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**Weimar Germany:
the First Open Access Order that Failed?**

Alfred Reckendrees
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Weimar Germany: the First Open Access Order that Failed?

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Abstract

The Weimar Republic is analysed within the framework of limited and open access orders. Germany had developed into a mature limited access order before World War I, with rule of law and open economic access but only limited access to politics. After the war, Germany developed toward an open access order; this process was, however, not sustainable. Two interpretations are discussed, which both pose a challenge to the limited access-open access framework: (1.) Weimar Germany was the first open access order that failed; (2.) sufficiency conditions of the sustainability of open access are not yet included in the framework. It is proposed that sustainable open access orders do not only depend on open political and economic access and on the state monopolising violence capacities (coercive power); government and the political institutions must also have the capacity to efficiently create legitimacy via coordination capabilities.

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1. Introduction

The conceptual framework of limited and open access orders developed by Douglass North, John Wallis, Steven Webb and Barry Weingast is a powerful device for development politics and for economic and social historical analysis. In North et al. (2009; furtheron NWW), the authors want to explain why some societies, those of North America, North-Western Europe, Australia, and Japan developed into open societies able to sustain economic growth and allowing for economic, social and political change, whereas development (or stagnation and fallback) in other societies resulted from restrictive policies excluding significant parts of society from economic access and political decision making. NWW claim that open access orders historically did not fail because they had developed efficient institutions that allow for political and economic competition and “creative destruction” (Schumpeter 1942) effectively supporting and sustaining open access in order to deal with economic, political, and social change and crises. In the concept ‘open entry and access to sophisticated economic organizations’ are construed as ‘prerequisites for creative destruction and a dynamic economy’ (NWW: 23).

NWW (22-24) characterise open access orders by four necessary conditions: (1.) A state monopoly ‘on the legitimate use of violence’ with consolidated military and police controlled by the political system, with institutions and incentives limiting the ‘illegitimate use of violence’ and governing political “parties” enjoying ‘the support of economic and social interests’. (2.) Impersonally defined rights to form economic or political organisations at will without state consensus, perpetually living ‘independent of the lives of their members’. (3.) Rule of law applying to all citizens and organisations and impartially en-

forced by the government and the agencies it empowers; allocation of rents and profits and all other decisions governing legally recognised organisations is governed by the rule of law. (4.) Dynamic interaction between the economic and the political system and its institutions sustaining and mutually reinforcing openness: ‘open access and entry to organisations in the economy support open access in politics, and open access and entry into politics support open access in the economy’.¹

Three major economies –the USA, the UK, and France– that made the transition from limited to open access during the 19th century are analyzed by NWW (213-39); furthermore, Switzerland and the Netherlands are mentioned as additional cases. Their evaluation of Germany is negative; it had ‘adopted forms of general incorporation in the 1870s’ but remained a ‘limited access’ society ‘in other ways’. Germany had adopted institutional forms, yet ‘formally organized parties do not necessarily imply competitive politics, nor do formal definitions of corporations imply open access to economic organizations’ (NWW: 248). Imperial Germany (1871-1918) and the Weimar Republic (1919-1933) are thus interpreted as mature limited access orders not having made the transition to open access.

There are good reasons for this interpretation: in the early 1930s, the Weimar Republic collapsed resulting in the Nazi-movement seizing power and in the most devastating dictatorship in history. Yet on the other hand, the Weimar Republic was a parliamentary democracy with political competition, open economic access, and public debate. This leads to the conceptually relevant question whether “Weimar” might be interpreted as the first open access order that failed? This article provides a condensed analysis of the Republic within the framework of limited and open access orders (LAO/OAO). The question is motivated

¹ Later, NWW present six characteristics: a ‘perpetually lived state and consolidated power over violence’; a ‘widely held set of beliefs about the inclusion of and equality for all citizens’; ‘entry into economic, political, religious, and educational activities without restraint’, ‘support for organizational forms in each activity that is open to all’; ‘rule of law enforced impartially for all citizens’; and ‘impersonal exchange’ (114).

by a sceptical view of the optimistic interpretation of the present LAO/OAO framework claiming that historically no OAO had failed.

With regard to the fourth of the mentioned criteria, requiring dynamic interaction between the economic and the political system and its institutions sustaining and mutually reinforcing openness (NWW: 24), it might seem as if the possibility of failure was not part of the concept. However, in order to avoid a circular argumentation, dissolution of the self-reinforcing mechanism should be considered a possibility. The major questions of this article are thus whether Weimar Germany might be regarded as a case of a failing OAO and why the mechanism of sustaining and mutually reinforcing openness was interrupted? The interpretation is that while Germany, after WW I, advanced to an OAO with all criteria met since 1924; this transition was, however, not sustainable. During the Great Depression economic and political organisations withdrew from openness and re-established limited access. It is argued that (1.) the political governance of “Weimar” lacked coordinative capacity and that the LAO/OAO framework should be complemented by a theory of political governance; (2.) that the conceptual dichotomy of the LAO/OAO framework –economic organisations seeking for political openness and political organisations seeking for economic openness– does not fully explain the contradictions of the times; and (3.) that international economics and politics need to be part of the analysis.

