for appeasement chiefly came from the Right. France found herself in a position where she was allied to Czechoslovakia, who in turn felt herself threatened by Poland; France was furthermore allied to Poland, who again felt herself threatened by Russia, thus completing the

¹ Cobban, op. cit., p. 168.

vicious circle, since France was also allied to Russia. In addition, Germany stood in the centre of this vicious circle and by her militant policy was threatening to break up this precarious balance. Out of this, two main currents of public opinion emerged in France - one which considered it essential that France should comply with her obligations to her Eastern-European allies, and the other which advocated liquidating any engagements in this direction and confining France to the development of her Colonial Empire, in order to strengthen her position in the West.²

The latter reasoning can be illustrated by the attitude of the former French Premier Pierre E. Flandin, who for instance, advocated in July 1938, in a very forceful way a modus vivendi with Germany. He stressed here the interdependence of politics and economics, and maintained that encouragement of German expansion along the Danube could keep her occupied in an area where no vital French interests were at stake. On the other hand, such an offer of divided "spheres of interest" could be regarded as a barter object, in order to make Germany drop her colonial claims at least implicitly. Thus Flandin argued that this would keep Germany away from the French Empire and allow the latter to develop as a "hinterland" for France similar to South-Eastern Europe in respect to Germany. Such plans were of course to a large extent the outcome of a rather opportunist way of thinking and lacked a full understanding of Nazi expansionist policies as shown by the following remarks made by Flandin.³

It was not even certain any longer that the combined forces of France and Great Britain....could overcome the Wehrmacht. Thus the most elementary prudence would have made it advisable to France to review her commitments in Europe.

One can interpret Flandin's attitude in 1938 as typical of an inclination towards appeasement, which was in the main due to the realisation of France's own weakness. It is in this context interesting to note that the French Colonial Empire was regarded in various circles as a "sphere of interest" that was to offer in its

² French Opinion, Survey, 1938, vol. 2, pp. 172-6.

Doc. B.F.P., vol. 3, No. 385, p. 365.

³ P. E. Flandin, Politique Française 1919-1940, Paris, 1947, p. 260.

potential a solution to all the problems of metropolitan France. This French drive towards colonial expansion hardly entered the "take-off" stage. Nevertheless, it tended to emphasise the isolation which France experienced especially after the Munich Conference and which was not to be at all "splendid". The consequences of maintaining on one hand obligations towards Eastern Europe, and on the other conceding to Germany more and more, at least tacitly, a "free hand in the east",⁴ were to be fatal. This contradiction in itself had sooner or later to result either in a total collapse of the post-1919 established order in Europe or in another world war. On the one hand, it is easy to blame the weakness of the political leaders of France when comparing them for instance, with Poincaré, while on the other, it should be kept in mind that they had to face up to the heritage of the latter and to realise that France must adapt herself to the existing balance of power on the Continent. The tragedy about it is that this realisation came too late and it was mainly that artificial and precarious post-war balance which was responsible for the rise of Hitler and the destruction of the raison d'être of Europe as a whole.⁵

The French Selbstverstaendnis⁶ was conditioned by the experience of the years 1870/71 and 1914/18. She realised the potential danger of being invaded again. On the German side, everything was avoided that might give the impression that the German expansionist drive was directly aimed at France. As long as France did not enter into a war against Germany there was no danger of British interference, as far as German adventures in Central and Eastern Europe were concerned. German propaganda

⁴ French and British Reactions to the Destruction of Czechoslovakia, Survey, 1939-1946, The Eve of the War 1939, p. 31.

⁵ L. Dehio, Germany and World Politics in the Twentieth Century, London, 1959, pp. 109-23.

⁶ Selbstverstaendnis in our context may be translated as "politico-economic self-realisation". See *ibid.*, p. 38. See also letter to the author by Professor J.H.W. Rostetscher (Cape Town), dated May 30th, 1968, suggesting hereby "insight into one's own self", i.e. "national consciousness".

exploited the fact that at least up to mid-March, 1939, there was no consistency in the French policies towards Germany. France could not count on the readiness of a large British army in the case of war with Germany, nor did the strong position of the French Communist Party make it advisable to take prima facie a stand against the anti-Communist regime in Germany, this despite the fact that the French bourgeois should have been rather shocked by political measures applied in Germany, where a Communist-phobia competed well with Communist practices in setting up a totalitarian regime. But France became increasingly anxious to come to an understanding with Germany and to save as much as possible of her severely damaged post-war position.

Awareness of her weakened position led France to accept Germany's forceful moves for the revision of the "system of Versailles". The Anschluss no longer carried with it the danger of war, as threatened by Briand at the time of the Austro-German customs union project. France's lack of security and Germany's further weakened position on the international scene after the Anschluss, resulted in the readiness of both sides to compromise. Thus the actual event of the Anschluss was condoned by an agreement reached in August 1938, supplementary to the Commercial Agreement of 1937. By this, interest payments on the Austrian debts were settled, the rights of the holders of Young Loans were safeguarded and detailed arrangements were made concerning Germany's trade with French colonies. Although on the one hand this was a sound compromise, on the other it reflected the prevailing defeatist mood of appeasement in both France and Britain.

The policy of appeasement found its culmination at the Munich Conference. The subsequent Hitler-Chamberlain declaration of September 30th, 1938, made France feel herself isolated. On one hand, she pressed for definite guarantees of the new frontiers of Czechoslovakia, on the other, she tacitly accepted the German view that those areas were lying within the German "sphere of interest", and urged Germany to conclude some sort of Franco-German peace declaration. At the time of the "Sudeten Crisis" Georges Bonnet, the French Foreign Minister, went so far as to emphasise in a conversation with Count Welczeck, the German

Ambassador in France, that he and Edmond Daladier, the French Premier, "were sincere admirers of the Fuehrer in spite of the loss to French prestige due to his policy."⁷

Bonnet was regarded as representative of authoritative economic circles (massgebende Wirtschaftskreise)⁸ and it can be suggested that partly due to his influence there was a turn towards the solution of outstanding economic problems between the two countries. However, various groups within French industry met such moves with certain reservations, although this was mainly out of their own fears of German competition.

We are not particularly concerned with the joint Franco-German peace declaration of December 6th, 1938 as such, but more with its repercussions in the economic field.⁹ Because of these repercussions some remarks about the genesis of this declaration seem to be necessary.

It was François-Poncet who was mainly responsible for drafting plans for this declaration. At his farewell visit to Hitler of October 18th, 1938, he found the latter prepared to accept this as a means of settling differences between France and Germany. Poncet's activities here can be regarded as virtually his last political act before leaving Berlin to become French Ambassador in Rome. He was, however, aware of the limited scope of such an undertaking, unlike Bonnet who later was not fully to recognise this.

By October 25th, 1938, Count Welczeck had already been informed from Berlin that the "Franco-German discussions are now

⁷ Doc. G.F.P., series D, 1937-1945, vol. 2, Germany and Czechoslovakia, 1937-1938, No. 422, p. 683.

⁸ Ibid., No. 144, p. 254.

⁹ Ibid., vol. 4, The Aftermath of Munich, October 1938 - March 1939, No. 369, p. 470.

Keesing's, 1938, 3357 B..

