

Weimar Germany: The first open access order that failed?

Alfred Reckendrees

MPIfG Journal Article

Alfred Reckendrees: Weimar Germany: The First Open Access Order That Failed? In: Constitutional Political Economy 26(1), 38-60 (2015). Springer

The original publication is available at the publisher's web site: <http://dx.doi.org/10.1007/s10602-014-9184-9>

The MPIfG Journal Articles series features articles by MPIfG researchers and visiting scholars published in peer-reviewed journals. Max Planck Institute for the Study of Societies (MPIfG) Cologne | www.mpifg.de

Published online: 21 December 2014

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Abstract The Weimar Republic is analysed within the concept of limited and open access orders. Before World War I, Imperial Germany had developed into a mature limited access order with rule of law and open economic access but lack of competition in politics. After World War I and inflation, Weimar Germany developed toward an open access order; open access was not, however, sustainable and collapsed in 1930–31. This case of a failed open access order suggests refining the framework of limited and open access orders in further work. It shows that the political process of “creative destruction” might result in dissolution of open access and that the political system needs the capacity of efficiently creating legitimacy in order to sustain openness. The failure of Weimar Germany also indicates that the international political system might work as a destabilizing factor of open access and that the nation-state perspective of the limited and open access order framework needs to be supplemented by an international perspective.

Keywords Limited and open access · International political economy · Weimar Republic · Sustainability of open access

JEL Classification N4 · O19 · P1

1 Introduction

The conceptual framework of limited access orders (LAO) and open access orders (OAO) developed by Douglass C. North, John Wallis, and Barry Weingast (NWW

A. Reckendrees (✉)

Department of Management, Politics, and Philosophy, Center for Business History, Copenhagen Business School, Porcelænshavn 18A, 2000 Frederiksberg, Denmark
e-mail: are.mpp@cbs.dk

A. Reckendrees

Max Planck Institute for the Study of Societies, Paulstraße 3, 50676 Köln, Germany

2006, 2009) and applied to the developing world by North, Wallis, Webb, and Weingast (NWW 2007, 2013) is a powerful device for development politics and for political-economic analysis. The aim of the framework is to provide an explanation of why some societies in North America, Northwest Europe, Australia, and Japan developed into economically growing OAO, whereas many other societies still exclude significant parts of society from economic and political entry and have not seen a similar rise in freedom and prosperity. According to NWW, OAOs created efficient institutions allowing for “creative destruction” as well as political and economic competition to cope with economic and political challenges. In this framework “open entry and access to sophisticated economic organizations” are construed as “prerequisites for creative destruction and a dynamic economy” (2009, 23).

The authors characterize an OAO by four necessary conditions: (1) a state monopoly “on the legitimate use of violence” with a consolidated military and police controlled by the political system, with institutions and incentives limiting “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 organizations without state approval “independent of the lives of their members”; (3) rule of law applying to all citizens and organizations, impartially enforced by the government and the agencies it empowers and thus allocation of rents and profits subject to legal control; and (4) dynamic interaction between the economic and the political system (“double balance”) 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” (NWW 2009, 22–24).

Violence and social orders provides a detailed account of the transition from LAO to OAO of the three major economies of the USA, the UK, and France in the nineteenth century (NWW 2009, 213–239). According to this view, Germany did not complete its transition until the 1950s. Imperial Germany (1871–1918) and the Weimar Republic (1919–1933) are accordingly both seen as mature LAO that did not make the transition to an OAO. In the case of Imperial Germany, this judgment is substantiated; the Weimar Republic, however, was a parliamentary democracy with political competition, open economic access, and public debate. Reviews of *Violence and Social Orders* have stressed that the concepts of limited and open access need to be empirically tested and further developed in order to “turn into useful and reliable tools in applied research” (Stefancic 2011, 396) and that “the evolution of state and institutions is highly context-specific” (Khan 2013, 140). The Weimar Republic seems to be a good test case for the usefulness and limitations of the LAO/OAO framework.

Founded in 1919 after a revolution and 4 years of devastating war, “Weimar Germany” was—like most of the new democracies of the time—a short-lived democracy. Its dissolution began in 1930, when the governing political coalition was confronted with a deteriorating economy and could no longer agree on budgets and gave way to “constitutional dictatorship” (Skach 2009). Enabled by the constitution, the president and the chancellor governed by emergency decree until the president and the majority of the parliament ceded power to the Nazi party in 1933. This collapse of parliamentary democracy in mind and the most devastating decade of recorded human history that followed, any historical account of Weimar

Germany is at risk of creating a narrative with “failure” as the point of departure. The first German democracy has often been deemed to have failed due to severe constitutional deficiencies, namely political fragmentation, plebiscitary elements, and presidential prerogatives.¹ This article takes a different view. It argues that during the space of a few years, 1924–30, the Weimar Republic qualified as an OAO. Under the conditions of the Great Depression, however, strong interest groups and, finally, the electorate opted for authoritarian politics.

One might counter that once established, an open access order not only should survive under favorable economic conditions but that the self-reinforcing mechanism of the “double balance” should allow weathering of economic crises and international tensions without relapse to authoritarianism. Recently, NWW affirmed that “so far in history none of the transitions to OAO has been reversed” (2013, 19). Though the framework is not ignorant of the theoretical possibility of regression, it is concerned with necessary conditions of OAO and it does not ask for sufficiency conditions for sustaining open access in economics and in politics. In the face of increasing attractiveness of right-wing politics all over Europe² and in face of the European “policy-trilemma” (Dani Rodrick), the observation that historically no OAO has failed seems overoptimistic. Looking more closely at the Weimar Republic, it may well be wrong.