While the first argument is acknowledged by NWW arguing without further elaboration that ‘widely hold set of beliefs about the inclusion of and equality for all citizens’ (114), and by John Wallis, who suggests to complement the LAO/OAO framework by a theory of the state, because it would be the coordinative capacities of states rather than coercive power that help reproducing openness,² the two other components of the explana-

² See his unpublished keynote lecture to the European Historical Economics Society, ‘Leviathan Denied: Coordination, Coercion, Rules, and the Nature of Government’ London, 6.9.2013. A similar idea is also presented by Wallis and North (2011).

tion provided in this article indicate that the necessary conditions of OAOs formulated by NWW might be historically contingent; sustainability or self-reinforcement of open access might depend on additional factors under new historical conditions.

Chapter 2 briefly characterises Imperial Germany (1871-1918). In regard to economic openness Germany was very similar to the UK or France, yet open access to organisations in the economy did not translate into support for open political access. Regarding political openness the differences between Germany and the OAOs were smaller as often assumed; also OAOs still suffered from fundamental democratic deficits. Chapter 3 analyses in detail the Weimar Republic within the LAO/OAO framework and discusses the reasons of why the new social-political order was not sustainable and Germany fall back to limited access. The final chapter presents conclusions from the empirical study and its implications for the LAO/OAO framework.

2. Imperial Germany. Limited Access to Politics - Open Access to Economics

2.1. Access to Politics

Germany was not a constitutional democracy, yet it was also not the “strong” state it is often perceived. The Federal State consisted of 26 states with own constitutions, specific systems of political representation, administration and the right to decide on taxation, economic policy, education, police etc. resulting in institutional competition (Spoerer 2004). The Federal State’s prerogatives had been foreign policy, tariffs, and war; it controlled the high fleet, but neither the police nor –in peacetime– the army, which was organised in four royal armies (Kingdoms of Prussia, Bavaria, Saxony, Württemberg) only in war united under the Emperor’s supreme command of. The Federal State’s administration was small; it had no authority to tax the people and only a small budget mainly from customs.

On the national level, the parliament freely elected by all male citizens aged 21 and above could initiate new laws, and it confirmed the budget law. It did not control the gov-

ernment, the Chancellor was rather appointed by the Emperor, yet politically he was also responsible to the parliament. Legislation required confirmation by the second chamber representing the 26 states (*Bundesrat*) and by the Emperor. The states' had diverse constitutions, from democratic republics to kingdoms and duchies without substantial democratic representation. The largest kingdom, Prussia, due to its property based voting system³ almost beyond democratic control, occupied a veto-position in the *Bundesrat*.

Germany provided limited access to politics; social democratic activities were even abolished from 1879 until 1890.⁴ Only in very few states government was open for political competition. Yet, also the UK provided open political access also only to elite groups.⁵ Discrimination for property and sex regulated access to UK politics. At the end of the 19th century, franchise requirements and registration excluded 40% of the adult male citizens from voting; running as a candidate required £500 security returned when received 5% of the votes (Cook 2005: 68; Blewett 1965); parliamentary decisions depended on the landed aristocracy's confirmation in the House of Lords until 1911. The LAO/OAO framework requires open access for all citizens existing impartially according to generally defined rules; both in Germany and in the UK the rules impartially excluded the majority of the population. Certainly, the British parliament had a much more powerful role, and within the segment of society it represented different organisations competing for political power.

While access to politics was limited in Germany, all states (and the Empire) guaranteed the rule of law to their entire people. Executive, justice, and legislation were strictly

³ The electorate was divided into three classes defined by tax payments (1/3 of total income tax): those who paid the top third constituted class 1, those who paid the second formed class 2 and the rest class 3. Often only few people represented 1/3 of seats in parliament and the majority of the male population was represented by only 1/3 of the parliament.

⁴ The *Sozialistengesetze* declared party activities including the press illegal, party members could however candidate for Parliament.

⁵ Access to politics was much more open in the USA, but practices depended on the single state some of which practised discrimination for race or income by several means (Keyssar 2000).

separated, however in slightly different ways. Already before the foundation of Imperial Germany (1871), the German states had harmonised crucial parts of the legal system; finally legal harmonisation was concluded with the Common Civil Law of 1900. Impersonality and equality in front of the law was guaranteed, yet access to legal professions continued to be a prerogative of the higher middle classes, many of which nurtured the idea of inferior morality of the labour class and the less educated. Thus, people from lower social strata often faced problems enforcing their rights (Ortmann 2009); Bentley (1998) shows that this was not different in the UK.