W. Bussmann, Ein deutsch-franzoesischer Verstaendigungsversuch vom 6.12.1938, Nachrichten der Akademie der Wissenschaften, Goettingen, 1953, pp. 47-76.

beginning to take shape."¹⁰ By November 7th both sides were in general agreement and Count Welczeck reported Bonnet's spontaneous words from Paris, that "a Franco-German rapprochement would mean the fulfilment of his life's dream."¹¹ This is not the place to discuss how far this was self-deception. Finally, this euphory reached its climax in the visit of von Ribbentrop to Paris on December 6th, 1938, where he and Bonnet met to sign the peace declaration. Such an euphory was not shared by many. The Economist described the whole affair rather accurately when referring to the "almost obtrusive unobtrusiveness" of the German Foreign Minister.¹² In fact, future events proved that this declaration was soon to become insignificant in its impact on Franco-German relations. Besides general and rather vague provisions dealing with the maintenance of peace in Europe, the agreement under point two, from the French point of view, resembled the German concessions made at Locarno where both sides recognised the existing frontier between them ("aucune question d'ordre territorial ne reste en suspens.") How far Germany was in fact sincere in this matter was to be revealed by future events. This ambiguity is seen again in the Hitler speech of January 30th, 1939, where he declared: "Germany has no territorial claims against either country (i.e. France and Britain) except colonies."¹³ Flandin however, expresses the reservations held by many when he maintains in his book published after the war, in 1947, that the visit of von Ribbentrop was as such a failure, referring especially to the dismissal of Schacht in January, 1939. He claims that at this stage he already regarded the war as unavoidable. He was not wrong, but for him to see this out of the post-World War Two

¹⁰ Doc. G.F.P., vol. 4, op. cit., No. 343, p. 441.

¹¹ Ibid., No. 347, p. 446.

¹² Economist, December 10th, 1938, p. 522. Count Welczeck described Ribbentrop's behaviour in Paris as "completely pathological" - Elizabeth Wiskemann, The Rome-Berlin Axis, London, revised edition, 1966, p. 166.

¹³ Keesing's, 1939, 3428.

perspective remains only a somewhat late insight into the problems.¹⁴

The main barrier, as far as an approach towards an understanding through this peace declaration was concerned, arose out of the fact that both sides interpreted it in different ways. In particular the conversations held between Bonnet and von Ribbentrop in Paris later led to much controversy. The "understanding" was definitely a misunderstanding especially as far as Eastern Europe was concerned. The broadcast statement by von Ribbentrop after the signing of the declaration made this quite clear, when he pointed out that agreement had been reached "to open the road to reciprocal recognition and consideration of their vital national interests."¹⁵ This meant in Nazi jargon nothing but full recognition of Germany's ambitions. On the other hand, the declaration reads that there was "due account being taken of their (i.e. France and Germany) particular relations with other Powers."¹⁶ These contradictions were ignored at that time and each side was pleased to feel its own position secured, albeit mistakenly.

The political contents of the peace declaration should not conceal the special emphasis given by von Ribbentrop and Bonnet to economic problems during their conversations on the day of the signing of the declaration. For instance, Bonnet was particularly concerned with a general increase in the exchange of goods between the two countries and with the conclusion of an agreement on tourism, while von Ribbentrop hoped especially to promote German exports to France and to extend German trade relations with French colonies.¹⁷ Originally the declaration was supposed to have a paragraph dealing with economic problems. It was finally struck

¹⁴ Flandin, op. cit., pp. 295-6.

¹⁵ Keesing's, 1938, 3357 B.

¹⁶ Loc. cit.

¹⁷ Doc. G.F.F., vol. 4, op. cit., No. 370, pp. 471-7.

The Franco-German Declaration of 6th December, 1938 and the Economic Negotiations between the Western Powers and Germany, Survey, 1938, vol. 3, pp. 172-204.

out so as not to make it too long. Thus technical reasons were responsible for this, although it did not influence the substance of the dealings.

After a long time, the economic sphere had now received a great impetus and far-reaching plans were inaugurated.

In their conversations the two Foreign Ministers had agreed that they would do "everything possible to facilitate mutual trade".¹⁸ The next day, Franco-German economic discussions commenced in accordance with the line to be taken in the economic sphere as agreed upon by the Ministers the day before. Germany was represented by Ministerialdirektor Wiehl and von Campe, the Commercial Counsellor at the German Embassy, and France by Director Count de la Baume and the Head of the Commercial Relations Department at the Quai d'Orsay, Delenda.

The main topics, which were discussed there, can be summarised as follows:-¹⁹

1. Methods of increasing imports of German goods to France.
2. Methods of increasing imports of French goods to Germany.
3. Promotion of agreements between individual groups in the two countries.
4. Promotion of German trade with the French colonies.
5. Promotion of tourism between the two countries.
6. Economic co-operation between France and Germany in other countries.

This covered a wide range of problems and both sides agreed to proceed step by step. Thus the conversation was intended to clarify the various points of view before trying at a later stage to reconcile the mutual wishes and proposals. The main obstacle for a revival and extension of Franco-German trade was, however, the still incomplete recovery of the French economy. Nevertheless it was agreed to make a start with a better adjustment of the French import quotas to changed economic conditions. It seemed a matter of urgency to assure a better utilisation of the quotas opened by

¹⁸ Doc. G.F.P., series D, vol. 4, op. cit., No. 370, p. 471.

¹⁹ Ibid., No. 371, pp. 477-81.

France to Germany. Due to the shifting of French demand and changes in the overall economic conditions, only 552 million francs out of a total of 825 million francs of the industrial quotas allotted in 1938 by France to Germany were utilised.²⁰ On the other hand, many of the quotas available were completely inadequate to meet the French demand for certain goods, particularly in the case of agricultural and textile machinery. Furthermore, an increase in the market share for French goods in Germany was largely dependent on France's ability and willingness to import more German goods. The French side was here prepared to make the "heavy sacrifice" of importing German industrial goods on a larger scale, but she expected a reciprocal gesture from Germany in importing more of France's surplus agricultural produce. The French representatives expressed their surprise that Germany had made little or no use of existing facilities for barter transactions with the French colonies and in particular of available credit facilities for such transactions as agreed upon in the Franco-German Commercial Agreement of 1937 as amended. The German representatives held up against this the various obstacles which had been involved. Despite the co-operative attitude of the French Ministry of Colonies, a strong resistance by French industry had developed against German products destined for French colonies and such a resistance was strengthened by the support and protection exercised by overseas colonial authorities. This again illustrates the divergence between letter and spirit of the Commercial Agreement of 1937 and in addition, it reveals the gap between the theories developed at the conference table and the actual outcome. The French side proved to be very co-operative and not only promised to go into the matter of these obstacles but even considered inviting German firms to participate in the development of large public undertakings in the French colonies. In addition, co-operation in large-scale projects in South America, Africa and South-Eastern Europe was envisaged. In this connection special reference was made for instance, to large-scale road and bridge construction in the Balkans, to the building of railways in Africa, and to the development of ports in both Africa and South America.

²⁰ Ibid., No. 398, p. 512.

Such far-going co-operation would have been more economically profitable for both sides and would have also tended to reduce Franco-German antagonism with respect to third countries.

The conversation referred to above was followed by various subsequent contacts between both Government officials and industrialists from each side. This conversation of December 7th remained the main basis and it was not before February that further detailed plans were put forward. On January 30th, 1939, the sixth anniversary of his coming to power, Hitler was to deliver his traditional speech, an event which was looked upon with mixed feelings. Under the shadow of fear that this speech would bring about a further escalation in German militant demands, the Stock Exchange Markets of London, Paris and New York reacted in anticipation of things to come by an alarming fall in prices. The Hitler speech proved, however, to be comparatively conciliatory and was consequently followed by a similar rapid upward movement of prices on the Stock Exchanges.²¹ This new confidence in the future also favourably influenced Franco-German economic contacts and many people were prepared to ignore what The Economist already took for granted when maintaining: "Germany's neighbours....can no longer be lulled by a speech, even one full of the fairest promises."²² The renewed

²¹ Economist, February 4th, 1939, p. 234.