In the LAO/OAO framework, the transition from limited to open access is analyzed in detail, but the sustainability criteria of open access are difficult to identify. The continuous reinforcement of openness (“double balance”), however, cannot be expected to work automatically; it rather seems as if this process would depend on specific politics, shared values, and ethics. Based on a discussion of open access in the Weimar Republic, this article suggests refining the framework by considering the possibility that (1) the political process of “creative destruction” might result in dissolution of OAO and (2) the international political system might work as a destabilizing factor of OAO. One of the originators of the concept, John Wallis, suggests complementing the LAO/OAO framework with a theory of the state because the coordinative capacities of states rather than their coercive power help in reproducing openness.³ This would indirectly address the first point. I do not claim to provide a respective theory; the case of the Weimar Republic merely offers an opportunity for thinking about refinements of the LAO/OAO framework.

Section 2 that follows briefly characterizes Imperial Germany (1871–1918) as a mature LAO in which open access to organizations in the economy did not translate into support for open political access. By 1890, the empire was, but for politics, an open society. Section 3 analyses the Weimar Republic within the LAO/OAO framework. It is argued that Weimar Germany added democratic politics to open access in the economy and that it was an OAO from 1924–30. Why open access was not sustainable and why Germany regressed to limited access (1931–33) is discussed in Sect. 4. The final section presents conclusions from an empirical

¹ The founders of the “Basic Law” of the Federal Republic of Germany (*Grundgesetz*) heavily debated “Weimar” and their conclusions were incorporated into the “Basic Law” (Stolleis 2013, 115–154).

² In France, one of the first OAOs in history, the ‘Front National’ received 25 % in the European elections of 2014.

³ Unpublished keynote lecture to the EHES, ‘Leviathan Denied: Coordination, Coercion, Rules, and the Nature of Government’ London, 6.9.2013; see also Wallis and North (2011).

examination of the Weimar Republic and their implications for the LAO/OAO framework.

2 Imperial Germany: Open economic and limited political access

Before World War I, Imperial Germany (1871–1918) fulfilled the “doorstep conditions” of the LAO/OAO framework (see also Grimmer-Solem 2015). Use of violence was government-monopolized and the comparatively liberal constitution (Congleton 2011, 473–480) guaranteed the rule of law to all citizen. The legislative, executive, and judicial branches were strictly separated, and considerable civil rights and political liberties were granted. Procedures for legislation were publicly transparent and legislation was increasingly based on parliamentary processes. Open entry to economic organization and “creative destruction” shaped the economy, but politics was not yet fully subject to competition.

2.1 Open economic access

Freedom of economic association and freedom of trade preceded Imperial Germany by a decade. In 1861, the states of the German Confederation agreed to eliminate extant restrictions on conducting business. The Common Trade Law (*Allgemeines Deutsches Handelsgesetzbuch*) enabled all men and women to start any business irrespectively of status, race, or religion. They could establish companies by simple registration without requiring any permission if at least one partner was subject to unlimited liability. In most states, however, joint-stock companies (JSC) required royal or parliamentary permission.⁴ This restriction was motivated by the perceived need to protect small business and by the experience of fraudulent stock market speculation in France and Belgium (Pahlow 2007). The incorporation law of 1870 removed this restriction by introducing simple registration; still, the required minimum value of 1,000 marks for a single share limited the number of possible owners. In 1892, the new institution of limited liability companies (*GmbH*) completed corporate law; thousands of companies that did not want to trade their shares on the stock market used this new legal form in the years that followed.⁵ German corporate law was now as liberal as the British, French, and American (Harris 2000; Johnson 2010; Freeman et al. 2012; Guinnane et al. 2007). Incorporations were not dependent on political connections and became “perpetually lived organizations” (NWWW 2013, 19).

With late nation-building and delayed industrialization in large parts of Germany, economic development was shaped by institutions and organizations that were less important in the UK and the USA and that are sometimes perceived as indicating limited access. This regards universal banking and interlocking directorates of industrial JSCs, as well as universal banks and cartel agreements enforceable by

⁴ Some US states still had similar incorporation requirements in the twentieth century (Fischer 1955).

⁵ Fränkel (1915) reports that the trade of these shares was managed via bank deposits. The GmbH is still the most common form of incorporation in Germany.

law. Both particularities of the German variety of capitalism should be explained historically, but it should be noted that they also existed in OAOs: Interlocking directorates were an early twentieth century phenomenon in the USA, too (Windolf 2006), and cartels—with the exception of the USA—were accepted everywhere.

The institution of universal banking and interlocking directorates corresponded directly to the specific structure of industry and trade in Germany (Tilly 1982, 1993, 1998; Reckendrees 2013b). With liberal incorporation introduced in 1870, thousands of new stock companies emerged, many of which collapsed in the economic crisis of 1873. Stock markets, notably in Germany, were strongly discouraged (Kindleberger 1990; Fear and Kobrak 2010). In this particular situation, newly-founded commercial banks substituted for eager investors and developed into universal banks; they were the only organizations that could mobilize the funds needed for the massive expansion of industrial plants of the late nineteenth century (Tilly 1986, 1993). In the earlier periods of German industrial capitalism (before 1870), JSCs were not as important as in the USA or the UK. First, due to the restrictions that most states had placed on JSCs only a few industries, particularly transportation, could easily use this institution.⁶ Second, the entrepreneurs in the first half of the nineteenth century had a strong desire for control and independence; using retained earnings and bank loans to expand did not substantially limit firm growth (Reckendrees 2012). Considering that economic growth in Imperial Germany was the highest in the world, incorporation law does not seem to have been a “binding institutional constraint” (Dani Rodrik).

Like all banks, universal banks requested collateral for credits and, aware of asymmetrical information, they wanted to monitor their debtors closely and thus required seats on the supervisory boards.⁷ Hilferding (1910) used the term “finance capitalism” to stress the resulting influence of banks, yet historical research indicates that universal banks did not govern industry, but rather capital accumulation depended on symbiotic bank-industry relations (Wellhöner 1989; Fohlin 1999, 2002, 2007; Franks et al. 2006). It could be debated whether credit-based industrial finance and interlocking directorates were less efficient than capital markets, it does not indicate rent-creation per se.