2.2. *Economic Access*

Open access and the possibility of constituting economic organisations preceded the foundation of Imperial Germany by a decade. In 1861, the states of the North-German Union agreed on a Common Trade Law removing extant restrictions on conducting a business. Now, all men and women could freely start business activities irrespectively of status, race or religion. Companies in which only one of the partners was subject to unlimited liability (*Kommanditgesellschaft*) could be established by simple registration without requiring any permission. Joint-stock companies (JSC), however, required a royal or parliamentarian charter in most states;⁶ the restriction was motivated by fraudulent stock market speculation in France and Belgium and by the perceived need to protect small business against big capital. It was removed in the incorporation law of 1870, yet the high nominal share value of Mark 1,000 for a single share limited the number of possible owners. In 1892 corporate law was expanded by limited liability companies (GmbH); German trade law was now as advanced as the British from 1856 (Harris 2000; Johnson 2010; Freeman et al. 2012; Guinnane et al. 2007).

⁶ Some American states required similar chartering up until the 20th century, see Fischer (1955).

With late nation building and delayed industrialisation in large parts of Germany, institutions and organisations different from the UK or the USA (sometimes perceived as indicator of limited access) were important for German economic development. This regards (1.) universal banking and interlocking directorates between industrial JSC and universal banks and (2.) cartel agreements enforceable by law. Both particularities of the German business system can be explained historically and have parallels in OAOs.

(1.) The institutional arrangements of universal banking and interlocking directorates corresponded to the specific industrial and commercial structure in Germany (Tilly 1982, 1993, 1998; Reckendrees 2013b). JSC were not as important in Germany as in the USA or the UK because other means of finance had been available to the entrepreneurs of the 19th century to expand business. Before 1870, JSC had only been important in few industries, particularly in transportation.⁷ The majority of companies used retained earnings, family resources, and bank loans for expansion, one of the reasons being strong desire for control (Reckendrees 2012), yet these sources of finance did not seriously limit firm growth. JSC continued to be unpopular after 1870, which can be explained by the fact that the liberalisation of incorporation law (1870) was immediately followed by a stock-market collapse (1873/74) that disencouraged stock investments (Fear and Kobra 2010). Newly founded commercial banks developing to universal banks substituted for the lack of eager investors; only these organizations could mobilize the funds needed for the massive industrial expansion of the late 19th century. As all banks, they requested collateral for their credits; aware of asymmetrical information they also required seats on the supervisory boards in order to be able to monitor their debtors. Contemporarily interpreted as particular power of banks and Finance Capitalism (Hilferding 1910), business historical research has shown that universal banks did not govern industry. Capital accumulation rather depended on a symbiotic

⁷ During the 1850s a larger number of JSC were also set up for iron and steel works and coal mines; the major reason was attracting international capital to the new companies.

relationship of industry and banks (Wellhöner 1989; Fohlin 1999, 2002, 2007; Franks et al. 2006; Reckendrees 2013b). It can be debated whether this type of financing industry and the resulting interlocking directorates are more or less efficient than capital markets,⁸ but it does not indicate rent-creation.

(2.) The second institutional specificity, legal enforcement of cartel agreements, was based in the German legal tradition with its emphasis on freedom of contracting. From a German court's perspective, liberal cartel law did not limit open economic access. Economic agents could freely decide whether or not to join a cartel, and contracts were binding only those who joined the agreement; abolishing cartel agreements was perceived as interfering with liberal contracting. Legal cartel enforcement might indicate rent-creation in that it extracted final consumers, but so did the import tariffs used by all major economies (except the British) at the end of the 19th century, with highest consumer extraction in the USA. Cartel agreements were neither abolished in France nor in the UK and the German approach (though more comprehensive) did qualitatively not differ from other European solutions (Mercer 1995; Gerber 2001).⁹

2.3. Imperial Germany: a mature LAO at the doorstep?

Arguing Imperial Germany had been “more democratic” than the UK (Ferguson 1999) is exaggerating. Yet, the doorstep conditions to transform into an OAO (NWW: 150-54) were clearly met and even surpassed: (1.) rule of law was universal and guaranteed by efficient and independent justice; the executive was capable of enforcing legal decisions and trusted to very low levels of corruption; (2.) violence capacities were fully controlled by the government; (3.) perpetually lived organisations shaped the public and private spheres. Despite of limited access for working class people or rural population to law professions, police,

⁸ At the end of the 19th and the beginning of the 20th century, interlocking directorates existed in the USA (Windolf 2006).

⁹ In terms of a modern competition law the UK was a latecomer meeting the EU or American standards only at the end of the 20th century (Scott 2009).

military, or public administration (which was also the case in the USA, the UK, and France), each citizen could freely join economic, educational, cultural, and religious organisations based on impersonal requirements. The institutional arrangements supported civil organisations engaging in art, literature, and sciences resulting in a civil society more liberal than any European at the beginning of the 20th century (Gall 1991; Kocka 1989); aristocratic norms were probably more pronounced in France and the UK than in Germany (Blackbourn and Eley 1984; Kocka 1986; Peukert 1992; Raphael 2011). The thesis of the German *Sonderweg* (constructing a continuity from the late 19th century to Nazi Germany based on a teleological concept of modernisation) has thus been moderated and even its defenders do no longer dispute the dominance of a liberal society in late 19th century Germany (Kocka 1988; Hamerow 1983; Smith 2008).

