

France and Reparation: The First Phase

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I do not think that there is any need to set out in detail here what the standard interpretation of the reparation question is. Few historians appear to disagree with the orthodox view that it was economically impossible for Germany to pay reparation on anything like the scale prescribed in the Treaty of Versailles, that for this "preposterous" demand the "vengeful" policy of France was primarily responsible, that the French hoped to use reparation to "debilitate" Germany in order to provide for their own security, and that for this reason the French government refused to compromise on reparation in the immediate post-war period, insisting instead on the strict execution of the treaty.

This point of view, broadly defined, has been accepted internationally. Even French historians share it. It is an integral part of a larger negative interpretation of the Treaty of Versailles, also very widely accepted: in the indictment of the treaty, reparation is usually the first count, the prime example of how reactionary Europeans, with Clemenceau at their head, managed to subvert Woodrow Wilson's plans for a liberal international order. This orthodox view of reparation, moreover, is a focal point in the discussion of international politics in the whole post-war period, when reparation was in fact the most important international issue. The unsympathetic account of Allied and especially of French reparation policy always profoundly colors historical analysis of the period.

What I intend to do here is briefly to examine accepted views particularly on French reparation policy in the period down to the beginning of the Ruhr occupation in January 1923. I believe this analysis will demonstrate that the orthodox interpretation is simply no longer tenable. If this is so, then a new problem arises: why was it that the historical profession failed to arrive at a correct interpretation of the issue? I do not claim to provide here a full answer to that question. At most, I propose to prove the existence of and shed some light on what seems to me to be a very important failure of historiography.

I

The argument that large reparation payments were economically impossible has long been the central pillar in the orthodox interpretation of the question. This idea was developed with great force by John Maynard Keynes in his famous attack on the treaty, The Economic Consequences of the Peace, published at the end of 1919. The decisive obstacle to payment according to Keynes was the "transfer problem"--that is, the problem of transferring real wealth across international borders, or what loosely speaking amounts to the same thing, the problem of transferring German marks into the foreign currencies in which reparation was to be paid. Keynes believed the problems of transfer were virtually insurmountable; historians, impressed by Keynes's arguments, and even more I suspect by his reputation,

accepted his point of view as obvious. How in the long run could Germany pay more than her surplus earnings from foreign trade? The balance of trade therefore limited Germany's capacity to pay. If it was "unfavorable," if German imports exceeded ^{exports} imports, then it did not matter how prosperous Germany was: in that case, Germany could pay nothing.

The first point to notice here is that this line of reasoning is totally at variance with economic theory as it existed after World War I--for example, in the writings of F.W. Taussig--and with the theory of international trade in its present form. In the classical theory, financial transactions--international payments like reparation--played an active role in shaping the balance of trade. The very act of paying reparation, through its effect on prices and exchange rates, it argued, would tend to bring about the trade balances needed to effect the transfer of the real wealth that that payment represented. But this classical view Keynes more or less denied: real economic movements, exports and imports, were in his view virtually autonomous. Financial movements he felt adjust "to the balance of trade, rather than the other way around."¹ Such a view is contrary to the most basic assumptions of the theory of international trade, and later economic theory, far from having moved toward Keynes's point of view, moved in exactly the opposite direction. Because of the importance of income effects, the mechanism through which international financial movements shape trade balances is now

seen as stronger, as more effective, than Taussig for example supposed in 1919.

But even contemporary economics has never asserted that the transfer mechanism is so efficient that it can handle without difficulty payments of any magnitude. A problem of transfer therefore might exist. To the degree that it does, however, the state can in theory step in and create channels for the direct transfer of wealth. If the will on both sides exists, the obstacles of transfer can always be overcome. In other words, any transfer problem that does exist is essentially technical in nature, and is in no sense absolute.

All this seems so clear--the basic analysis is so simple really--that it is hard to understand why Keynes's economic reasoning was not effectively challenged during the whole interwar period. Part of the answer is that the economists agreed with Keynes on political grounds. What was the point of criticizing him in the public arena? Jacob Viner, one of the leading figures in the theory of international trade in this century, made this point explicitly in 1947. "As I recall it," he said, speaking of Keynes's book on the peace, "economists at the time regarded its economics as undistinguished in general and technically defective at some crucial points, especially in its treatment of the alleged difficulties of 'transfer' of reparations. But the political views which Keynes expounded with great force of exposition were those which Anglo-Saxon liberals of the 1920's, including the economists, shared almost to a man, and I suppose there

then seemed little point in exposing technical flaws in an economic argument which had the virtue of leading to the desired political conclusions."²

If the economists allowed Keynes's arguments to remain intact, can the historians be fairly blamed for accepting Keynes's reasoning uncritically? Even if historians cannot be expected to analyze a question like reparation with even a minimal degree of theoretical sophistication, they can be expected to examine Keynes's arguments in the light of actual developments.