Legal enforcement of cartel agreements was based on German law tradition with its strong emphasis on freedom of contracting. From this perspective, liberal cartel law did not limit open access—quite the contrary: economic agents would decide freely whether or not to join a cartel and no one was harmed by a cartel because contracts were obligatory only for cartel members. Abolishing cartel agreements, however, was classified as a violation of liberal contracting. In the LAO/OAO perspective, though, legal cartel enforcement indicates rent-creation in that it might have extracted final consumers.⁸ Whether this has in fact been the case historically is debated (Webb 1980, 1982). Nevertheless, France and UK (as OAOs) also

⁶ A larger number of JSC was set up for iron and steel works and coal mines in the 1850s to attract foreign capital to new industries (Reckendrees 2013b).

⁷ German JSCs still have a two-tier board with the board (*Vorstand*) running the company’s daily business and the supervisory board (*Aufsichtsrat*) controlling the board and making lasting decisions.

⁸ So did the import tariffs of all major economies (except the British) at the end of the 19th century, with the highest extraction rate in the USA (O’Rourke 2000, 461).

abstained from abolishing cartels. Though the German high-court decision of 1897 made cartel contracts legally enforceable, the German approach did not differ in any meaningful legal way that would qualify it as a limited access order on these grounds (Mercer 1995; Gerber 2001).⁹

2.2 Limited access in politics

Imperial Germany was a federal state of 26 member states, mainly duchies and kingdoms, governed by a hereditary monarch, the Kaiser. Still, the monarchy was limited by constitution. Thomas Nipperdey concludes the Empire “was no longer absolutist or semi-absolutist. It was constitutional.” (1992, 99) The constitution legitimated the power of the monarch with competences assigned to the Federal Council (the *Bundesrat*, under the fixed presidency of the Kaiser) and the Federal Diet (*Reichstag*). The Federal Council represented the federal states; the *Reichstag* was directly elected by all male citizens aged 21 and above.

Each of the federal states had its own constitution, system of political representation, administration, and considerable sovereignty over taxation, economic policy, policing and justice, education, and culture. Prussia was by far the largest in terms of size and population, and it occupied a veto position in the Federal Council. Furthermore, the King of Prussia was the Kaiser in personal union; and many foreign diplomats represented both Prussia and the Empire. The Empire’s own administration was small; it had no authority to tax income and only a small budget mainly from customs and indirect taxes. Its prerogatives were foreign policy, tariffs, and war. The Kaiser was supreme commander of the army that was federally structured into the four armies of Prussia, Bavaria, Saxony, and Württemberg.¹⁰ Federalism resulted in institutional competition on economic policy and taxation (Spoerer 2004). Yet few states, mainly the city republics Hamburg, Bremen and Lübeck, were open to political competition. The Kingdom of Prussia exemplifies this limited political access. Despite having essentially universal suffrage, Prussia was beyond democratic control. The constitution did not limit the right to vote, but representation depended on tax payments: the wealthiest people who paid the top third of direct taxes elected one-third of the seats in parliament, those who paid the second third of direct taxes elected the next third of the seats and the large majority of the male population elected the last third of the seats (Congleton 2011, 468).

At the federal level, all male citizens aged 25 and older directly elected their Reichstag deputies by secret ballot. From 1879 until 1890, the anti-Socialists Laws (*Sozialistengesetze*) that declared the Social Democratic Party, its sub-organizations, and its press illegal, restricted political organization, yet party members were allowed to run for parliament. After the lapse of the anti-Socialists Laws (1890), the *Reichstag* was possibly the most representative European parliament. It is often perceived as powerless because it could not formulate laws, however, without its approval there was no legislation. The *Reichstag* not only approved, it discussed any

⁹ In terms of modern competition law the open access system of the UK was a real latecomer that met the EU or American standards only at the end of the twentieth century (Scott 2009).

¹⁰ For the Bavarian army, the Kaiser was supreme commander only during war (Nipperdey 1992, 202).

legislation in detail; it decided on the annual federal budget, and it could initiate inquiries and interpellations (Nipperdey 1992, 103–105). The *Reichstag* could not, however, form a government. The chancellor and the ministries were appointed and dismissed by the Kaiser; the chancellor led the government and was responsible only to the monarch. The Kaiser, via the chancellor's signature, executed all laws. Still, the chancellor needed parliamentary support for legislation, and Bismarck's ability to form majority-coalitions in the *Reichstag* was one reason for his long and successful tenure. "The system was based on co-operation [...] Self-government of the monarch or chancellor dictatorship were only extreme options" (Nipperdey 1992, 100–102).¹¹

With the death of Wilhelm I (1888), and Bismarck's resignation (1890), constitutional bargaining in parliament intensified and a number of policy reforms were adopted due to coalitions of progressive voices pressing for reforms. The chancellor became more and more dependent on parliamentary cooperation. Over time, not even the Social Democratic Party, which in the elections of 1912 became the largest party, was excluded from negotiations (Congleton 2011, 478–479). In the late nineteenth and early twentieth century, many states expanded suffrage and reduced the rights of nobles (Blackbourn 1998); democratic participation became more widespread especially on the local level.

All German states and the Empire guaranteed to their entire population impersonality and equality before the law. Imperial Germany was a *Rechtsstaat*, meaning that any government activity (including the King's) required legal foundation. Justice was fully independent from the government; the Federal Court administered the law not in the name of the Kaiser, but in the name of the Empire (Nipperdey 1992, 189). Legal harmonization of the member states was concluded with the new Civil Law of 1900.

In many ways, political access in Imperial Germany was similar to that in OAOs. At the end of the nineteenth century, franchise requirements in the United Kingdom, for example, still excluded 40 % of adult male citizens from voting (Blewett 1965); in fact, only wealthy people could run for the House of Commons.¹² And just as in Germany, the parliament could not act on its own since decisions of the Commons required approval by the House of Lords, the representatives of the landed aristocracy.¹³ Yet as UK parliamentary reform became a public issue in the mid-nineteenth century, the dynamics of constitutional bargaining pushed toward parliamentary democracy: suffrage was continuously expanded and the constitutional reform of 1911 removed the veto power of the House of Lords so that it could only block legislation temporarily (Congleton 2011, 356–358).