The German labour movement and the success of the Social Democratic Party in the early 20th century (both the largest worldwide) also indicate at least some access to politics and possibilities of organising that did not exist or were not used elsewhere. However, the co-existence of industrialisation, rapid economic growth and a strong labour movement preceding open political access might partly explain why political and economic elites in Imperial Germany resisted the idea of open political access and why their scepticism survived after WW I.

Imperial Germany in the terms of the framework used was a mature LAO with a deficit in open political access. In regard to all other criteria it was not qualitatively different from any OAO. The institutional arrangements were not the same as in the USA, the UK, or France, but so did each of these social orders differ from the other. The discussion of the German case indicates that the LAO/OAO framework might benefit from a more nuanced debate on France, the UK, and the USA explicitly discussing those factors that indicate only relative openness (suffrage, discrimination for sex and race). The major difference seems to be that their politics was open for competition –it was not in Germany.

3. Weimar: An Open Access Order?

The Weimar Republic did not restrict access to economic and political organisation by any means, it encouraged political competition and allowed for creative destruction (and unfortunately for destructive politics, too). Political legitimacy, however, and the government's and parliament's coordination capacity were limited and also (in the early years of the Republic and after 1930) their ability to control organisations with violence capacity. After WW I, the Weimar constitution was a compromise guaranteeing open political and economic access as well as political competition. While the party leaders agreed on open access, support within the political parties was not equally strong. In many parties the extreme wings rejected democratic ideas and so did *parts of* the social elites (agrarians, politicians, and industrialists), *parts of* the military, or *parts of* the state bureaucracy. Yet, these different approaches to democracy and open access did not result from economic interests but rather from ideological preference; business people, for example, were active in political organisations across the political spectrum (apart from leftist organisations). The dichotomy of the LAO/OAO framework with economic organisations enforcing political openness and political organisations enforcing economic openness does not sufficiently explain the resulting coalitions.

The social-political order was permanently under debate and relevant parts of the political and of the economic elites wanted to regain the power they had lost in the revolution of 1918/19. The loss of the war, international conflict, and the fear of “socialism” alleviated nationalist rhetoric and ideas. The dominant coalition of political and economic organisations was able to control those on the extreme wings up until 1930, during the Great Depression democracy lost support on almost all levels. How might this process be interpreted within the LAO/OAO framework?

First, the displacement resulting from WW I, the revolution, and the contested formation of the Weimar Republic will be briefly analysed. Then, the social-political order of

“Weimar” will be characterised in terms of open political and economic access and regarding the rule of law. Finally, counteracting factors are discussed like challenges for the social order, possibilities of rent-creation, and political violence.

3.1. Contested Formation of the Weimar Republic

WW I and its aftermath constituted political and economic displacement throughout Europe; in Germany (and other states of central Europe) also the political system changed. WW I had transformed the German economy into a controlled war economy (Feldman 1966, 1977; van de Kerkhof 2006). Militarisation of society was pronounced, yet it also required concessions to organised labour that became increasingly accepted by state and industry (Feldman and Steinisch 1985: 15-18). In late 1916 it was evident that after the war a certain democratic transition was inevitable.

The course of the war and the Russian Revolution changed the agenda dramatically. Within Germany people suffered from hunger and many soldiers did no longer want to fight. Feeling empowered by the Russian experience, marines established soldier councils and supreme command slowly lost control of the marine divisions. With a retreating defeated army, Germany had lost the war in fall 1918. The Emperor resigned and within a short time the elite organisation (including trade unions and social democrats) agreed on a parliamentary republic (January 1919) and a democratic constitution (August 1919).

The November revolution was not remarkably violent. January 1919, however, saw left-wing demonstrations demanding direct democracy of workers councils instead of parliamentary democracy and socialisation of means of production. Militant violence and organised murder, however, was mainly executed by right-wing paramilitary. These *Freikorps* were led by officers, who opposed the demilitarisation stipulated by the Allies and who did not want to be controlled by a parliament (democratic government, they thought, would compromise with the Allies). They gained influence during the first two years of the Republic. The major reason was that the provisional government, which due to

disarmament and revolution could not rely on efficient police and army, assumed it could “use” these organisations in order to fight anti-parliamentarian leftist. Today, most historians agree that “cooperation” with radical anti-democrats in order to defend democracy had not been necessary but rather de-legitimised government. It even encouraged radical rebellions in Bremen, Hamburg, on the Ruhr, in Bavaria and Saxony. It was in these fights that thousands of people were killed, not in the November revolution.