²² Ibid., p. 235. Hitler: "The assertion that National-Socialist Germany will in the near future attack or divide up North or South America, Australia, China or even the Netherlands....need only be complemented by the prophecy that after this we have the intention to occupy immediately the moon....The objection that colonies are a worthless asset is self-contradictory. The objection that Germany would use colonies for the purpose of building up strategic positions is tantamount to a denial of general rights. We do not need colonies for strategic purposesThe denial of colonies forces us to seek national self-sufficiency....There are no differences between England and Germany....The same applies to France." (My emphasis) - Keesing's, 1939, 3428. In the French press, the Hitler speech was in general received with certain relief, but a high degree

Franco-German discussions were continued with greater vigour and on February 21st von Campe reported to Berlin that "la Baume received our suggestions in a particularly eager and accommodating mannerla Baume told me the Fuehrer's great speech had aroused deep interest among leading French statesmen."²³ This readiness to co-operate can again be illustrated by the fact that Daladier gave instructions that the programme for further Franco-German economic conversations should "be drawn up under his personal guidance."²⁴ Furthermore, a Centre Economique Franco-Allemand was set up with the encouragement of Bonnet on February 28th. This Agency was formed in order to promote economic relations between the two countries in a practical manner. Its leading figures were various well-known members of the French Parliament and the Presidents of the larger French Chambers of Commerce. Of a particularly promising nature were plans to establish Franco-German syndicates for the economic development of the French colonial territories. On one hand, this would have served Germany's needs for raw materials and on the other, it would have ensured a rapid rate of economic growth in those territories, which again would have been profitable for France. It should be noted however, that the opposition in French industrial circles remained fairly strong, particularly due to fears of having to face up to competition by German industry.²⁵

There were two points where certain reservations were made on the German side without, however, seriously affecting

22 Continued

of apprehension remained - Le Temps: "Things remain as they are. This means that, if one must continue to be vigilant and take all the necessary precautions against the eventuality of the worst happening, the door remains open for the policy of consultation and negotiation initiated at the conclusion of the Munich conference." - Keesing's, 1939, 3429.

²³ Doc. G.F.P., series D, vol. 4, op. cit., No. 388, pp. 498-9.

²⁴ Ibid., No. 388, p. 499.

²⁵ Ibid., No. 388, p. 500.

Ibid., No. 391, p. 504.

Ibid., No. 393, p. 506.

progress towards agreement. Firstly, she made objections to economic co-operation in the Mandated Territories since such a co-operation, in the event of further German colonial demands, would have made it easier for France to refuse these demands on the grounds that Germany had always demanded economic outlets professing her willingness to give up her rights of sovereignty, and since her economic participation in Mandated Territories was now envisaged, further demands for colonies would have been unjustified from the French point of view. This again illustrates the ambiguous character of the German claim to colonies. In addition, the German representatives reserved their right to refuse the offer made by France to co-operate with Germany in Spain. After the final success of General Franco in the Spanish Civil War, powerful economic pressure groups in France had demanded a speedy restoration of normal relations with Spain, in order not to lose all standing on the Spanish domestic market. Germany became rather suspicious of the French offer, since she might have compromised herself and might have been abused by France who had changed her attitude towards Spain out of purely financial reasons. However, German and French interests were in this case of a complementary nature. In a memorandum von Campe expressed this as follows:²⁶

Germany has her good relations with the Franco Government to offer, her technicians already installed there, and the existing organisations; France on the other hand, would have long-term credits in foreign exchange to place at its disposal and, if necessary, also labour.

Thus everything looked very promising and on March 10th, 1939, an agreement was even signed on the inclusion of the Sudetenland in Franco-German commercial agreements.²⁷ It seemed that the all-important prerequisites for the start of a new era of Franco-German economic collaboration had been established. Finally, on March 11th, the "first concrete proposals" were presented to the Reich.²⁸ They were the outcome of the preliminary negotiations which had begun with the von Ribbentrop visit. Thus the foundation was laid for a

²⁶ Ibid., No. 389, p. 501.

²⁷ Ibid., No. 397, p. 509.

²⁸ Ibid., No. 398, p. 510.

MAP III CENTRAL EUROPE 1939.



The territorial changes resulting from the dissolution of Czechoslovakia are shown above. The Czech provinces of Bohemia and Moravia are declared a German protectorate and come within the new Reich frontiers. A German protectorate has also been proclaimed over Slovakia (shaded) which, however, bears the character of a nominally independent state under German protection. The Carpatho-Ukraine (also shaded) has been occupied and annexed by Hungary.

comprehensive settlement. Final negotiations between the two Governments and industrialists under governmental supervision were soon to commence in order to come to definite agreements, and to reach at least a first stage of co-operation. For instance, plans were already drawn up for the carrying out of the following projects:²⁹

1. Joint exploitation of the Conakry iron-ore deposits.
2. Joint exploitation of umbrella trees for the production of pulp for paper making.
3. German supplies for operating the Imini manganese mine in Morocco.
4. Collaboration between the Société Française de Châtillon Commentry and the Vereinigte Stahlwerke for the supplying by Germany of 10 million francs' worth of machines and tools for equipping the Halouze (Orne) iron mine, in exchange for deliveries of iron-ore.
5. Joint exploitation of patents and industrial processes.

All was brought to a sudden end through the annexation of the rest of Czechoslovakia by Germany on March 15th, 1939, transforming her into a German Protectorate.³⁰ This was a clear violation of the Munich Agreement and for the first time Hitler could not claim that he was only aiming at a revision of the status quo as contained in the Versailles Peace Settlement, in order to unite the German peoples in Central Europe. This time it was nothing but an act of aggression and an ultimate challenge to the Western Democracies.³¹

After the Anschluss and "Munich", for the third time Daladier was voted plenary powers on March 18th, 1939.³² The most significant measures taken were those for the mobilisation of France's economic energies. For the first time for many years, reforms could

²⁹ Ibid., No. 398, p. 512.

³⁰ Keesing's, 1939, 3484-92.

See attached map, Keesing's, 1939, 3484 A.

³¹ French and British Reactions to the Destruction of Czechoslovakia, Survey, op. cit., pp. 26-34.

³² Keesing's, 1939, 3491 B.

Economist, March 25th, 1939, p. 607.

be undertaken which had been blocked by electoral interests. This manifestation of authority had repercussions also on the monetary sector. During this crisis, the franc remained fairly stable and further, there was no automatic flight of capital, as there had been during previous crises.³³ These were encouraging signs which nevertheless came rather late. They did little to discourage Hitler in his expansionist drive.

Due to the events of March 15th, Franco-German trade talks that had been in progress in Berlin were broken up on March 21st. It would be wrong to assume that Franco-German economic relations were paralysed by these events, but hopes for any economic collaboration which had been so promising were largely abandoned. Nothing remained of the Franco-German peace declaration of December 6th, 1938, which in any case had nourished only false hopes and deceived many. The "new plan" of Paul Reynaud, then Minister of Finance, now brought a war economy to France as well. Nevertheless, Franco-German commercial negotiations were taken up again and on June 30th, 1939 the Commercial Agreement of 1937 was renewed for another year. It is interesting to note that the Agreement included the Bohemian - Moravian Reich Protectorate.³⁴ This clearly illustrates how pragmatic attitudes remained despite increasing political tension, and it might not be wrong to suggest here that in this almost hopeless state of international affairs hope still prevailed, although the hopes for large-scale co-operation in the economic sphere, which had run high a few months earlier, could not escape being eroded by mounting antagonism in the political sphere, which was to culminate in the outbreak of the Second World War.

³³ Ibid., p. 613.

³⁴ Keesing's, 1939, 3663 C.

EPILOGUE

When looking over the whole of the period it can be observed that the illusion of security and national hubris were fatal barriers to any substantial economic or political co-operation. The struggle for hegemony on the Continent was bound to be fought to the finish in a most excessive and tragical way. Europe again emerged out of its ruins, reduced to a secondary role between two gigantic World Powers.