¹¹ Abrams' (1995, 10) argues 'the German Empire was, in theory a constitutional monarchy, yet in practice it was governed by a Prussian oligarchy'; statements like this are misleading; parliament could block government and its debates have been influential. See e.g. Henning and Tennstedt (1990–2006).

¹² A £500 security was returned under the condition that the candidate received 5 % of the votes (Cook 2005, 68).

¹³ Access was more open in the USA, yet some states by several means discriminated based on race or income (Keyssar 2000).

2.3 A mature LAO at the doorstep

Ferguson (1999) surely exaggerated when he argued Imperial Germany was “more democratic” than the UK. Culturally, though, it might have been more liberal. Its institutional arrangements supported civic organizations engaging in art, literature, and sciences resulting in a vibrant and liberal cultural life (Gall 1991; Kocka 1989; Herbert 2014). Moreover, research on the German bourgeoisie has shown that aristocratic norms were more pronounced in France and the UK than in Germany (Blackbourn and Eley 1984; Kocka 1986; Peukert 1992; Raphael 2011). Since then, the thesis of a German *Sonderweg* that constructs continuity from nineteenth century Germany to the Nazi-regime has been rejected. Even its defenders no longer dispute the dominance of a comparatively liberal civil society—according to the standards of the time—in late nineteenth century Germany (Kocka 1988; Hamerow 1983; Smith 2008). Liberal civil society did not, however, include the working classes and the rural population, which usually lacked the means for access to higher education, a necessary precondition to achieve positions in, for example, justice or high public administration. Yet these people could establish their own economic, political, educational, cultural and religious organizations. The strong German labor movement and Social Democratic Party indicate that at least some access in politics did exist (Nolan 1986).

By about 1890, Imperial Germany surpassed the doorstep conditions to openness. What according to NWW should apply to the elites and organizations of the elites (2009, 150–154), applied to all German citizens: (1) rule of law impartially was guaranteed and enforced by efficient independent justice; the executive was able to enforce legal decisions and subject to very low levels of corruption; (2) perpetually-lived organizations shaped the economy and public and private spheres; (3.) violence capacities were fully controlled by the government. Yet, Imperial Germany did not become an OAO as government was not subject to civil control and political competition. At the same time, the rapidly growing German economy was quickly catching up with the British economy; Grimmer-Solem (2015) correctly points out that this resulted in “third-way” thinking that legitimated elitist decision-making and limited political access. To the elites, the “German way” giving discretion to administration over parliamentary political competition seemed to be superior in terms of welfare, industrial efficiency, and humanitarian values (Lepsius 1978). Though the “input-legitimacy” of Imperial Germany (and particularly the Prussian) was called into question, its “output-legitimacy” (Fritz Scharpf) was very high: steadily improving real wages, high economic growth and growing upward social mobility. The first signs of growing political openness in Germany were ultimately “snuffed out under conditions of total war between 1914 and 1918” (Grimmer-Solem 2015).

3 Weimar: An open access order?

The Great War and its aftermath created serious political and economic displacements throughout Europe; in many European states the political system

changed and new democracies emerged. In Germany, the war had created a pronounced militarization of society (Chickering 1998; Münkeler 2013) and transformed the economy into a controlled war-economy. That said, wartime economic policy required concessions to organized labor and the newly established workers and employee councils foreshadowed co-determination (Feldman 1977; Feldman and Steinisch 1985), and; already in late 1916 some sort of democratic transition seemed inevitable after the war. The conditions of transition to OAO were difficult: disintegration of the world economy undermined economic stability (Findlay and O'Rourke 2007, Chap. 8); war settlements and financing the war put strong pressure on the German economy and made a transition to a more market-drive economic order more difficult in the near term (Temin 1989, Chap. 1; Feldman 1993); and the path of democratization was contested in its early years.

3.1 Contested formation of the Republic

The Weimar Republic did not by any means limit access to economic and political organization; unlike Imperial Germany, it stimulated political competition by opening the presidency and chancellorships to competitive elections. However, the government's legitimacy and coordination capacity were limited. In the early years, government was still unable to control violent right-wing organizations (1919–21); yet from 1923 onwards, it had consolidated control over violence organizations. In the early 1930s, maintaining public order became a challenge once again due to militant political organizations bolstered by the world economic crisis and the inability of Weimar governments to respond effectively to mass unemployment.¹⁴

In November 1918, Germany lost the war and the Kaiser abdicated. For a short period the revolutionary movement of workers and soldiers councils, the Social Democratic Party, and the leftist Independent Social Democratic Party took over (Wehler 2003, 194–195). But already at that time there emerged a democratic compromise in the form of the “Stinnes-Legien” agreement between leading employers and chairmen of the trade unions on collective labor agreements, an 8-h workday, and co-determination on the shop floor (Feldman and Steinisch 1985). Such ideas were attractive to many who were concerned about home, food, and conditions in the workplace, and they were seen as a way to forestall nationalization. The elections of January 1919 turned out a majority for the democratic camp of the so-called Weimar coalition that aimed at parliamentary democracy, which consisted of the Social Democratic Party (*SPD*), the liberal Democratic Party (*DDP*), and the Catholic Party (*Zentrum*).

Parliamentary democracy was contested, however, by leftist organizations, demanding a worker democracy and socialization of the means of production, as well as by right-wing paramilitary groups (*Freikorps*). Militant violence and organized murder had mainly right-wing origins. The *Freikorps*—led by officers who opposed demilitarization and did not want to be controlled by parliament—

¹⁴ Yet, war-like fights between organizations with violence capacity and police were not a German phenomenon; homicides slightly increased (to 1.2 per 100,000). The average US-rate of casualties was ten times higher; during prohibition, 170 policemen on average were killed each year (Statistical Yearbook, passim; Roth 2011, 226–253).

blamed the democratic government for compromising with the Allies in signing an armistice. In 1919, they gained influence because the government could not rely on an efficient police and army and made use of these paramilitary organizations against the radical anti-parliamentarian left (Spartacus revolt).¹⁵ Today, most historians agree that cooperation with radical rightist anti-democrats in order to defend democracy was a grave mistake and effectively de-legitimized democratic government (Winkler 1984). This was demonstrated shortly thereafter by an attempted right wing coup d'état in February 1920 (*Kapp-Putsch*). Indeed, the new Weimar government was not even in full control of its own army: the supreme command decided to stay neutral. However, unions and many industrialists declared support for the republic and called a general strike. Within a few days, the revolt collapsed. In turn, it induced a new militant rebellion from the left in the heavy industrial Ruhr region, who saw an opportunity for pushing for workers' democracy and socialization. This revolt was suppressed by massive army involvement in cooperation with *Freikorps* (Lukas 1974). In overcoming this conflict, the government had consolidated its coercive power. Political conflict was no longer a threat to the existing republican order, except from few right-wing terror attacks.