A serious attack on democracy, an attempted coup d'état, came from right-wing military and *Freikorps* in February 1920 (*Kapp-Putsch*). It demonstrates how difficult it was for the government to control violence organisations. The coup was not fought by the army, because its supreme command decided to stay neutral; rather unions and industry reacted immediately by declaring support to the republic and a general strike. Within few days the revolt collapsed, but in some regions the left movement now saw a need for pushing forward towards direct democracy of workers councils. On the Ruhr a militant revolt started, only suppressed by massive military operations in cooperation with *Freikorps*. Afterward, political conflict was no longer militant (except from right-wing terrorism and the “beer-hall putsch” of the Nazis in 1923). Government had consolidated its coercive power and full control of police.

Establishing government was one problem of the young republic; economic and social problems have been more performative. Hunger and conversion of war to civil production were major issues; hundred thousands of soldiers had to be supplied with new jobs, and workers needed to be convinced to get back to work with relatively unclear prospects. Equally important was financing war debt and building up a public administration. The problems did not ease acceptance of the new social order. International tensions, the negotiations in “Versailles”, the unresolved reparation issue, the losses of Alsace-Lorraine, East Prussia, parts of Upper Silesia, and military occupation of the Saar had negative impact on the perception of the new republic. Though most people did not believe in the right-wing

rhetoric making the government responsible for uncertainty, lack of work and supply of all kinds of goods, and claiming the war had been lost because of liberal and leftist defeatism (“dagger thrust”), this rhetoric appealed to many for psychological reasons and because of national pride. These feelings, less important in the early 1920s, were re-mobilised during the Great Depression.

The single most crucial social problem was inflation. Like other countries, Germany had financed the war with debt expecting to conquer and to refinance debt with reparations (Holtfrerich 1986). After having lost the war, inflating state debt seemed to be the only viable solution. At first, this strategy appeared to be successful as it allowed for high employment (Feldman 1982); and compared to other countries that suffered from economic crisis in 1920/21 the German economy did well. Furthermore was inflation a tool to demonstrate that high reparations would ruin the German economy. While this has been proven wrong ex-post (e.g. Hantke and Spoerer (2010) have shown that demilitarisation saved almost an equivalent of reparation payments), for contemporaries it was impossible to understand that reparation payments would not seriously undermine recovery. Inflation, however, was difficult to control and rapid inflation (1922) and hyper-inflation in 1923 made things worse. And so did the French and Belgian occupation of the Ruhr and the Rhineland (Feldman 1993). The result of hyper-inflation was the expropriation of small savers and cash-owners, debtors gained and so did owner of capital assets (Holtfrerich 1986).

In 1924 currency reform, agreements on reparations, and the Dawes loans to Germany provided the means and institutional arrangements to finally conclude the after war adjustment period (Zieburg 1984; Ritschl 2002; Peukert 1992).

3.2. *Economic and political openness and the rule of law*

The Weimar Republic was a representative democracy guaranteeing¹⁰ comprehensive individual, political, social, religious, and economic freedom to its citizens, the freedom of speech, access to education and a free press. All men and women aged 20 and above could elect the *Reichstag*, the President and the states' parliaments.¹¹ The constitution impartially guaranteed the rule of law; legislation, justice, and executive power were clearly separated. The citizens could form any society, club, or party not in conflict with penal laws; all organisations were entitled to self-administration.

The liberal trade law continued to be in place, including the incorporation law. Any economic activity not in conflict with penal law was allowed. Property rights, freedom of contract, and freedom of trade were guaranteed and also the right to form unions. Article 165 stipulated worker participation and co-determination: workers and employers should cooperatively regulate wages and working conditions, and labour agreements should be enforced by law and protected by the state.

A *Reich economic council* of representatives of different trades (each represented by employers and unions) was to be consulted when the government wanted to present law drafts on social-political and economic issues to parliament. The council bring diverging economic perspectives into the political decision making process, but it not achieve an important role in practice. Industry associations and the National Association of Industrialists, but also labour unions were more important; both groups sought to influence politics by lobby activities and engagement in political parties. Representatives of industry and business were active in conservative, nationalist, liberal and centre-right political parties and, especially during the formative years of the republic, elect members of parliament.

¹⁰ English version of the constitution: http://www.zum.de/psm/weimar/weimar_vve.php.

¹¹ Female suffrage was introduced at the same time as in the USA, some years before Great Britain and 25 years before France.

