

Matthias Erzberger, “On the Question of State Bankruptcy”, (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.

Erzberger’s statements “On the Question of State Bankruptcy” come from a much longer speech that he gave, in his capacity as Germany’s newly appointed Minister of Finance, to the National Assembly on July 8, 1919, less than two weeks after the country had reluctantly signed the Versailles Treaty.

In these statements, Erzberger explicitly quashed any speculation that Germany might simply declare bankruptcy in order to eliminate the mountains of national debt that it owed after the war, most of it to its own citizens. Half of German war funding came directly or indirectly from households of relatively modest means, Erzberger argued, and the state’s refusal to repay the full amount of its war-bond debt would therefore penalize those Germans who most needed a return on their wartime investments. He contrasted the fate of hard-working, patriotic Germans, who would bear the brunt of a state decision to write off its war debt, with that of war profiteers who would still enjoy their (implicitly) ill-gotten fortunes regardless. Any renunciation of the state’s financial obligation to its citizens, Erzberger intoned, would thus constitute an unprecedented “Bankrupting of the People.”

Erzberger’s principled stance on behalf of German war-bond subscribers did not spare him the contempt of many of the middle-class subscribers whose investments he here strived to protect. Their dislike of Erzberger stemmed both from an opposition to some of his left-leaning policy positions and from a snobbish disdain of his simple appearance and manner of speech. The period of hyperinflation, which began a year after Erzberger’s murder, wound up wiping out the value of Germans’ war-bond investments anyway. Erzberger’s 1919 speech, however, shows how the government initially sought to honor the sacrifices that Germans had made during the war, even if later governments reneged on that promise by enabling inflation to rapidly slash the value of war bonds to the very same extent that a state bankruptcy would have accomplished with only slightly greater speed.

Source

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State bankruptcy cannot save us; for state bankruptcy today would bankrupt our own

population and deprive Germany of any foreign credit. Germany, however, needs loans, lots of loans, to live and to develop. I cannot go along with the suggestions circulating among some about a thoughtless, daring nullification of the war bonds or a declaration of general insolvency. The payment of interest on our war bonds, which are decidedly a credit from the nation itself, must be certain. The German debt for the war was financed by the broadest classes of the people. The 39.1 million signatories put up a total of 98.2 billion marks. Of the 39.1 signatures, no less than 34.3 million were for subscriptions of less than five thousand marks; that is 90 percent of the total number of signatories. These 90 percent gave 25 billion marks, or about a fourth of the total sum. If one considers those subscriptions of up to fifty thousand marks to be of a mid-magnitude, nearly half of the total subscriptions were provided by middle-class, lower-class, and lowest-class signatories. Aside from the 25 billion financed by the small signatories, the local savings banks, credit unions, and insurance companies put up 21.5 billion all together. This sum is backed primarily by those laborers, employees, service personnel, civil servants, craftsman, and small farmers who think of their local savings banks as the safest place for their savings. One must bear this distribution of the German war bonds very clearly in mind before one begins speaking of suspending or violently limiting interest payments on the war bonds. Such measures would above all harm those who came to the aid of the fatherland in its greatest need. The racketeers and war profiteers, who did not invest in war bonds, would have a double advantage: on the one hand they would have large earnings, and on the other hand, they would not be affected by the nullification. The bankruptcy of the Reich would mean a true bankruptcy of the people on a scale unprecedented in world history. It is the unshakeable duty of the German Financial Administration to work with all means possible to ensure that the interest payments on the bonds can be made. I do not, however, anticipate tax advantages for the war bonds, but these will presumably enjoy some preference in the payment of future taxes and the purchase of military equipment; this is valid, however, only for signatories of bonds, not for speculative purchases.

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