Many Germans—and most political parties—did not accept demilitarization and the territorial losses imposed by the Versailles Treaty. The new borders in Upper Silesia and East Prussia were strongly contested. And the army, in cooperation with arms manufacturers, engaged in secret programs to maintain German armament capability in violation of the treaty. Without fully informing the government, the army concluded secret agreements with the Soviet Union and supported German companies developing weapons in Dutch and Swedish subsidiaries that were run by straw men (Stöm-Billing 1970; Hansen 1978; Reusch 1980; Rosenfeld 1984; Tenfelde 2002). By 1924, parliament no longer accepted such practices, and the government finally sacked the army's supreme commander, General von Seeckt in 1926. Secret armament did not disappear (it was now managed together with the government), but government finally had full control over the army.

Control of violence was one problem of the young republic. Economic and social problems were another. Hunger and unemployment were major issues after the war; hundreds of thousands of returning soldiers needed jobs, and industry had to convert war production to civilian needs. The single most important issue, though, was financing war debt. Like other countries, Imperial Germany had expected to triumph and to refinance the costs of war through foreign reparations. After having lost the war, the only viable solution seemed to be inflating the state debt. At first this strategy seemed to be successful, as it allowed for high employment. And compared to other countries that experienced a heavy economic crisis, the German economy did well in 1920–21 (Holtfrerich 1986; Feldman 1982). Inflation also seemed to be a tool to demonstrate that high reparations would ruin the German economy; nevertheless it was difficult to control, and rapid inflation and hyperinflation in 1923 made things worse. Whereas debtors and owners of capital assets gained by

¹⁵ Cooperation between the government and the radical right even spurred leftist rebellions on the Ruhr, in Bremen, Hamburg, Bavaria, and Saxony that resulted in thousands of casualties.

inflation, hyperinflation hit the middle classes (Holtfrerich 1986)—those who are expected to support an OAO.

Despite the lingering resentments from the loss of the war, inflation and the Versailles settlement, election results between 1924 and 1930 indicate that most people supported the new republic. While they were unable to repeat their electoral success of 1919, between 1920 until 1930, the Weimar coalition parties received from 43 to 50 % of the vote. The Social Democrats lost voters to the Communists,¹⁶ while Catholics and Liberals lost votes to the centre-right German People's Party (*DVP*), in which business elites were strongly represented. Yet, the *DVP*, under Stresemann's leadership, accepted democracy under existing conditions as the only viable form of government and saw no alternative to compromising with Social Democrats and Catholics (Richter 2002). With the exception of 192-/21, it was a member of government-coalition until 1931. The nationalist right and the fascists, however, who were rather irrelevant in 1919 (10 %) increased to 15 % in 1920 and achieved about 25 % in the elections of 1924, thereafter their influence declined. It was only during the Great Depression that their fortunes turned. From 1924 until 1930 Germany was an OAO.

The year 1924—after the end of inflation, with currency reform, agreements on reparations, and the Dawes Plan loans to Germany—was a watershed in the brief history of Weimar Germany, as these settlements provided the institutional arrangements and, most of all, the means to conclude the period of post-war adjustment and thus secure economic and political stability (Zieburá 1984; Peukert 1992; Ritschl 2002).

3.2 Political openness and rule of law

The Weimar Republic was a representative democracy guaranteeing comprehensive individual, political, social, religious, and economic freedom to its citizens, and a free press. All men and women aged 20 and above could elect deputies to the *Reichstag* and the President. The constitution impartially guaranteed the rule of law; legislative, judiciary, and executive powers were clearly separated. The citizens could form any society, club, or party not in conflict with penal laws; all organizations were entitled to self-administration.¹⁷

The constitution was a compromise guaranteeing open political and economic access as well as political competition. These ideas were shared among the leaders of the parties from the left to the centre-right. But only the parties of the Weimar coalition (see above) fully defended the political compromise of the republic. The centre-right German People's Party (*DVP*) did not fully support the parliamentary system before 1923; it rather pragmatically considered democracy a necessary means for creating stability after the distortions of war and revolution. These reservations became irrelevant after the inflation, when the economy slowly started growing and Gustav Stresemann, chancellor and foreign minister of several

¹⁶ Still, political support to these organizations as expressed in national elections declined from 1920 (20 %) to 1928 (11 %); with the Great Depression it increased again to 17 % (1932).

¹⁷ For an English version of the constitution, see: http://www.zum.de/psm/weimar/weimar_vve.php.

government coalitions, succeeded in nudging the party into becoming democrats by reason (“Vernunftrepublikaner”) (Wright 2002).

Yet, the extreme wings of some parties rejected democratic ideas and so did parts of Germany’s social elite (large landowners, conservative and nationalist politicians, and industrialists), parts of the military, and parts of the state bureaucracy. These ideological positions were relatively independent of social structure and economic interests. Business people, for example, were active in all political organizations across the political spectrum with the exception of the left. The strongest opposition came from the right-wing German National People’s Party (*DNVP*), a melting pot for anti-democratic sentiments of different kinds. To its members and voters, Imperial Germany and the perceived wealth of the belle époque before the war appeared preferable to democracy, which to their mind had agreed to the Versailles settlement, and unleashed hyperinflation. However, the governing coalitions of *SPD*, *Zentrum*, *DDP*, and *DVP* (in different combinations) successfully excluded the right-wing from government until 1932.¹⁸ Even then, a rightward shift was brought about not by election—the Nazis and *DNVP* only achieved 41.4 % in November 1932 Reichstag elections—but by Hindenburg’s presidential prerogative to appoint governments in the absence of a parliamentary majority.