Despite inflation and international disturbances, economic and political organisations interacted efficiently. From 1920 until 1929/30 they sustained and reinforced open access to both spheres. Yet, many party members did not support democracy and open access to politics because of ideological preference; they rather pragmatically considered democracy necessary for creating some kind of stability after the distortions of war, revolution, and hyper-inflation. Only the majority of the so-called Weimar coalition –the Social Democratic Party (SPD), the liberal German Democratic Party (DDP), and the centre-right Catholic Party (*Zentrum*)– defended the social and political compromise of the republic. Forced into cooperation with social democrats and unions, conservative and nationalist parties did not fully support the parliamentary system. In practice these reservations became unimportant after 1924 when conditions had improved and the economy seemed to grow. The centre-right German People’s Party (DVP), in which business elites were strongly represented, participated in almost all governments of “Weimar”. The party accepted democracy as the only viable form of government under given conditions and saw no alternative to compromising with social democrats and Catholics (Richter 2002).

These four parties, SPD, *Zentrum*, DDP, and DVP, successfully excluded the right-wing German National People’s Party (DNVP) from government, whose aim was returning to authoritarian government. The party was a melting pot for anti-democratic sentiments of different kind; to its members and voters Imperial Germany and the perceived wealth of the belle époque before WW I appeared favourable to any democracy. East-Elbian aristocratic agrarians supported the party financially; (former) army and marine officers played a crucial role, too. Yet, also intellectuals, professionals, farmers, workers, and industrialists were active party members. After serious losses in the national elections of 1928¹² DNVP

¹² Political support as expressed in national elections increased during the inflation from 15% in 1920 to 19.5% and 20.5% in 1924, then it steadily declined (14% in 1928, 7% in 1930) due to the rise of NSDAP and new regional and religious right-wing parties.

became radical anti-republican and cooperated with the Nazi-movement (National-Socialist German Workers Party) that aimed at a national dictatorship (Mergel 2003). Yet, democracy was also under threat from communists¹³ and other leftist organisations aiming at a social order following the Russian model.

The concept of rent-creating elite groups used in the LAO/OAO framework does not improve our understanding of the diverging political agendas of groups perceived as “elites”. DNVP members, for example, did neither belong to a specific social group nor did they share common economic interests; they agreed on the “national deprivation of Versailles” and rejection of the republic, which they perceived as substituting economic wealth for inflation and national and cultural pride for allied humiliation. In the context of “Weimar” conflicts of interests were negotiated within political parties rather than between them. Another field of debates were industrial associations, in which until the late 1920s, supporters of democracy and people regarding unions as legitimate political and economic organisations set the stage (Neebe 1981; Gehlen 2007; Plumpe 2013).

Between 1924 and 1929, the democratic institutions further consolidated; open political and economic access was not contested and those opposed to democratic legislation were successfully fenced off. Politics and economics tended to control each other. In this period of political and economic stabilization the elites and the majority of political parties had implicitly agreed on an OAO. The conflict not resolved was the conflict between the social classes of the employers and workers; yet even the unions accepted increased labour hours and rationalization as long as wages followed and co-determination was accepted (Kern 1978; Vahrenkamp 1983; Steinisch 1986; Burghardt 1990; Reckendrees 2000a: 260-268). The National Association of Industry on the other hand accepted the unions’ quest to participate in productivity gains (Neebe 1981; Gehlen 2007; Plumpe 2013).

¹³ Political support to these organisations as expressed in national elections declined from 1920 (20%) to 1928 (11%), with the Great Depression it increased again to 17% (1932).

3.3. Challenges for the social order and factors counteracting open access

(1.) Cooperation of labour and capital was the cornerstone of the political and economic compromise of the Weimar Republic. It had emerged from the need to create a social order allowing for a smooth transition from war production to peace. Already before the revolution, leading industrialists and union representatives had concluded on collective agreements; industry withdrew from support to “yellow unions” and conceded negotiated agreements of employer associations and unions (Feldman and Steinisch 1985; Steinisch 1986). The state should be able to declare labour agreements binding for the respective industry, but it thus became an indirect participant in the negotiations as statutory dispute resolution followed, when employers and unions would not compromise (Bähr 1989). This arrangement partly removed responsibility from the collective bargainers and induced irresponsible behaviour; the collective bargainers could formulate maximal positions instead of compromises as it were the state representatives who finally had to provide a suitable solution. Statutory dispute resolution thus allowed for perceiving the state either as a “union state” or as an “employers’ state”, creating a heavy burden for its legitimacy.

As long as productivity increase permitted wage increase the bargaining system worked to a certain extent. With a declining business cycle labour conflicts became more pronounced. In 1928 and 1929 with a government majority perceived “industry friendly”, the heavy industrial employer organisations, *Arbeit-Nordwest*, attacked statutory dispute resolution. It expelled 240,000 workers and rejected the arbitral verdict, while the unions accepted it. *Arbeit-Nordwest* perceived the political and economic situation suited for departing from compromise with unions and social democrats. The managing director of *Arbeit-Nordwest*, for example, argued ‘*the purpose is to strictly oppose an economic order that finally must lead to socialism, if not bolshevism*’ (Weisbrod 1978: 455).