The experience of two world wars had to be endured before European common sense could take the lead. Recovery was painful, but this time not completely in vain. The era of the Common Market opened up a fresh beginning, with new and better prospects. The share of Franco-German trade in the total trade of both countries roughly speaking doubled, in comparison with the best times of the interwar period. The following tables indicate this:

FRANCO-GERMAN TRADE (1966)

TABLE I

As percentages of France's
total

<u>Imports from Germany</u>	<u>Exports to Germany</u>
19.2	19.3

TABLE II

As percentages of Germany's
total

<u>Imports from France</u>	<u>Exports to France</u>
11.9	11.4

The years 1945-66 represent a post-World War period of twenty-one years, during which it became a commonly accepted fact that, economically speaking, the drive towards "high mass-consumption" should be substituted for the drive towards war, unlike the end of the twenty-one year period following on from World War One, when the two nations were driven into another war and the economic well-being of Europe as a whole was to be sacrificed again.

By 1939, the Peace Treaty of Versailles had vanished into a utopian dream. The interbellum period became the armistice of

another Thirty Years War. In the first decade the reparation problem overshadowed everything and made any real peace settlement illusory. The late 1920's seemed to promise the emergence of an era of stability, but the Depression revealed finally the true state of affairs and the 1930's retained these unbalanced conditions.

Both France and Germany held the key for either peace or war. The tragedy is that they failed to foresee the inevitable consequences of their irresponsible policies in Europe. At various times the economic sphere offered many opportunities for making at least a beginning towards reaching mutual understanding. Quite often more than just a beginning was made. Unfortunately the limited scope for such moves and the changes in both leadership and economic well-being made it impossible to reach the actual "take-off" stage and thus the vicious circle of "failure and maladjustment" was perpetuated.

The question arises of whether a parallel can be drawn with the general shift in the balance of political and economic power westward to the United States in World War One and later eastward to Russia in World War Two. In comparison, the shift in power between France and Germany was not lasting. After World War One, France improved her position at the expense of Germany in an effort to establish herself as the leading Power in Europe. Notwithstanding the differences in economic potential between the two countries, there was a marked shift in the raw material resources available and the basis of German heavy industry, her so-called Rohstoffbasis, was greatly reduced, especially with regard to iron-ore. Historical experience shows that both countries gained and lost to a similar degree and at the end of our period Germany, after having built up a new powerful position, lost it both politically and economically speaking. After World War Two, France, again on the side of the victors, maintained her raw material basis, whilst Germany was faced with an even more complete defeat and her raw material basis was reduced to an even greater extent than after World War One and this time permanently. Despite this, she managed to make a surprising recovery and two decades after the war, she had regained in many respects the role of leading economic Power in Europe which she had enjoyed before World War One. This

was notwithstanding France's comparatively advantageous position, since she had not been faced with a permanently reduced economic basis.

Thus neither nation's drive for hegemony had proved to be successful. The experience of two world wars and their economic consequences had laid the foundation for a new beginning, which opened the way to mutual prosperity through economic integration in Europe.

APPENDIX A

- I. Franco-German Trade
 - 1. Germany
 - 2. France

- II.
 - 1. Note Circulation Index
 - 2. Exchange Rate (Berlin)
 - 3. Cost of Living Index

- III. Industrial Production Index
 - 1. Germany
 - 2. France

- IV. Summary of Reparations

- V. The World Economy

- VI. The Ruhr-Lorraine-Channel Unit (Map IV)

- VII. Sources

I. Franco-German Trade

1. Germany

(Special trade with France in million RM)

	German Imports From France	As Percentage of Total Imports	German Exports Into France	As Percentage of Total Exports
1913	533	5.2	790	7.7
1923	247	4.0	183	3.0
1924	812	8.7	184	2.8
1925	691	5.3	559	6.8
1926	517	4.9	712	6.8
1927	1,009	7.0	642	5.9
1928	962	6.9	809	6.6
1929	844	6.3	1,077	8.0
1930	683	6.6	1,318	11.0
1931	454	6.7	973	10.1
1932	279	6.0	572	10.0
1933	300	7.1	479	9.8
1934	177	4.0	282	6.8
1935	154	3.7	253	5.9
1936	99	2.3	255	5.3
1937	156	2.9	313	5.3
1938	144	2.6	217	4.1
1939	78	1.6	129	2.5

N.B. As from 1925, German reparation deliveries in kind are included in German export figures.

2. France

(Special trade with Germany in million francs)

	French Imports From Germany	As Percentage of Total Imports	French Exports into Germany	As Percentage of Total Exports
1913	1,069	12.7	867	12.6
1919	755	2.1	1,560	13.1
1920	2,668	5.4	1,502	5.6
1921	2,615	11.5	1,877	9.5
1922	1,446	5.4	1,970	9.2
1923	1,174	3.6	1,080	3.5
1924	2,051	5.1	3,959	9.3
1925	2,346	5.3	3,833	8.2
1926	4,925	8.3	4,384	7.4
1927	4,170	7.9	6,630	12.0
1928	5,004	9.3	5,623	10.8
1929	6,613	11.4	4,743	9.5
1930	7,937	15.1	4,155	9.7
1931	6,142	14.6	2,749	9.0
1932	3,613	12.1	1,699	8.6
1933	3,037	10.7	1,714	9.3
1934	2,226	9.7	1,989	11.2
1935	1,738	8.3	1,051	6.8
1936	1,774	7.0	666	4.3
1937	3,249	7.7	1,565	5.9
1938	3,153	6.9	1,851	6.1
1939	2,089	4.8	1,036	3.3

II.

1. Note Circulation Index
(My own calculation)

2. Exchange Rate (Berlin)
(100 francs = x RM)

	<u>Germany</u>	<u>France</u>	
1913	100	100	81.3
1918	503	433	-
1919	760	533	-
1920	1,230	541	435.9
1921	-	-	777.6
1922	-	-	28,730.0 (Oct.)
1923	37 millions	661	181.0 milliards (Oct.)
1924	71	710	22.1
1925	86	872	20.1
1926	96	917	13.7
1927	104	985	16.5
1928	109	1,090	16.4
1929	109	1,185	16.5
1930	105	1,330	16.5
1931	110	1,461	16.5
1932	93	1,450	16.6
1933	94	1,411	16.5
1934	99	1,432	16.5
1935	105	1,412	16.4
1936	115	1,530	15.2
1937	123	1,596	10.1
1938	171	1,898	7.2

3. Cost of Living Index

	<u>Germany</u>	<u>France</u>
	<u>Base: 1913/14 = 100</u>	
1913/14	100	100
1920	-	342
1921	-	309
1922	-	296
1923	-	334
1924	128	369
1925	140	400
1926	141	505
1927	148	514
1928	152	519
1929	154	555
	<u>Base: 1929 = 100</u>	
1930	96	105
1931	88	102
1932	78	95
1933	77	94
1934	79	93
1935	80	87
1936	81	91
1937	81	111
1938	82	126

III. Industrial Production Index

1. Germany Base: 1928 = 100

	<u>General Index</u>	<u>Producers' Goods</u>	<u>Consumers' Goods</u>
1924	69	-	-
1925	73	80	77
1926	77	79	73
1927	97	96	99
1928	100	100	100
1929	101	103	99
1930	89	86	95
1931	73	61	90
1932	59	46	78
1933	66	54	83
1934	83	77	93
1935	96	99	91
1936	107	113	98
1937	117	126	103
1938	125	136	107

2. France

a) Base: 1913 = 100

	<u>General Index</u>	<u>Engineering</u>	<u>Textiles</u>
1913	100	100	100
1924	109	123	88
1925	108	115	91
1926	126	132	97
1927	110	114	89
1928	127	138	99
1929	139	157	92
1930	140	157	85
1931	124	136	71

b) Base: 1928 = 100

	<u>General Index</u>	<u>Engineering</u>	<u>Textiles</u>
1928	100	100	100
1929	109	110	100
1930	108	108	94
1931	94	90	80
1932	78	68	74
1933	88	77	89
1934	82	72	78
1935	79	71	80
1936	85	78	86
1937	89	88	88
1938	83	76	84

IV. Summary of Reparations

	<u>German Evaluation</u>	<u>Evaluation by Reparation Commission</u>
	(in milliard goldmarks)	
1. Up to Dawes Plan	40.7	8.7
2. During Occupation of the Ruhr District	1.4	0.9
3. Under Dawes Plan	8.0	7.6
4. Under Young Plan	3.1	2.8
	<u>53.2</u>	<u>20.0</u>
5. German "internal services"	<u>14.5</u>	<u>0.8</u>
Total	67.7	20.8

Receipts of France (September 1, 1924 - June 30, 1931)
(in milliard goldmarks)

1. Under Dawes Plan	3.9
2. Under Young Plan	1.5
3. Proceeds of Young Plan Loan	0.6
Total	<u>6.0</u>

Sources: F. Luetge, Deutsche Sozial- und Wirtschaftsgeschichte,
Berlin-Heidelberg-New York, 3rd edition, 1966, p. 541.
Friedensburg, Die Weimarer Republik, op. cit., pp. 103-5.
Clough and Cole, op. cit., p. 750.