One such development was a plan the French government pressed for at the end of 1920--the "Seydoux Plan" it was called--to create direct channels of payment. A revolving fund of paper marks would be put at the disposal of the French to buy mainly reconstruction goods in Germany. There would then be no need of pay much in cash through ordinary channels: the purchases made through the revolving fund system together with the regular payments in kind prescribed by the treaty would liquidate the bulk of the reparation annuity in the first years. Thus the Seydoux Plan, which was widely publicized at the time, would obviously have solved the transfer problem in effect by circumventing it. Although the plan collapsed--and this was due mainly to British policy--its obvious bearing on Keynes's central argument was nevertheless ignored in the great economist's second book on reparation, A Revision of the Treaty; and historians have never recognized how this episode bore on the larger interpretation of French

reparation policy and on the fundamental economic assumptions upon which the orthodox view of reparation rested.

The Seydoux Plan was no isolated incident. The French aim at the end of 1920 was to use reparation as a means of drawing France and Germany together economically. Seydoux himself, a high Foreign Ministry official who played a leading role in the reparation question in this period, had long been an ardent advocate of industrial collaboration with Germany. His views in this matter were basically shared by Alexandre Millerand, Prime Minister in 1920 and then President of the Republic, and by others in the government. The Millerand government in this regard was in fact continuing the policy of its predecessor. Loucheur, the principal maker of reparation policy under Clemenceau, had sought in negotiations with the Germans in late 1919 to bring about a system of economic cooperation with Germany; the first overtures to Germany, signalling the conciliatory French attitude on economic matters in general and on reparation in particular, had been made in April and May 1919, that is, during the peace conference itself.

The hope for "economic collaboration," to use Millerand's own phrase, and especially for a Franco-German industrial entente, was a constant feature of French reparation policy through 1922--there were overtures of this sort even after Poincaré took power--and perhaps beyond. This comes out quite clearly if you put together some of the recent studies

done on the question, especially the works by Peter Krüger, Georges Soutou and Jacques Bariéty.

But, it might be asked, if this aspect of French policy was so important, how can French demands at the peace conference and after be explained? Hadn't the French government based all its reconstruction plans on the belief that Germany could be made to pay huge reparations? Hadn't Klotz, the Minister of Finance in 1919, proclaimed that "L'Allemagne paiera"--that "Germany will pay"? And why did the French so stubbornly insist after 1919 on the strict enforcement of the treaty?

But this series of questions, it turns out, is based on a series of false assumptions. Contrary to the accepted myth, for example, Klotz apparently never said "L'Allemagne paiera." He himself denied having said it, and after extensive research on this point I am inclined to believe him. He certainly never argued in 1919 that there was no need to worry about French financial problems because German payments would take care of any deficit that might arise. In fact, he took the opposite line, warning that the French taxpayer would be called upon to make a new fiscal effort. It was impossible, he said, to be more precise since it was still unclear how much Germany would pay. Thus the unsettled status of the reparation question was the excuse he gave for putting off facing the budgetary problem--hardly an admirable policy, but one which certainly does not merit the obloquy which still surrounds his name.

On a more basic level, it is also untrue that the French government had pinned its hopes for reconstruction on the belief that Germany would pay an enormous indemnity after the war. Instead the French made every effort to preserve the inter-Allied economic regime that had taken shape in the last year of the war: it was this system for the pooling of Allied resources and not a huge German indemnity that they hoped would enable them to overcome the enormous economic problems they would face after the fighting stopped. It is quite clear, moreover, that at the beginning of the peace conference the French aligned themselves with the British in demanding a vast indemnity essentially for tactical purposes: a threat of a crushing reparation settlement they viewed as a means of getting the reluctant, tight-fisted Americans to agree to the continuation of some form of Allied economic or financial "cooperation." When it became evident that the United States would not go along with these schemes, the French gave up the game and stated their real demands. French and American reparation policy then virtually converged on a \$30 billion figure. At one point Loucheur was willing to go further, and by giving up pensions reduce the debt to about \$20 billion, but even the Americans resisted this proposal as too moderate. British demands at the conference, even at the time of the Fontainebleau Memorandum, consistently remained much higher, and it was for this reason that no figure was inserted in the treaty.