Also the expansion of the welfare state put pressure on the government when financial resources melted down. Immediately after the war welfare was strongly expanded, most

importantly local medical care and youth protection. In 1927, mandatory unemployment insurance (the fourth cornerstone of the German welfare state supplementing accident insurance, old-age insurance, and health insurance) financed by equal contributions of employers and employees had been implemented (Führer 1990). It relatively increased union power (Steiger 1998) and supported the industrialists' perception the republic was on its road to socialism.

In 1929, government had lost its capacity to reconcile distributional conflicts between labour and capital. With a negative economic outlook industry bargained for an increased profit ratio, while labour unions accepted that there was no space for increasing the historically relatively high wages. Borchardt (1982a, 1982b) assumes that the increased wage ratio after the war constituted a profit-squeeze and an investment problem; others, like Holtfrerich (1984) and Voth (1995) argue the findings were not conclusive. What is sometimes overlooked, however, is that increased wages had been the “price” for labour accepting capitalist ownership after WW I. Yet, there is certain agreement that government was overburdened with conflict resolution and that “Weimar” had promised too much welfare hardly to maintain under difficult economic conditions. Without positive economic perspectives, nationalist and right-wing parties, anti-democrats in public administration and military fostered nationalist rhetoric and increasingly many industrialists denounced democracy as the culprit for the economic slump.

The consequence was a fight against the “power of unions” and parliamentary democracy; instead of opting for an alternative democratically legitimized government the solution was sought in limiting political access and in authoritarian solutions. The coalition joining for this purpose was not an elite coalition but rather a coalition of anti-democrats from all social groups, who commonly shared the backward oriented utopia of Imperial Germany and who believed that limited political access provided better conditions of living than open access.

(2.) Many Germans –and most political parties– did not accept demilitarisation and the territorial losses agreed on in Versailles. The new borders in Upper Silesia and East Prussia, and the military restrictions were strongly contested. The army engaged in secret programs in cooperation with arms manufacturers in order to maintain the German armament capability. It concluded secret agreements with the Soviet Union and supported German companies, like Fried. Krupp AG, to develop weapons in Dutch and Swedish subsidiaries run by straw men (Stöm-Billing 1970; Hansen 1978; Reusch 1980; Rosenfeld 1984; Tenfelde 2002; Reckendrees 2013a). Yet after 1926, when the government had sacked the commander of the army, General von Seeckt, it was under strict political control. The new leadership agreed to cooperate with parliament and government. While this did not mean that secret armament disappeared –it was now approved by the government–, government was now in full control over police and military.

The government violated the agreements of Versailles in different ways; its political aims shaped a situation in which politics created rents for single industrialists. The prominent case is the bailout of Friedrich Flick in 1932, when government took over his shares of *Gelsenkirchener Bergwerks AG* instead having him file for bankruptcy. The background of the bailout was internationally illegal support to German industry in Polish Upper Silesia. German politics wanted to support the “Germans” in Poland and keeping the situation open for future resolution (Krekeler 1973; Blanke 1990; Arnold 2000; Reckendrees 2013a). One of the instruments was subsidies to German owned industry, especially to Flick’s firms in Upper Silesia, expecting that they would maintain jobs for Germans. He partly did so, but more importantly he used the government’s illegal involvement to extract further subsidies and to enforce the government bailout in 1932 (Reckendrees and Priemel 2006; Reckendrees 2013a).

Flick and illegal international German activity was an exception from the rule; it indicates that rent-creation was possible if tolerated by the government for international rea-

sons. Other cases that might be interpreted as rent-creation are less easy to find; subsidies to landowners in the East provinces, the so-call “*Osthilfe*” (Gömmel 1996) could fall under this rubric. What also comes to mind are the millions of subsidies paid to heavy industry and shipbuilding in the mid 1920s facilitating restructuring and reorganisation of production (Reckendrees 2000a: 247-48; 478-80) and industrial mergers supported by tax reliefs (Reckendrees 2000b). Yet, those subsidies were subject to parliamentary control and debate, and they were agreed on with other social groups.

(3.) The LAO/OAO framework has a single-state perspective; economics and politics are discussed on a national level. This might be sufficient for the mid and late 19th century, but probably not for the interwar years or the area of the cold-war. From the very beginning of the Weimar Republic, much contested international politics and economics were restricting the national possibilities. Here is not the space to discuss details of the war settlements, but problems were often only postponed (peace agreement, reparation payments, the new borders). The world economy was suffering from a serious slump, and the reconstruction of industry –especially in Europe– created overcapacities in many sectors. International trade collapsed, national and international cartels, tariffs and other barriers to trade were sought to be solutions to the problem (James 1986; Temin 1989). While Germany reasonably suffered more than other countries, due to reparations or railways and central bank under foreign control, the Dawes plan in 1924 mitigated some of the financial problems. However, the return to the gold standard did not allow for independent monetary policy. Economic conditions worsened from 1928 onward, and soon the Great Depression, further contributed to systemic weakness. The states returned to nationalist trade policy and beggar-thy-neighbour strategies reinforcing anti-democratic sentiments instead of economic and political openness (Temin 1989; Eichengreen and Temin 2000).