3.3 Economic openness

The Weimar Republic guaranteed open entry to economic organizations; the revolution did not alter the open-access economic freedoms secured in Imperial Germany. Any economic activity not in conflict with penal law was allowed. Property rights, freedom of contracting, and freedom of trade were guaranteed, and so was the right to form unions. Article 165 stipulated worker participation and co-determination: workers and employers were obliged to cooperatively regulate wages and working conditions, and labor agreements could be enforced by law and were protected by the state.

A formal concession to the revolutionary worker councils was the Preliminary Federal Economic Council (*Reichswirtschaftsrat*) representing the employers and unions of different trades; it should be consulted by the government to reflect all possible perspectives before suggesting to parliament legislation on socio-economic issues; in practice, it did not attain this position. More important were industry associations and labor unions. Both groups sought to influence politics by lobbying and activity 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, Member of Parliament.

Despite inflation and international disturbances, such as the occupation of the Ruhr in 1923 (Feldman 1993), economic and political organizations maintained open access. In fact, the Republic’s democratic institutions consolidated control; open political and economic access was not substantially contested, and those

¹⁸ After serious losses in the national elections of 1928 the party turned to anti-republican politics (Mergel 2003) and cooperated with the Nazi-movement that aimed at a national dictatorship.

opposed to democratic legislation were fenced off. Politics and economics tended to control each other. In this period of stabilization (1924–28), the economic elites and the majority of political parties had implicitly agreed on an OAO. Despite different perspectives on wages and working hours, the conflict between employers and workers was successfully moderated as well. The unions accepted increased labor hours and rationalization as long as wages followed and co-determination was accepted (Kern 1978; Vahrenkamp 1983; Steinisch 1986; Burghardt 1990; Reckendrees 2000a); likewise, the National Association of Industry accepted the unions' quest to participate in productivity gains (Neebe 1981; Gehlen 2007; Plumpe 2013).

Labor and capital cooperation was a cornerstone of the “Weimar” compromise. It had emerged from the need to create order in the aftermath of defeat, allowing for a smooth transition from war to peacetime production. Already before the revolution of November 1918, industry had withdrawn support from “yellow unions,” and leading industrialists and union leaders had concluded on collective labor agreements of employer associations and unions in the Stinnes-Legien agreement of 15 November 1918 (Feldman and Steinisch 1985; Steinisch 1986). Accordingly, the state was called on to declare such agreements binding for the respective industry; statutory dispute resolution by state representatives followed if employers and unions could not compromise (Bähr 1989). This arrangement tended to create irresponsible behavior. Instead of searching for compromise, collective bargainers could formulate maximal positions knowing that ultimately state representatives had to provide a suitable solution. The state thus became an indirect participant in labor agreements. Due to this statutory dispute resolution, the Weimar state could be denounced by its detractors as a “union state” or as “employers’ state”, which created a burden for its legitimacy and coordination capacity. Within industry associations, however, the supporters of democracy and those accepting unions as legitimate political and economic organizations set the agenda until 1929–30 (Neebe 1981; Gehlen 2007; Plumpe 2013).

3.4 Social policy

The expansion of the welfare state that followed the revolution of 1918–19 had ambiguous effects (Abelshauser 1987). As social welfare—most importantly medical care and youth protection—was strongly expanded after the war, it helped legitimizing the republic. Mandatory unemployment insurance financed by equal contributions of employers and employees was implemented in 1927 (Steiger 1998; Führer 1990). This relatively increased union power and gave credence to the industrialists' perception that the republic was on a path to socialism. When tax revenues disappeared during the Great Depression, welfare, and particularly unemployment insurance, turned into a political liability. Indeed, the last elected Weimar coalition government led by Hermann Müller (SPD) resigned in 1930 over budget disagreements on funding unemployment insurance. Still, the expansion of the welfare state after 1918 in no way hindered the emergence of a German OAO between 1924 and 1930—indeed, it could be argued instead that it helped to secure greater social consensus for creative destruction in the economy.

3.5 Rent creation

A characteristic of LAO is the “use of rents to organize political and economic coalitions” (NWWW 2013, 20). Rent-creation was not an instrument of the dominant coalitions of the Weimar Republic; rent-seeking, however, has not been absent.¹⁹ Subsidies were given to heavy industry and shipbuilding in the mid-1920s in order to facilitate industrial restructuring and reorganization of production and industrial mergers supported by tax relief (Reckendrees 2000a, b), but these subsidies were subject to parliamentary control and public debate, and those who gave them did not create rents for themselves. One exception was the illegal support to German industry in Polish Upper Silesia. German politicians wanted the Germans to stay in Poland to be able to claim for a border revision in the future (Krekeler 1973; Blanke 1990; Arnold 2000; Reckendrees 2013a). This took the form of government subsidies to German-owned industry in Upper Silesia, with the expectation that the companies would maintain jobs for Germans. This (secret) policy violated the agreements of Versailles and shaped a situation in which politics created rents for single industrialists (in order to later earn its “political rent”); the effect was that it made the government susceptible to blackmailing (Reckendrees 2013a). Still, illegal subsidies of this kind were the exception, not the rule.

3.6 Open access order

By all measures, the Weimar Republic met the criteria of OAO in 1924: the state maintained a monopoly “on the legitimate use of violence” with institutions and incentives limiting “illegitimate use of violence”; impersonally defined rights to form economic or political organizations living “independent of the lives of their members” without state consensus; rule of law applied to all citizens and organizations, impartially enforced by the government; allocation of rents and profits of legally recognized organizations was subject to legal control. What might be debated is the “double balance” of this economic and the political system (NWW 2009, 22–24), which I discuss in more detail below. What is not at all visible is elite groups creating rents by coercion (or by using government positions). The concept of rent-creating elites also does not correspond to the political fault lines that broke up the republic during the Great Depression.

