

Matthias Erzberger on the Need for Tax Reform (July 8, 1919)

Abstract

Matthias Erzberger (1875-1921) rose from a modest, Catholic background to become one of the most prominent and important politicians during the First World War and the early years of the Weimar Republic. That he did so without having a noble pedigree, background of military service, or a university degree made his rise all the more remarkable.

First elected as a member of the Catholic Center Party (Zentrum) to the Reichstag in 1903, under the old Imperial government, Erzberger harnessed his trademark capacity for hard work to master that legislative body's procedural practices in minute detail. He initially supported Germany's aggressive pursuit of military victory in the First World War, but his position had evolved by 1917 into one of advocating for an immediate, negotiated peace. Erzberger later led the four-person German delegation that signed the Armistice on November 11, 1918, a necessary and thankless task that made him a target of relentless right-wing attacks. Less than three years later, on August 26, 1921, a far-right hit squad assassinated Matthias Erzberger during one of his morning walks.

Appointed Minister of Finance in late June 1919, Erzberger quickly set about completely overhauling Germany's outdated and insufficient tax system. The federal state's financial responsibilities had expanded dramatically as a result of the war and now included caring for war widows, orphans, and the disabled, as well as covering the occupation costs and reparations imposed by the Allies.

The existing tax structure simply could not meet these challenges. Ever since unification in 1871, the federal government in Berlin had directly controlled only a very limited number of revenue sources, including customs duties and a smattering of taxes on goods such as tobacco, cognac, and sugar. For the rest of its needs, Berlin depended on contributions from the two dozen states that comprised Germany, each of which had to approve its per-capita contribution annually. Apart from its inefficiency, such a system also put the central government in the position of continually having to negotiate or wheedle the necessary contributions from its constituent parts. Moreover, because the Versailles Treaty required that Germany open its markets, the revenue that Berlin would otherwise have anticipated from customs duties declined sharply after the war.

Between autumn 1919 and spring 1920, the National Assembly passed sixteen federal tax laws that, among other things, directly taxed wages for the first time and created a sales tax. In an effort to equalize burdens and narrow the gap between the richest and poorest Germans, many of the laws also specifically targeted landowners and industrialists with inheritance taxes, land-purchase taxes, windfall taxes, and a one-time emergency wealth tax.

Erzberger first outlined the scope of these planned tax laws in a lengthy speech to the National Assembly on July 8, 1919. One of the first passages of that speech called for completely upending the existing relationship between the central government and its constituent states in terms of who controlled the revenue stream. Subtitled "Taxation needs and the new relationship between the three taxing authorities," Erzberger laid out his vision in this section for a centralized tax structure in which Berlin held the purse strings.

Erzberger justified his plan in patriotic terms, claiming that the preservation of a unified Germany—the "legacy of our fathers"—necessitated the country's signing of the Versailles Peace Treaty, which in turn

collectively obligated all Germans to contribute to the fulfillment of its terms and conditions, as appallingly severe and unfair as those might be. Erzberger framed his argument in the name of harmony, too. His reforms would “bury the squabbles” between different taxing entities and usher in a system focused on the well-being of the nation as a whole. A unified tax structure, moreover, would prevent Germans from gaming the system, Erzberger concluded, by simply shuffling their assets to localities with lower rates.

Source

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In the rubble of the war, new land must be sought. So much, indeed almost everything, is different than before. What has not changed, unfortunately, is a reticence about paying taxes. Tax evasion has increased, but I am inclined to fight it with all available means, [even as] the demands on the state and empire grow from all sides, as well. Where can we find new land here for our national finances? The great tax sovereign of the future can only be the united German Reich, and the most important task of the current government was and still is to salvage it as a unified and intact whole despite the postwar collapse. The preservation of the empire was our compensation for signing the detestably hard, unjust peace treaty. This precious legacy of our fathers, the German nation-state, albeit diminished by the peace, must live and be allowed to develop. To this end, the Reich does not only need funds, but also a new system of taxation. The war drastically changed our circumstances in regard to questions of taxation. The German citizen answers to three tax creditors: the empire, the member state, and the local community [*Gemeinde*]. Before the war, the empire collected not quite two billion Marks in taxes and duties; the individual states and communities around three billion. With the conclusion of the peace treaty, the minimum revenue required by the Reich to fulfill its obligations is over seventeen billion. The revenue needed for the individual states and communities is at least six billion annually. Whereas the empire once used 35–40 percent of the total revenues for its own expenditures, it now needs 70–75 percent. The total collected for the empire must grow by 900 percent, that for the individual states and communities by perhaps 100 percent.

Such massive shifts require new measures, new organizational structures, new ideas. The obvious dominance of the financial interests of the Reich over those of the member states and communities compels certain conclusions. It is only possible, however, to draft a financial plan for the empire if we simultaneously consider the budget of the members of the Reich, the individual states and communities. We should thereby banish from our discussion a concept which was once often used in such contexts, namely that of a contradiction between the financial interests of the Reich and the individual states, between the state and the local communities. It is always the same person who owes the tax, whether it is the Reich who comes to collect it, or the member state with another, or yet another for the community's surtax for the state tax. For the taxpayer it makes no financial difference into which account the taxes paid ultimately flow. While it might have been tolerable or at least possible in earlier times that the three entities entitled to levy taxes competed for the purse of the taxpayer, such conflict must be laid to rest in the future. The singularity of the taxpayer must be seen in parallel to the unity of public necessity. It must be a matter of most careful consideration and measurement to determine how the total tax revenues should be distributed among the various public entities. All of them have important tasks to do. All of them must restrict their expenditures as much as possible, and each must grant the other that which is absolutely essential. But they must be united in the awareness that together they have the shared and inseparable goal of using the means which flow to their disposal to promote the common good. The financial relationship between the Reich and its member states has become especially close, and much closer than it has been historically. It is not just the heavy burden that must bring them together, but the peace treaty itself that made this course inevitable, for the

empire and the member states stand together according to the terms of the treaty to bear the obligations to the signatories on the other side. This is unequivocally stated in the relevant provisions of the treaty. It will soon be necessary to draw the conclusions from this new relationship.

An entirely new structure for the imperial and public finances is required. The constitution took the first step in this direction; positively in the outline of responsibilities within the Reich for areas related to regulating taxation, negatively by eliminating that remnant from the constitution of the former German Confederation that had survived in the constitutions of the North German Confederation and the German Reich, namely, the matricular contributions. Unifying the interests of the Reich, member states, and local communities will furthermore mean that there will no longer be favorable tax islands within Germany. The German taxpayer will henceforth need not worry whether he might save taxes by living in Berlin, Grunewald, Coburg, or Lake Constance. Together we went to war, and as a united state we now enter peace; the burdens must be shared and equal, no matter where the taxpayer resides.

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Source of the original German text: *Nationalversammlungs-Drucksachen*, 50. Sitzung; reprinted in *Reden zur Neuordnung des deutschen Finanzwesens*, Reichsminister der Finanzen, Matthias Erzberger. Berlin: Verlag von Reimar Hobbing, 1919, pp. 7-8.

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