Instead, a Reparation Commission was to arrive at a figure by May 1921 by adding up the damages listed by category in the treaty. In the meantime, actual payments were to be governed by Article 235 of the treaty: Germany was to pay \$5 billion by May 1921 "in such installments and in such manner" as the Reparation Commission may decide. This clearly implies that the commission was to set up a schedule of German payments during this provisional period. But no such schedule was ever laid down, nor--in spite of phrases about the "strict execution of the treaty"--did the French delegation ever ask for one. This is perhaps the most important example of the non-execution of the treaty, but it was hardly an isolated one. The French delegation during the immediate post-war period made no attempt to enforce many other key treaty provisions governing reparation--Annex IV, calling for German deliveries of reconstruction goods, remained a dead letter; no attempt was made to apply Article 248, which said that reparation and other treaty costs were to be a "first charge" on German resources and assets, and so on.

At the same time as the treaty was not being enforced, the French government, especially in 1920, was proving quite moderate on the question of figures. The main plan for a final settlement worked out at this time was the Boulogne scheme of June 1920: the British and the French agreed on a system of annuities that could be used as a basis for negotiation with Germany. At 5% in terms of present value the scheme was worth anywhere between \$16 and \$25 billion, depending on how fast

Germany paid off the debt. The French share would be between \$9 and \$13 billion--a figure, they were aware, that could be reduced still further in negotiations with Germany. Meanwhile, the French war debt to Britain and America would remain entirely intact at \$7 billion. Thus assuming a final scheme were adopted and that the debt it established were actually paid, France would in no case net more than \$6 billion from the settlement of international indebtedness--hardly a fantastic figure even in those days, given the size of the economies involved and the long period of amortization then contemplated. Keynes himself, in the very moderate plan he outlined in his book, would not have given France less.

But negotiations on this basis proved impossible. Still the French were reluctant to fall back on the terms of the treaty, and in the absence of a final settlement preferred to work out a temporary arrangement with the Germans. The provisional figures proposed in January 1921 were again quite moderate--the annuity would be only half a billion dollars in the first two years, payable mainly in kind. But this attempt to reach a provisional settlement was also frustrated, this time mainly by Lloyd George's eagerness in January 1921 to arrive at a final figure.

In no case therefore do you find France pursuing an "intransigent" reparation policy in this early period right after the war. Why then was the problem unresolved? The

answer--and this is one of the most surprising things that recent research has revealed--is that Germany, conscious of her own intrinsic economic and ultimately political strength in spite of her defeat, spurned French overtures and herself took what amounted to an intransigent position on the question. Even when the German government itself was receptive, the negative attitude of the great Ruhr industrialists effectively sabotaged all hope of a Franco-German economic entente, in the context of which it had been believed that a mutually acceptable resolution of the reparation question could be worked out.

It follows from all this that the reparation question was above all a political question. Economic considerations--what was technically possible and what was not--were purely secondary. What angered the French was not that Germany could not pay, but that she did not want to, and there is little doubt that even those Germans with the greatest reputation for moderation, people like Wirth and Rathenau, sought to evade as much of the treaty as they could. In the whole affair, the money was of course important in itself, but even more important were the political implications of the struggle: would the Versailles system remain intact? whose power would dominate the continent of Europe?

II

If all this is true, the problem then is to explain why historians traditionally have held such different views on the subject. Is it just a question of evidence that has only

recently come to light? To a certain degree this is of course correct: the full story, for example, of the French overtures to Germany and their rejection is based on archival sources which were not available before the Second World War. But many recent findings could have been derived from evidence available since the beginning. Millerand, for example, did not hide his hope for a system of "economic collaboration" with Germany-- he in fact used the phrase in Parliament in early 1920--and a significant documentation on the Seydoux Plan, and on other reparation plans, was published in the early 1920's. Even the minutes of some of the more important reparation conferences were published in the period.

On the peace conference a very extensive set of sources has long been available. For example, transcripts of meetings of peace conference commissions were published by Lapradelle in the 1930's--a very valuable source that almost no one uses. Parliamentary sources--debates and reports--available virtually from the start, provided a significant amount of additional information. Much of the story, therefore, could have been fairly accurately reconstructed in the 1930's, and a lot of it as early as 1922 or 1923. It follows that lack of evidence cannot be an adequate explanation for the misinterpretation of the diplomacy of reparation in this period.

What then is the explanation? The main factor, I believe, is that historians allowed political considerations and not a relatively impartial study of the sources essentially to determine their conclusions. This becomes clear when you look

at the context of disillusionment with the peace within which the orthodox view of reparation evolved.