V. The World Economy

1. Indices of the Quantum of Goods Entering into the Trade of Europe and North America.

	1929=100							
	<u>Imports</u>				<u>Exports</u>			
	<u>1925</u>	<u>1931</u>	<u>1933</u>	<u>1937</u>	<u>1925</u>	<u>1931</u>	<u>1933</u>	<u>1937</u>
<u>Europe</u>	85	95	80	91	82	83	69	84
<u>North America</u>	77	75	63	95	85	71	58	85

Source: League of Nations, World Production and Prices, 1937/38,
p. 73.

2. Diagram I (See next page)

Annual World Indices (Excluding U.S.S.R.) of Manufacture of Capital Goods and Consumption Goods.

1929=100

- I. Consumption Goods
- II. Capital Goods
- III. Manufacturing

Source: League of Nations, World Production and Prices, 1937/38,
p. 24.

3. Diagram II (See next page)

Indices of World Manufacturing.

1929=100

- I. World (including U.S.S.R.)
- II. World (excluding U.S.S.R.)
- III. Europe (excluding U.S.S.R.)
- IV. North America

Source: League of Nations, World Production and Prices, 1937/38,
p. 23.

4. Diagram III (See next page)

Changes in Industrial Production in 1924-29, 1932-37, 1929-30 and 1937-38 in Various Countries.

Sources: League of Nations, World Economic Survey, 1938/39, p. 107.

V. The World Economy (Diagrams)

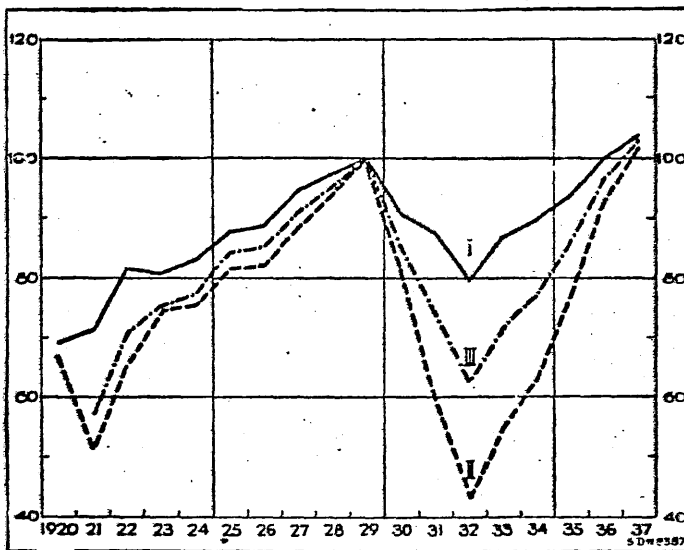


Diagram I.

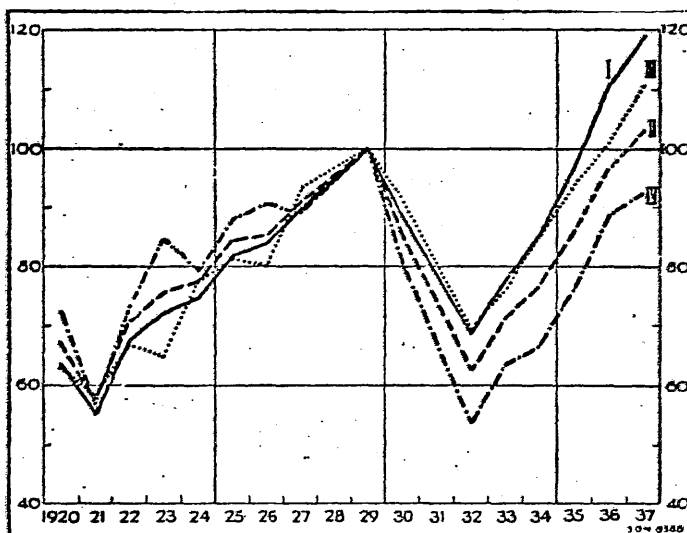


Diagram II.

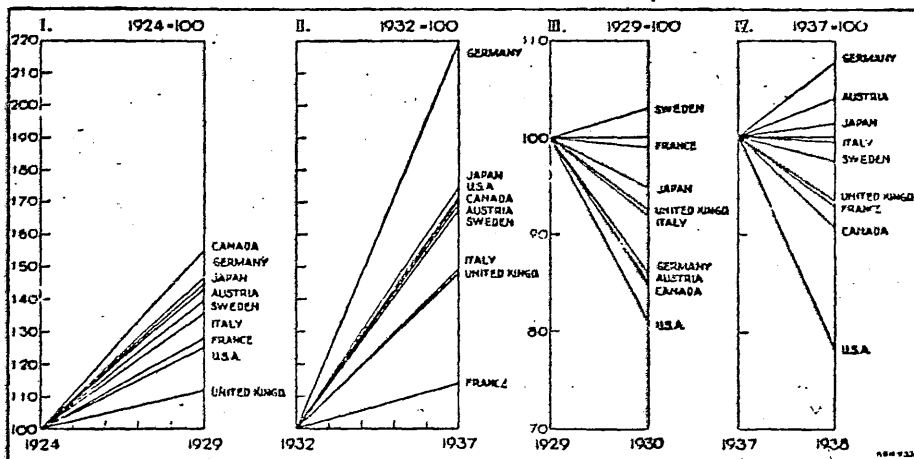


Diagram III.