4 Dissolution of an OAO

The LAO/OAO framework analyses the interactions between the economy and politics on a national level. This single-state perspective corresponds to the nation-building processes of the 18th and nineteenth century. Yet in the case of the

¹⁹ I am grateful to Gerhard Wegner for providing me the distinction between rent-creating LAOs and rent-seeking in OAO.

Weimar Republic, international politics and economics restricted national economics and politics (Zieburá 1984). Here is not the space to discuss details of the war settlements, but many serious issues were postponed rather than solved (peace agreement, reparation payments, and the new borders) so that they continued to influence national debates and decisions. The world economy suffered from a serious post-war crisis, and reconstruction and rationalization (“Americanization”) of industry—especially in Europe—had created overcapacity in many sectors. International trade collapsed, international cartels, tariffs, exclusive imperial trade blocs, and other barriers to trade were thought to be solutions to the problem. To sum up, the disintegration of the world economy undermined economic stability, with Germany suffering perhaps more than other countries (James 1986; Temin 1989, Chap. 1; Findlay and O’Rourke 2007, Chap. 8). The Dawes plan (1924) that made way for new loans to German companies and municipalities mitigated some of the financial problems, but it placed railways and the German central bank under foreign control; parts of the territory (the Saar) were controlled by the French government, and more importantly, the reparation payments were not fixed. Furthermore, the return to the gold standard impeded independent monetary policy (Temin 1989, Chap. 1; Eichengreen and Temin 2000). Economic conditions worsened with the Great Depression; from 1931 onwards, there was very limited room to maneuver (Borchardt 1982b). Worldwide, states returned to protective trade policy and beggar-thy-neighbor strategies reinforced national sentiments, which resulted in increasing weaknesses of the world economy and of the political system, which did not seem capable of handling the crisis (Temin 1989, Chap. 2; Eichengreen and Temin 2000). Not only Germany but many European states, and also Japan (Congleton 2011) fell to various forms of authoritarianism in part in response to economic pressures.

These factors do not explain the dissolution of the Weimar Republic as an OAO, but they contributed to economic weaknesses and to the de-legitimization of the social order. During the economic crisis, economic organizations, particularly employer’s associations, challenged the political compromise of the republic. “Over-politization” of the economy undermined the legitimacy of the political order from the viewpoint of the employers. When the managing director of the heavy industry’s employer’s association during a severe labor conflict in fall 1928, in which 240,000 workers were expelled from work, argued “the purpose is to strictly oppose an economic order that finally must lead to socialism, if not bolshevism” (Weisbrod 1978, 455), he was still an outlier, but in the following years such positions were increasingly supported by the heavy industrialists.

To be sure, wages in Weimar Germany were relatively high, historically. Borchardt (1982a, b) asserts that high wages constituted an investment problem; others argue the findings were inconclusive (Holtfrerich 1984; Voth 1995). What is overlooked in the debate is that the wage level (together with other terms implicitly agreed on in the Stinnes–Legien agreement [see above] like codetermination and an 8 h day) was the “price” of labor accepting capitalism after World War I instead of socializing the economy; reducing wages seemed to violate the post-war settlements. The government certainly was overburdened with conflict resolution

and Weimar governments perhaps had promised too much welfare,²⁰ which it could not maintain under economic stress. Without positive economic perspectives, nationalist and right-wing parties, anti-democrats in public administration and the military fostered nationalist rhetoric; and industrialists increasingly denounced democracy as the culprit for the economic slump (Weisbrod 1978). Germany's heavy reliance on international trade in a climate of international protectionism worked to break down the postwar consensus in industrial relations. In many industry associations, supporters of the political compromise were overthrown by national-conservatives wanting to get rid of co-determination, collective bargaining, and unionism (Neebe 1981; Gehlen 2007). By 1930, the Weimar government had lost its capacity to reconcile distributional conflicts between labor and capital.

After 1930, when the crisis turned into the "Great Depression", the German government implemented deflationary policies; wages were cut, some prices were frozen or reduced, and entitlements were reduced. The idea behind this was partly lack of alternatives, as the gold standard made devaluation impossible (Borchardt 1982b); yet, chancellor Brüning saw deflationary politics also as a means of revising the reparation agreements—not without success as the Hoover Moratorium of 1931 and the Lausanne Agreement of 1932 suspending reparations payments make clear. Economically, however, similar worldwide politics made it increasingly difficult to get out of the deflationary spiral (Kindleberger 1990; Temin 1989, Chap. 2).

During the Great Depression the existing political institutions could no longer integrate the diverging interest groups. While Bracher (1971) has argued that Weimar Germany was a democracy without democrats, it was the world economic crisis that ultimately spelled its doom. The "double balance" between politics and economics, each of them reinforcing open entry to the respective other, does not seem a fit for the constellations of Weimar Germany. Political organizations that wanted to limit access in the economy (which could be said of the communists and the Nazi Party) were not counter-acted by economic organizations supporting open access in politics. Furthermore, unemployment and social deprivation resulted in street politics and in political radicalization on the right and left. Lack of political "output-legitimacy" (Fritz Scharpf) could no longer be compensated by its "input-legitimacy". Authoritarian politics were regarded as the solution by a growing part of the German electorate in 1932. Yet, the coalition that joined for this purpose was not an elite coalition, but one of anti-democrats from different social groups sharing a backward-looking vision of Imperial Germany as ideal. In their view, limited access politics provided for better economic conditions than open access. They were actively supported by business elites and the East-Elbian landowners. From summer 1930 until January 1933, Germany was governed by emergency decrees; chancellor Brüning and his successors governed without parliament (with the Reich president formally signing the decrees). In January 1933, Reich president Hindenburg, pressured by right-wing politicians and businessmen, asked Hitler to form a new coalition government with the DNVP and Stahlhelm. In March 1933 it was

²⁰ Welfare was a social consequence of the war; one can hardly send millions of soldiers to the front and let alone the victims (families, children etc.). This obligation of the state for the victims of war was undisputed by all parties in the Weimar Republic.

approved by the majority of parliament. Parliamentary democracy was overthrown legally.