Whether disillusion was justified or not is a problem I cannot really deal with here, but the fact that many liberal intellectuals became disenchanted with the peace settlement very early cannot be denied. The peace, which had promised to be one of reconciliation, had obviously served to perpetuate an atmosphere of hostility and bitter suspicion. If the treaty was so bad, it seemed that it certainly could not have been the product of Wilson's liberal program: his high ideals were inconsistent with such a peace. Rather, it must have resulted from the frustration of his policy. The French were obvious villains: the contrast between Wilson's idealism and Clemenceau's cynicism was evident, and it was plausible to suppose that these differences of temperament would carry over into conflicts of policy. Since liberal historians identified with Wilsonian idealism and tended to condemn Clemenceau's "realism"--partly because "realism" is automatically associated with the political right--the picture rapidly became one of good versus evil.

In the United States, this interpretation became linked with the defense of liberal ideals, and especially of internationalism. Defending Wilson was a way of struggling against contemporary isolationists: Paul Birdsall's important book on the peace conference is a case in point here. But defending Wilson in this way implied the blackening on the French, and one irony was that in cultivating the myth of good but simple-minded Americans out-manipulated by devious and sinister

Europeans, liberal historians in the interwar years were encouraging precisely those forces they purportedly were struggling against: for this was the very idiom of isolationism.

This tendency to interpret the period both of the peace conference and its aftermath as a struggle between good and evil, was by no means limited to American historians. In large measure it was accepted internationally, and the fact that there was broad consensus on this point meant that there was little incentive to return to a critical examination of the sources. It all seemed so obvious. Especially after the occupation of the Ruhr in 1923, there seemed hardly any room for doubt: French policy was brutal and militaristic, destructive of hope for lasting peace. Since the Ruhr occupation was the climax of the story, it was natural to assume that France had taken a vengeful and intransigent line on reparation all along.

With everyone fundamentally agreed, why bother looking at the facts? There is something of this attitude, I think, in Maurice Baumont's remark about the many conferences held in the first years of the peace: each of them, he said, "could be the subject of a volume; but taking them all together they amount to just about nothing."³ So why study them at all?

In general, I think it is fair to say that historiography, when treating reparation, has taken a somewhat cavalier attitude toward facts, and especially toward figures, which are often handled with appalling sloppiness. Figures representing present value are discussed in the same breath as figures derived by adding up annuities, as though the two were comparable.

Sometimes figures apparently are just pulled from a hat to support an argument--figures are cited which were never mentioned in the appropriate documentary sources.

More serious still is an apparent blindness toward evidence in conflict with the standard interpretation. I can give here only one example of this. Philip Mason Burnett was a careful scholar, editor of a two-volume collection of documents on reparation at the peace conference. His introduction to this source material was particularly influential. Yet even Burnett asserted the prevailing view that no figure "politically acceptable to either the British or the French could have been admitted by the Americans"⁴--in spite of the fact that his own documents repeatedly showed that this was not true. One of his documents, for example, shows that toward the end of the conference the American delegate Lamont noted that if it had not been for the British, "we could have gotten together with Loucheur months ago..."⁵ But by the time Burnett wrote, the orthodox view was so solidly entrenched that he preferred to believe it than the documentary evidence itself.

What then is the conclusion to be drawn from all this? It would be naive to argue for a "return" to "value-free" historiography. The political and social environment, as everyone knows, inevitably influences the perspective from which history is written. The danger today is that this insight tends in a subtle fashion to transform itself into a license

sanctioning an increasingly "political" form of historiography. As long as the profession as a whole values "imagination" more highly than "proof," this situation will continue. The case of reparation stands as a warning of what can happen when political attitudes are allowed too free a rein in determining historical views. In this case, historiography has been little more than an extension of the larger political culture; it has not functioned independently and professionally as a control upon that culture--a particularly significant failure, given the important role that beliefs about Versailles and the period after World War I played in shaping the course of events during the whole period of "appeasement."

FOOTNOTES

1. John Maynard Keynes, "The German Transfer Problem," Economic Journal, XXXIX (March 1929), 6.
2. Journal of Modern History, XIX:1 (March 1947), 69.
3. La Faillite de la paix, 5th ed. (Paris, 1967), I, 160.
4. Philip Mason Burnett, Reparation at the Paris Peace Conference from the Standpoint of the American Delegation, 2 vols. (New York, 1940), I, 60.
5. Burnett, II, ¹¹⁴~~110~~