VI. THE RUHR-LORRAINE-CHANNEL UNIT (MAP IV).

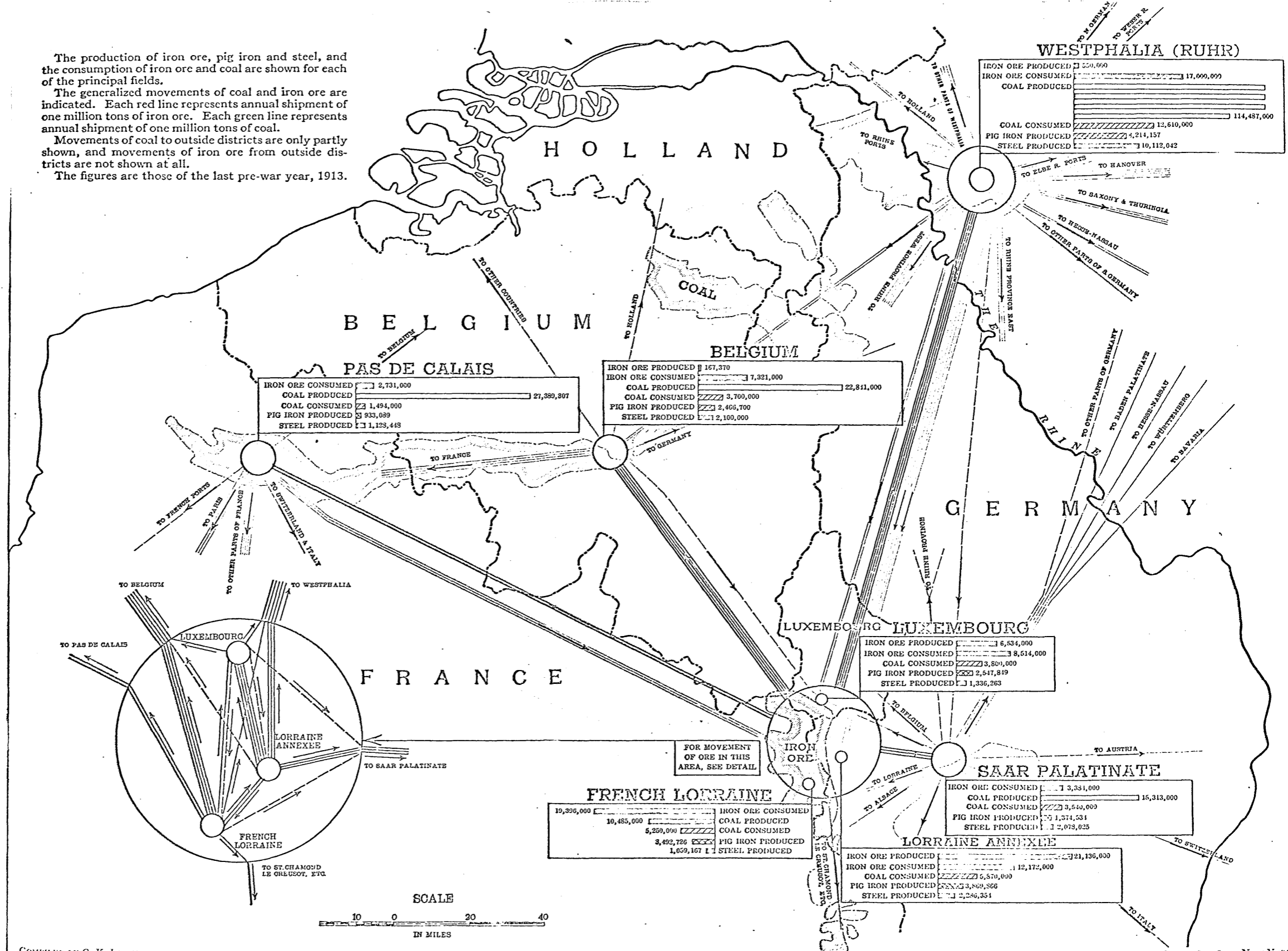
Source: C.K. Leith, The World Iron and Steel Situation in its Bearing on the French Occupation of the Ruhr, F.A. vol. 1, 1922-23, after p. 142.

The production of iron ore, pig iron and steel, and the consumption of iron ore and coal are shown for each of the principal fields.

The generalized movements of coal and iron ore are indicated. Each red line represents annual shipment of one million tons of iron ore. Each green line represents annual shipment of one million tons of coal.

Movements of coal to outside districts are only partly shown, and movements of iron ore from outside districts are not shown at all.

The figures are those of the last pre-war year, 1913.



VII. Sources:

1. Annuaire Général de la France et de l'Etranger, Part II, Industrie et Commerce, Paris, 1919-26.
2. Annuaire Statistique, Part III, F., vol. 44-56, Paris, 1928-46.
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5. Statistical Yearbooks of the League of Nations, 1931/32 and 1938/39.

APPENDIX B

- I. Illustration of each Country's Share in Steel Output of Ruhr-Lorraine-Channel Unit (1913).
 1. Franco-German Field of Interaction, Expressed in General Terms.
 2. Franco-German Field of Interaction, Expressed in Numerical Terms.
- II. Biographical Glossary.
- III. Select Chronological Survey of Interwar Period.

I. ILLUSTRATION OF EACH COUNTRY'S SHARE IN STEEL OUTPUT OF
RUHR-LORRAINE-CHANNEL UNIT (1913)*

1. Franco-German Field of Interaction, Expressed in General Terms.

	<u>Victor: Germany (G.)</u>						<u>Victor: France (F.)</u>					
	(1a)		(1b)		(1c)		(2a)		(2b)		(2c)	
	G.	F.	G.	F.	G.	F.	F.	G.	F.	G.	F.	G.
Ruhr District	^a 11	..	^a 12	..	^a 13	..	..	^a 14	..	^a 15	..	^a 16
Saar Territory	^a 21	..	^a 22	..	^a 23	..	..	^a 24	..	^a 25	^a 26	..
Luxemburg	^a 31	..	^a 32	..	^a 33	..	..	^a 34	..	^a 35	..	..
Lorraine Annexee	^a 41	..	^a 42	..	^a 43	..	..	^a 44	^a 45	..	^a 46	..
French Lorraine	..	^a 51	^a 52	..	^a 53	..	^a 54	..	^a 55	..	^a 56	..
Pas de Calais	..	^a 61	..	^a 62	^a 63	..	^a 64	..	^a 65	..	^a 66	..
Belgium	..	..	..	..	^a 73	..	..	..	..	..	..	..

N.B. It will be noted that the excessive territorial claim made by France under (2c) is equal to the actual outcome of the Peace Settlement, in terms of the above steel-producing areas, since in both cases there was an extension of French control over Alsace-Lorraine and the Saar Territory. In this model, the area covered by a

...buffer state/

*See pp. 24-7.

2. Franco-German Field of Interaction, Expressed in Numerical Terms.

(In Percentages)

	<u>Victor: Germany (G.)</u>						<u>Victor: France (F.)</u>					
	(1a)		(1b)		(1c)		(2a)		(2b)		(2c)	
	G.	F.	G.	F.	G.	F.	F.	G.	F.	G.	F.	G.
Ruhr District	50.3	..	50.3	..	50.3	..	..	50.3	..	50.3	..	50.3
Saar Territory	10.4	..	10.4	..	10.4	..	..	10.4	..	10.4	10.4	..
Luxemburg	6.5	..	6.5	..	6.5	..	..	6.5	..	6.5	..	..
Lorraine Annexee	11.4	..	11.4	..	11.4	..	..	11.4	11.4	..	11.4	..
French Lorraine	..	5.5	5.5	..	5.5	..	5.5	..	5.5	..	5.5	..
Pas de Calais	..	5.5	..	5.5	5.5	..	5.5	..	5.5	..	5.5	..
Belgium	..	..	..	..	10.4	..	..	..	..	..	..	..

buffer state on the left bank of the Rhine would not constitute one of the parts of the unit and is not here directly relevant for the balance between the two nations in terms of steel output.

II. BIOGRAPHICAL GLOSSARY.²⁵

- Adenauer, Konrad: German statesman; member of Zentrum; Lord Mayor of Cologne, 1917-33; after World War Two, Leader of Christian Democratic Union and first Chancellor of Federal Republic.
- Barthou, Louis: French statesman and lawyer; President of Reparation Commission, 1922-26; one of Poincaré's closest political associates; appointed Foreign Minister, 1934; with King Alexander of Yugoslavia, murdered in Marseilles, 9th October, 1934.
- Blum, Léon: French statesman; a leader of Socialist Party; three times Premier; led Popular Front to power, June 1936; followed a policy of social reform; finally agreed to monetary devaluation; stood for "non-intervention" in Spanish Civil War.
- Bonnet, Georges: French politician; Foreign Minister in Daladier Cabinet, April 1938 - September 1939; sided with strong pacifist group in Cabinet; signed Franco-German Peace Declaration.
- Bradbury, Lord (Sir John Swanwick): British financier; chief delegate to Reparation Commission in Paris, 1919-25.
- Briand, Aristide: French statesman; eleven times Premier; Foreign Minister, 1925, 1926-29, 1929-32; largely responsible for Franco-German détente in second half of 1920's; shared Nobel Peace Prize with German Foreign Minister, Gustav Stresemann, 1926.
- Bruening, Heinrich: German statesman; active in Christian trade unions in 1920's; member of Zentrum; Chancellor, March 1930 - May 1932; attempted to fight Depression through deflationary policy.
- Caillaux, Joseph: French politician; Premier, 1911-12; Minister of Finance, 1899-1902, 1906-09, 1911-12, 1914, 1925-6, 1935; introduced income tax into France.
- Chamberlain, Neville: British Conservative M.P., 1919-40; Leader of Conservative Party and Prime Minister, May 1937 - May 1940; signed Munich Agreement.
- Coudenhove-Kalergi, Richard, Count von: became famous with essay, "Pan-Europe", 1923; founded Pan-European Union in same year; started journal Pan-Europe, 1924, fostering unification of Europe.