5 Implications of Weimar's failure for the LAO–OAO framework

The Weimar Republic did not collapse because of lack of open access to politics or open access to the economy, or because the rule of law was only partially guaranteed or not enforced. After a contested beginning, government and parliament controlled the organizations with violence capacity after 1923. Yet, the dynamic interactions between economics and politics reinforced openness only for a short period. Open access to politics still translated into support for open access to the economy (declining during the Great Depression), but after 1930, open access in the economy no longer translated into support for open access to politics, and perhaps even more importantly, politics did not support open access in politics.

During the November revolution, the economic elites had not been expropriated but they were forced to compromise with unions and with the parliament. This compromise was widely accepted as the only solution that would avoid a socialist revolution along the Russian model. Politics supported open economic access, and—compensating for private appropriation of profits—it expected businesses to contribute to the expansion of welfare; economic organizations supported open access to politics and political competition. However, neither international politics nor the international economy was favorable to such a project, and there is also reason to assume that the Weimar Republic had promised more than it could deliver. Still, this did not cause the collapse of the system. Rather, it seems as if in the face of increasingly difficult economic conditions, old elites concluded that the mature LAO of Imperial Germany had provided more wellbeing and social order than an OAO, which in their view limited private accumulation of wealth and created social disorder.

Right-wing political parties and industrialists fighting the unions and Social Democrats made integrating society increasingly difficult. Indeed, the Republic was also under attack from the left striving for a Soviet Germany, yet this movement only became stronger when the “democratic coalition” could no longer agree on how to cope with the Great Depression. It might be pessimistic to argue that, given the mechanism of the gold standard, sticky wages, and unresolved reparation issues, there was no realistic alternative (Borchardt 1982a, b), but under these conditions, open access had no chance to be tested for its capacity to solve an economic and societal crisis imposed in large measure by the aftereffects of the war, trade protectionism, and the Depression. Had there been no war reparations, global protectionism, and no Depression, it is easy to imagine the Weimar Republic surviving as an OAO into the second half of the twentieth century.

The first three 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; and (3) organized violence under consolidated government control with control of military and police subject to political competition) can be regarded as

necessary conditions of an OAO. However, only if the fourth criterion applies—dynamic interactions between economic and political organizations sustaining openness—is an OAO continuously reinforced. The effectiveness of this “double balance” should not, however, be regarded a fourth necessary condition of an OAO, as regress or a failure of an OAO would then by definition be impossible. It might be more a matter of degree than of substance whether Weimar Germany is interpreted as a very mature LAO that was not able to make a full transition or as an OAO that failed. This article favors the second interpretation²¹ and argues that the political process of “creative destruction” resulted in the dissolution of open access in Germany after 1930.

The transition from mature LAO to an OAO as well as the regress to limited access in 1930–31 were the preferred choice of the dominant political and economic coalitions: after World War I open access seemed to be a useful alternative to social revolution; in the early 1930s authoritarian politics were perceived as useful for generating more favorable economic conditions (abolishing unions and dialing back the welfare state). It should be noted here that most of those organizations did not favor a Nazi dictatorship (that should perhaps also not be described as a LAO); it came unintended and as quite a surprise in January 1933 when Hitler was appointed chancellor. As Gerald Feldman (1977) concluded, “they got more than they bargained for”. In an OAO, the electorate can paradoxically decide to limit access. Whether a majority of voters and of different elite groups would wish to return to limited access seems to depend on the same criterion as for the transition from limited to open access. That is, it seems preferable to the dominant coalition (or majority of the electorate). To put the question differently, it may be asked why the dominant coalitions or the majority of voters would insist on open access to politics and to the economy if the expected benefits from a mature LAO are greater than the present benefits from an OAO?

Weimar Germany indicates that interactions between economy and polity do not necessarily sustain openness; “creative destruction” in politics may result in destructive politics—as long as openness in the economy is not affected, economic organizations would not necessarily on their own engage in sustaining political openness. Open access is a fragile equilibrium that might not only depend on a “double balance”. Rather, sustained open access might require a “double equilibrium” consisting of a “double balance” of economic and political organizations and of a “political balance” that de-legitimizes limiting access in politics. NWW have already indicated that a “widely held set of beliefs about the inclusion of and equality for all citizens” (2009, 114) was an important characteristic of OAOs. This seems to be similar to a “bourgeois ethic”²² and a “political balance”. NWW did not elaborate on how such “belief systems” develop and how they translate into institutional protection of openness. The ideas put forward by John Wallis (fn. 2) and by Wallis and North (2011) on the coordinative

²¹ This is also because of the consistency of criteria used if one compares Weimar Germany with the Third or the Fourth Republic (France), Victorian United Kingdom or the USA (with limited access to politics and lack of control of violence organizations in the South until the 1960s).

²² With thanks to Deirdre McCloskey who suggested thinking of these parallels.

capacities of government that would help reproduce openness tend to address some of the issues and they are useful in furthering the LAO/OAO framework. Finally, the Weimar Republic indicates that international systems, notably international political economy, might be more or less favorable for open access and should not be overlooked by the LAO/OAO framework (see also Grimmer-Solem 2015). Open access societies need to consider their impact on encouraging or discouraging openness around the world.

Acknowledgments This is a revised version of a paper presented at the workshop ‘‘Germany’s Catch-Up Development, from Limited to Open Access to Political and Economic Organizations and Competition’’ held at the Walter Eucken Institute in Freiburg, 28.2.-1.3.2014. I thank the participants for valuable feedback. Gerhard Wegener and Erik Grimmer-Solem provided detailed, knowledgeable comments on a draft version of this article, which improved the article substantially. An anonymous reviewer and the editors of CPE gave valuable suggestions for improving the manuscript for which I am very grateful. All remaining errors are mine. I also want to thank the Thyssen Foundation for funding this workshop and to the Walter Eucken Institute for hosting it.

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