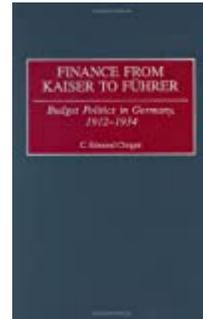




C. Edmund Clingan. *Finance from Kaiser to Fuehrer: Budget Politics in Germany, 1912-1934.* Westport: Georg Olms Verlag - Weidmannsche Verlagsbuchhandlung, 2000. x + 255 pp.p. \$131.95 (cloth), ISBN 978-0-313-31184-0.



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x-post: C. E. Clingan, Finance from Kaiser to Fuehrer

Edmund Clingan, of the University of North Dakota, seeks here to rescue discussions of German fiscal policy in the early 1930s from a narrow determinism. He argues, provocatively but ultimately not completely convincingly, that viable Keynesian alternatives existed to the deflationary policies Chancellor Heinrich Brüning pursued in the early 1930s.

Clingan rightly seeks to take a long-term perspective on German fiscal policy. He points out that Germany began facing substantial budget deficits well before World War I and that it had not by 1914 fully succeeded in establishing policies to manage those deficits. Part of the problem was the relatively limited claim on tax revenues by the central government, part was a political stalemate that prevented effective tax and other legislation. He identifies a budget crisis that had become acute, primarily because of rearmament costs, by 1912. The costs of war and defeat exacerbated the problem, and policymakers only solved it after hyperinflation compelled Germans to accept drastic tax increases and expenditure cuts in 1923/24. Surprisingly, he does not cite Niall Ferguson's discussion of these issues in his Pa-

per and Iron (Cambridge: Cambridge University press, 1995, especially pages 23 to 27), where Ferguson adds an important emphasis on the weakness of German capital markets, an issue Clingan addresses for the 1920s and 30s.

A major theme for Clingan is the gradual "nationalization" of German fiscal policy from 1912 to 1934. The pre-1918 Kaiserreich represented a federation of originally sovereign princes under the Prussian monarchy. The states had retained important tax privileges. The central government only succeeded in fits and starts in securing central control of taxation by the early 1920s, though it still had to assign certain taxes and revenues to the states. The Nazis did succeed in eliminating the last vestiges of state power by 1934. However, Clingan points out, Nazi polyocracy obviated that centralization after 1934, as various competing satrapies in Hitler's Third Reich pursued independent budgetary policies.

The core of Clingan's book rests on an argument he developed in his dissertation about fiscal policy in the mid-20s. Germany suffered a recession in 1925/26. The Finance Minister at the time, Peter Reinhold, pursued a policy of deficit financing to stimulate the economy and

to finance job-creation programs. Germany came quickly out of that recession and secured substantial growth in the period from 1926 to 1928. Clingan argues that Reinhold's policies were primarily responsible for that rapid recovery, not (as some have argued) the opportunity to increase exports that Britain's 1926 General Strike offered.

Clingan extrapolates from that experience to argue that Germany could and should have pursued similar deficit financing in the early 1930s and that doing so would have moderated substantially the impact of the Depression. He emphasizes that various respected individuals in early 1930s Germany proposed pursuing just such policies, so that it is not anachronistic to suggest Germany could have done so. He cites the work of Raymond L. Cohn ("Fiscal Policy in Germany during the Great Depression," in John Komlos and Scott Eddie, editors, *Selected Cliometric Studies on German Economic History* (Stuttgart: Franz Steiner Verlag, 1997)) arguing from the high employment budget that German fiscal policies before 1933 were consistently restrictive and that much less restrictive post-1932 policies contributed substantially to Germany's relatively rapid recovery from the Depression. Although Clingan acknowledges the difficulties German governments experienced in securing credits in the late 1920s and early 1930s, he argues that Germany could have overcome this problem with legislation giving governments more flexibility in taking on loans and with a series of careful, incremental steps from 1924 to build confidence in the government as a borrower.

Clingan alludes to but does not completely satisfactorily address problems with this Keynesian hypothesis. As Theo Balderston has shown (*The Origins and Course of the German Economic Crisis, 1923-1932* Berlin: Haude & Spener, 1993), and as Clingan acknowledges, the hyperinflation of the early 1920s had devastated German credit markets. Germans, and many foreigners, not surprisingly, no longer trusted the German state to preserve the value of the currency and of any Reichsmark investments. German firms and individuals tended to hoard profits and income, rather than investing them in Reichsmark or real assets. Any sign of economic difficulties tended to spur capital flight. Clingan may well be right

that careful governmental cultivation of credit markets in the mid-to-late 1920s could have made it easier to finance reflationary budget deficits in the 1930s.

However, that is by no means certain and is more or less irrelevant to Germany's actual policy options after 1929. Given the realities of capital flight, Weimar Republic governments would have found it extraordinarily difficult to compel Germans to loan money. The Nazis' ability successfully to pursue reflationary deficit policies reflected several factors: 1) the desperation that had led to real changes in attitudes toward deficits by 1933, 2) the end of reparations, 3) a more positive attitude by investors after the Nazis had broken the trade unions and the democratic system, which many German businessmen viewed as involved in the creeping socialization of the German economy, and 4) the gradual implementation from 1930 of controls on foreign trade that allowed a reflation that did not spill over into foreign-exchange crises. Reflationary deficit financing under Weimar was certainly theoretically possible. Indeed, one can identify various prerequisites for making that theory reality. Unfortunately, Clingan has not adequately addressed the problems other scholars have seen in implementing such a process under the conditions that actually obtained, 1929 to 1932.

Clingan's writing could be stronger. His paragraphing is weak, making following his argument difficult. He relies too often on assertion rather than argument. For example, he simply dismisses (p. 212), rather than comes to grips with, Silverman and others' evidence that businessmen were much more willing to accept reflation from a right-wing dictatorial government after 1933 than from the earlier democratic governments they feared were implementing creeping socialism in response to popular pressure.

Clingan raises some important questions, about the longer term development of German fiscal policy, about ways deficit financing could have offered alternatives to Weimar policymakers, and about the nature of Nazi successes in overcoming the Depression. He does not convince this reviewer that deficit financing to moderate the Depression was a practical alternative before 1932/33, that is, before Weimar democracy had already effectively collapsed.

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