²⁵The biographical details given relate principally to the interwar period.

- Curtius, Julius: German politician; M.P. for German People's Party; Minister of Economic Affairs, 1926; Foreign Minister, 1929-31; resigned after failure of Austro-German customs union.
- Daladier, Edouard: French statesman; Radical Socialist deputy, 1919-40; succeeded Herriot as President of Radical Socialist Party, January 1934; held various Ministries, 1924-25, 1930-32, 1934, 1936-40; Premier, January - October 1933, January - February 1934, April 1938 - March 1940; signed Munich Agreement.
- Dawes, Charles: American lawyer, financier and politician; first Director (1921) of the U.S. Bureau of the Budget; head of committee investigating schedule of German reparation payments; resulting Dawes Plan, in effect September 1924, based upon Germany's capacity to pay; superseded by Young Plan, May 1930.
- Delbos, Yvon: French politician; a leader of Radical Socialist Party; Foreign Minister, 1936-38.
- Faure, Paul: French politician; a leader of Socialist Party; known for criticism of Léon Blum in years preceding World War Two.
- Flandin, Pierre Etienne: French politician; held various Ministries, 1924-36; a leader of Alliance Démocratique, a centrist political party; Premier, November 1934 - May 1935; after Popular Front election victory, became spokesman for co-operation with Nazi Germany.
- Foch, Marshal Ferdinand: French military leader; General-in-Chief of Allied armies in France; led counter-offensive stopping German advance, July 1918; responsible for bringing about German retreat and Armistice; advised against occupation of Ruhr.
- Francois-Poncet, André: French politician and diplomat; expert on German affairs; economic advisor to the Commanding General during Ruhr occupation; Ambassador in Germany, September 1931 - October 1938.
- Funk, Walther: German journalist; resigned as editor of Berliner Boersenzeitung, joined National Socialists, 1931; liaison between Nazi Party and business leaders; Minister of Economic Affairs, November 1937 - May 1945; President of Reichsbank, January 1939 - May 1945.

- Goering, Reich Marshal Hermann: President of Reichstag, 1932-45; Minister President of Prussia and Reich Minister, 1933-45; Commander-in-Chief of Luftwaffe, 1935-45; Commissioner for the Four Year Plan, 1936-45; founded Hermann Goering Works, 1937.
- Herriot, Edouard: French politician; a leader of Radical Socialist Party; Premier and Foreign Minister after election victory of Cartel des Gauches, June 1924 - April 1925; responsible for evacuation of Ruhr and acceptance of Dawes Plan; held various Ministries, 1926-36; President of Chamber of Deputies, 1936-40.
- Hindenburg, Field Marshal Paul von: German military leader; resigned as Supreme Commander, 1919; Reich President, 1925-34.
- Hitler, Adolf: Chancellor of the Reich, 30th January, 1933; Fuehrer and Chancellor, 2nd August, 1934; made relatively few decisions in economic affairs in early years of regime; assumed command of Wehrmacht, February 1938; committed suicide, 30th April, 1945.
- Hoesch, Leopold von: German diplomat; Ambassador in France, 1924-32; Ambassador in Great Britain, 1932-26.
- Keynes, John Maynard (Baron Keynes of Tilton): British economist; outstanding influence on development of economic theory; editor of Economic Journal, 1912-46; principal representative of Treasury at Paris Peace Conference; famous for attack on Peace Settlement.
- Klotz, Lucien: French politician and lawyer; Minister of Finance, 1911-13, 1917-20; advocated excessive claim to reparations; Senator, 1925-28; expelled from Senate after passing bad cheques and violating currency exchange regulations.
- Laval, Pierre: French politician; held various Ministries, 1925-35; succeeded Barthou as Foreign Minister, November 1934 - May 1935; Premier, January 1931 - February 1932, June 1935 - January 1936; saw European peace as dependent on agreement with Nazi Germany.
- Lebrun, Albert: French politician; last President of Third Republic, 1932-40; removed from office by Vichy Government.
- Lloyd George, David: British Liberal statesman; Premier, December 1916 - October 1922; one of Big Four at Versailles.
- Loebe, Paul: German politician; Social Democrat; President of Reichstag, 1920-32.

Loucheur, Louis: French industrialist and politician; held various Ministries, 1917-31; in particular Minister of Reconstruction, Labour and Economic Affairs; signed Wiesbaden Agreement with Rathenau.

Mantoux, Etienne: French economist; undertook systematic examination of Keynes's critique of Peace Settlement; claimed German resources were adequate to meet reparation requirements under Treaty.

Millerand, Alexandre; French statesman; Leader of the National Bloc; President, 1920-24; subsequently influential member of Senate.

Neurath, Constantin, Baron von: German politician and diplomat; Foreign Minister, June 1932 - February 1938; Reich Minister and President of Secret Cabinet Council, February 1938 - May 1945.

Paul-Boncour, Joseph: French statesman and lawyer; held various Ministries, 1911-38; Premier, December 1932 - January 1933; President of Socialist and Republican Union, 1935-38.

Pilsudski, Marshal Josef: Polish statesman; Head of Polish State, 1918-22; Premier, 1926-28; took office again, 1930, establishing dictatorial regime; concluded ten-year non-aggression pact with Hitler, January 1934.

Poincaré, Raymond: French statesman; President, 1913-20; Premier, January 1922 - March 1924; uncompromising attitude towards Germany, responsible for Ruhr occupation; Premier, August 1926 - November 1928, succeeding Herriot at time of financial crisis and achieved stabilisation of franc.

Rathenau, Walther: German industrialist and politician; President of A.E.G.; Minister of Reconstruction, May - October 1921; Foreign Minister, January 1922; negotiated Wiesbaden Agreement with Loucheur and Treaty of Rapallo with Krassin (Soviet Union); assassinated by extremists opposed to his policy of fulfilment, 24th June, 1922.

Reynaud, Paul: French politician and lawyer; held various Ministries, 1930-40; centrist opposed to Popular Front; anticipated need for devaluation with little support.

Ribbentrop, Joachim von: German diplomat and politician; Ambassador in Great Britain, 1936-38; Foreign Minister, February 1938 - April 1945.

- Roosevelt, Franklin Delano: American statesman; President, March 1933 - April 1945; implemented policy of "New Deal"; uncompromising attitude towards Fascist States.
- Sarraut, Albert: French politician; a leader of Radical Socialist Party; deputy, 1902-24; Senator, 1924-40; held numerous cabinet posts, 1906-40.
- Schacht, Hjalmar: German financial expert and politician; appointed Currency Commissioner, November 1923; President of Reichsbank, 1924-30 and 1933-39; first negotiated then repudiated Young Plan; Minister of Economic Affairs, August 1934 - November 1937; Minister without Portfolio, November 1937 - January 1943.
- Smuts, Jan Christiaan: South African soldier and statesman; delegate at Peace Conference; signed Peace Treaty under protest.
- Solmsen, Georg: German banker and politician; vehemently rejected Peace Treaty on economic grounds.
- Stinnes, Hugo: German industrialist and politician; member of Reichstag for German People's Party, 1920-24; decisive influence in heavy industry and politics until his death, 1924.
- Stresemann, Gustav: German statesman; signed Locarno Agreement; as Premier for 100 days brought an end to passive resistance in Ruhr; Foreign Minister November 1923 - October 1929; accepted Dawes and Young Plan as means of achieving Franco-German rapprochement.
- Tardieu, André: French politician and journalist; held various Ministries, 1919-34; author of considerable sections of Peace Treaty; Premier, February - May 1932.
- Thyssen, Fritz: German industrialist; substantial shareholder in Vereinigte Stahlwerke; joined Nazi Party, 1931; liaison between Hitler and industrial leaders; opposed Hitler's plan to invade Poland; subsequently left Germany.
- Welckeck, Johannes, Count von: German diplomat; Ambassador in France, April 1936 - September 1939.
- Wiehl, Emil Karl Josef: German diplomat; Director of the Economic Policy Department of German Foreign Ministry, June 1937 - September 1944.