Without considering the interactions between national and international dimensions of economics and politics a convincing history of the failure of “Weimar” cannot be told.

During the Great Depression the existing political institutions did no longer allow for integrating the diverging interest groups. Unemployment and social deprivation resulted in street politics and in political radicalisation on the right and on the left. Soon the republic was governed by Presidential emergency decrees. In January 1933, leading politicians and business elites asked Hitler to form a new government; shortly later it was approved by the majority of the parliament. Parliamentary democracy had decided to resign.

4. Implications of Weimar's failure for the LAO-OAO framework

Weimar did not collapse because of lack of open political and economic access or because the rule of law was not enforced. After a contested start government and parliament were controlling the organisations with violence capacities. It might be argued that after 1925 an OAO had emerged. Yet, the dynamic interactions between economics and politics reinforced openness only for a short period. Open political access still translated into support for open economic access (though it was declining during the Great Depression), but after 1929 open economic access no longer translated into support for open political access. How this can be explained.

During the November revolution, social democrats and unions had been able to influence government politics; unions together with employers' organisations determined industrial relations. The economic and the political elites had not been expropriated by the "revolution", yet they were forced to compromise with the unions and within the parliament. This was widely accepted as the only viable solution to avoid a social revolution following the Russian model. Politics supported open economic access, and –compensating for private appropriation of profits– it expected business to contribute to the expansion of welfare. However, after the war, neither the political nor the economic conditions were favourable for such a project, and there is reason to assume that "Weimar" had promised too much it couldn't fulfil. However, this is not why the system collapsed. The major rea-

son seems to be that under the increasingly difficult economic conditions of the late 1920s the old elites concluded that the mature LAO of Imperial Germany had provided more material wellbeing and social order, whereas open political access would limit private accumulation of wealth and create social disorder.

It was mainly right-wing political parties and industrialists fighting both the unions and Social democracy that made integrating society increasingly difficult. Indeed, the republic was also under attack from the left striving for a Soviet Germany, but this movement became stronger when the “democratic coalition” could no longer agree on how to cope with the Great Depression; the problem has been described by Bracher (1971), who argued “Weimar” had been a democracy without democrats. It might be too pessimistic to argue that given the mechanism of the Gold Standard, sticky wages, and unresolved repatriation issues, there was no realistic alternative (Borchardt 1982a, 1982b), but under these conditions, open access had probably almost no chance in Germany.

The arguments presented lead to the conclusion that “Weimar” was an open access order that failed. Interpreting “Weimar” in this perspective opens up for a more comprehensive discussion of the conditions of sustainable open political and economic access. The first criteria of OAO (1. unrestricted entry to economic, political, religious, and educational activities and the possibility to pressure for political change; 2. rule of law for all citizens and legally determined rent and profit allocation; 3. organised violence under consolidated government control with control of military and police subject to political competition) are necessary but not sufficient as political or economic organisations might be capable misusing the possibilities of OAO. The electorate is able to decide on limiting access. Whether a majority of voters, and of different elite groups, would want to return to a LAO is as dependent on the same criteria as the transition from limited to open access: it is preferable and profitable to the dominant elite coalition (or the majority of the electorate). Only if the

institutions and the dynamic interactions between economic and political organisations are sustaining openness, an OAO is continuously reinforced.

But why should dominant elite coalitions or the majority of voters insist on open political and economic access, if the expected benefits from a mature LAO are larger than the present benefits from an OAO? In “Weimar”, both the transition from limited to open access and the backlash to limited access in the early 1930s have been the preferred choice: after WW I open access seemed to be a viable solution, social revolution being the alternative; in the early 1930s an authoritarian regime was perceived generating favourable economic conditions abolishing unions and socialist ideas. Gerald Feldman (1977) has famously concluded ‘they got more than they bargained for’, but the expectations had been different. What makes an OAO sustainable and dynamically self-reinforced? If the proposed interpretation holds, “Weimar” indicates interactions between economic and political organisations not necessarily sustain openness, and open access is a fragile equilibrium depending on strong formal and informal institutions. (1.) Institutional “protection” needs to be strong, and to complement the LAO/OAO framework by a theory of the state or political governance would be very useful project; (2.) informal institutions, especially a ‘widely held set of beliefs about the inclusion of and equality for all citizens’ (NWW: 114), seems to be equally important.

“Weimar” also indicates that international political and economic conditions may be more or less favourable for open access,¹⁴ a conclusion that might be relevant for assessing today’s potential transitions from limited to open access orders.

¹⁴ A closer inspection of the American history might reveal that transition to open access was eased by favourable (international) conditions; for example, the possibility of moving the “Western Frontier” giving access to abundance of land in the USA and promising social upward mobility.

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