Wilson, Woodrow: American statesman; President, 1913-21, sought role of mediator in European affairs; Fourteen Points, 8th January, 1918, envisaged lasting international peace and establishment of "new order"; one of Big Four at Paris Peace Conference.

Wirth, Joseph: German statesman; a leader of Zentrum; member of Reichstag, 1914-33; held cabinet posts, 1920-22, 1929-31; Chancellor, May 1921 - November 1922; as strong supporter of policy of fulfilment, accepted Second London Ultimatum of 5th May, 1921.

Young, Owen: American corporation lawyer and executive and government administrator; Agent General for German reparations under Dawes Plan; chairman of committee drafting "new plan" to be termed Young Plan.

III. SELECT CHRONOLOGICAL SURVEY OF INTERWAR PERIOD.

1918 11th November. Armistice

The Armistice Agreement between the Allies and Germany departed from the usual form of armistices in so far as it was the outcome of a so-called pre-armistice agreement based on Wilson's Fourteen Points and his subsequent speeches. It made provision for the restoration of the devastated areas and stipulated a "new order" for Europe. Thus the Armistice Agreement included political and financial clauses in addition to the military terms. By this the resumption of hostilities was virtually made impossible for Germany. When concluding the Armistice both the Allies and Germany accepted the pre-armistice agreement as the basis for peace. However, they clashed over the question of whether or not the Peace Treaty was in accord with the latter.

1919 28th June. Signature of Peace Treaty of Versailles.

Few treaties of Peace have been of such a controversial nature as the Peace Treaty of Versailles. The three dominant statesmen Wilson, Lloyd George and Clemenceau were full of suspicion and contempt of conventional diplomacy. On the other hand, their political power outweighed their far-sightedness and diplomatic skill. It can be suggested that professional diplomats, independent of public opinion, may have achieved a less controversial settlement. As far as France and Germany were concerned, both resented the Peace Treaty for different reasons. France was disappointed over the unexpectedly small amount of reparations received from Germany and the refusal of the American Senate to ratify the Treaty made the Anglo-American guarantee of French security ineffective. On the other hand, Germany felt herself subject to an unjust Treaty and the "fiction" of her "war guilt" was regarded as a mere pretext for the Allied demands of excessive reparations and similar claims to territory. Nevertheless, it may be suggested, when taking the driving force of nationalism into due account,

that this Treaty was the best obtainable in the existing circumstances.

1920 July. Spa Agreement

Agreement upon reparations between the Allies fixing the apportionment between them, whereby France was to receive 52 per cent. Allied demand of 2 million tons of coal to be delivered monthly by Germany. First threat to occupy the Ruhr.

August. "Little Entente"

First steps towards concluding pacts of mutual assistance in the Balkans in order to maintain Versailles status quo. Security system finally achieved, September 1922, by alliances between France and Czechoslovakia, Yugoslavia and Rumania. A Franco-Polish alliance subsequently added to this security system.

1921 March. First London Ultimatum

Germany declared to be "not merely in default, but deliberately in default" with her Peace Treaty obligations. Renewed threat to occupy the Ruhr and to establish customs frontier on the Rhine.

April. Reparation Commission fixing total Allied claim at £6,600,000,000 (132 milliard goldmarks).

May. Second London Ultimatum

Germany declared to be still in default with her obligations despite "successive concessions...warnings and...sanctions announced" by the Allies. Further Allied threats.

October. Wiesbaden Agreement

Partial Franco-German compromise on reparation deliveries in kind. Mutual fairness ensured by establishment of Arbitral Commission. Co-operation between France and German private firms on a business-like basis envisaged for reconstruction of devastated areas. Agreement never fully implemented.

1922 April-May Conference of Genoa

Meetings on reparations between Allies and Germany. Attempts to settle outstanding problems were unsuccessful.

- April. Treaty of Rapallo
Concluded during the Conference of Genoa, bringing about a détente between Germany and Russia. Diplomatic relations re-established and all financial claims cancelled out between the two countries.
- 1923 January. Franco-Belgian occupation of the Ruhr District.
- 1924 July-August. London Conference
Dawes Plan adopted. No total amount of reparations fixed with infinite number of average annuities each averaging £125,000,000. Evacuation of the Ruhr agreed upon. Scheme brought into operation, September 1924.
- 1925 October. Treaty of Locarno
Franco-German détente accomplished. Mutual guarantee of maintenance of territorial status quo in the west. Disputes to be settled by peaceful arbitration. Followed by the evacuation of the occupied zone of Cologne and admission of Germany to the League of Nations (1926).
- 1926 December. Franco-German Potash Cartel
This "Potash Entente", applying to the world market, reached at a Convention in Paris, after provisional agreement of August 1924, in respect of American market. Similarly, Franco-German Dyestuffs Cartel bilaterally agreed upon (1927).
- 1927 August. Franco-German Commercial Agreement
After a détente had been brought about in the political field by Treaty of Locarno, reconciliation reached in economic relations. Thus this Commercial Agreement came to be termed "economic Locarno".
- 1928 February. Franco-German Saar Agreement
After successive agreements from 1925, final settlement achieved for period leading up to plebiscite (1935).
- 1929 August. First Conference at The Hague
Negotiations over adoption of Young Plan, published by commission of experts, June 1929.
- 1930 January. Second Conference at The Hague
Young Plan finally accepted. Administration of reparations

transferred from Reparation Commission to Bank for International Settlements. Part of German debt capitalised. Total amount of reparations fixed at 59 annuities, each of £100,000,000 on the average. Total evacuation of occupied zones agreed upon. Scheme brought into operation, May 1930.

1931 March. Announcement of Austro-German customs union project.

September. Abandonment of above project.

1932 July. Lausanne Agreement

After the Hoover moratorium, implicitly recognising the connection between reparations and Allied debts to the United States, had suspended payments for one year in June 1931, reparations finally brought to an end, although Agreement never ratified.

December. Supplementary Franco-German Commercial Agreement

De facto abandonment of most-favoured-nation treatment as previously laid down in Agreement of 1927, although de jure remaining in force.

1934 July. Supplementary Franco-German Commercial Agreement

Provisional clearing agreement, in force from August - December. Settlement of commercial debts between France and Germany. Prolonged by similar agreements until consolidation in trade relations achieved with Commercial Agreement of 1937.

1935 February. Accords of Naples

Final transfer protocols between France and Germany making arrangements for the re-incorporation of the Saar into Germany.

1937 July. Franco-German Commercial Agreement

After more than two years of negotiations, consolidation in economic relations accomplished. Most-favoured-nation treatment re-instated, tariff reductions agreed upon, clearing system brought to an end. Quota system to remain.

1938 September. Munich Conference

Culmination of appeasement policies in an attempt to

preserve peace in Europe. Agreement reached upon by the Four Powers on ceding of the Sudetenland to the Reich by Czechoslovakia. Anglo-German anti-war declaration.

December. Franco-German Peace Declaration.

Following on lines of Munich, apparently all-embracing Franco-German reconciliation achieved. Mutual recognition of France's eastern frontier and large-scale co-operation envisaged.

1939 March. Annexation of rest of Czechoslovakia by Germany.
Anglo-French guarantee to Poland.

August. Anglo-French mission at Moscow.

Russo-German agreement announced - so-called Ribbentrop-Molotov Pact.

September. German invasion of Poland.

Great Britain and France declare war on Germany.

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