

Current Topics : the European Tangle

ARTICLE IV.— BY ROBERT KIRK

BEFORE we can straighten out the few remaining factors in this interesting economic problem, we must take the reader back for a moment to the days immediately preceding the war. It is necessary to do this if we are to understand the cause of the immense concentration which is taking place in German industries, in capital, and transportation, coincident with a period when the mark (paper) was never so cheap.

Like many more countries in 1914, Germany was by no means a self-supporting country. The rapid rise, in two generations, from a minor position among nations producing largely for export trade, must surely have been marked by an equally rapid decline in agriculture, in the production of food-stuffs. A deficiency, of course, which was easily met by increasing imports of such commodities from countries overseas, and adjacent Scandinavian communities, as well as from Russia.

It was this weak spot in the armour of the great Triple Alliance (Austria-Hungary, Germany and Turkey) which led to a crushing defeat of these countries in 1918. For the whole strategy of the war, so far as the Entente countries (Britain, France and Russia) were concerned, was to separate middle Europe from all her trade connections. The brunt of such a blockade would, very naturally, fall upon the strongest, in this instance Germany. This point has been illuminated by A. E. Zimmern in the "Century," April, 1922. The following excerpt is from his pen:

"Thus the siege, by cutting off central Europe from its overseas connections, upset the whole economy of the Continent, and the Armistice found the blockaded area, a region extending from the occupied district of France to the Baltic republics and Constantinople, not only strictly rationed in respect to foodstuffs, but what was far worse, denuded of the raw materials needed to recuperate her economic life and of the credit power needed to secure them."

In this condition of economic exhaustion Germany remained throughout 1919 and 1920, while the rest of the nations debated between them how much each should get of the spoils of war. With the ratification of the Versailles Treaty, and such steps taken to make it effective, Germany was stripped to the buff. Much of her livestock was taken as well as large quantities of rolling stock, nearly all of her merchant marine, along with available hoards of gold, and placed at the disposal of the Reparation Commission for distribution between the various claimants. And the threat of still more forcible measures, if she did not comply with the peremptory orders of the Allies to start the wheels of industry once more producing reparation goods was made, when Allied troops to the number of 1,600,000 (1920 figures) crossed the Rhine, for whose maintenance the German government became responsible.

To start industry going: Ah, there was the rub! There were little goods in the country which they could exchange for raw materials, and still less of the universal money, gold and silver, with which they could purchase the things they needed. There was but one course left to the German government—a course which all governments who have faced a more or less similar situation have resorted to,—they started the printing machines turning out billions of "promise-to-pay" bills. And in a little while every foreign money market was flooded with them.

If there is one thing in which the social organism of today excels, it is the vast number of suckers it produces. These sap-heads, ever on the look out for get-rich-quick schemes, were attracted by marks at 200 for a dollar, which formerly were worth 24 cents (or thereabouts) apiece. Two hundred for a dollar! If they were to rise in price, the suckers would get money for nothing. And so billions of marks were bought, and German "promises-to-pay" were soon converted into perfectly good American

dollars and British pounds, not to mention Japanese yen. German financiers soon had enough real, honest-to-gawd money to purchase all the material required for German manufactures, to produce the goods the have put British trade "on the bum."

The function of money, as economists have pointed out, and none so clearly as Marx, is to circulate commodities. The quicker the circulation of commodities under such conditions as have been stated here, the more rapid the rise in prices of such commodities. For example, the cost of living in Germany, in Feb. 1922, was 1,640 per cent above 1914 prices. The increase of paper money served to produce the same effect as an unusual demand for commodities. But, with this difference, the goods were not there to supply the demand. Because of this fact, the German government had to fix rents for German workers at 1914 rentals. For example, the home of a proletarian family in Germany, in 1914, was rented at 10 marks per week. In 1914, 10 marks were worth \$2.50, or 10 shillings. But in 1919 (and from this time onwards), 10 marks were not worth 10 cents. By fixing rents in this way, the manufacturers in Germany do not have to reckon shelter in the cost of labor-power. By eliminating this from the cost of production, the manufacturers in Germany are thus enabled to compete against their competitors, in other countries, on a much more favorable basis. While, too, taxes on capital are 40%, they do not feel this rate press so heavily upon them as would their competitors with a similar rate fixed on surplus values. For the manufacturer whose stock is on hand may be worth one million marks at the time taxes are fixed. At the time taxes are due, however, the mark may have dropped to half its former price. Instead of setting aside 40% of his stock of surplus values for the state he has only to set aside 20%. "Ah," you will say, "this is where I can nip this budding economist. If the mark has dropped in price the stock is also affected. Instead of values equal to a million marks at one period, they are now equal only to half that sum." True! but he does not sell them at the time they have fallen in price, he sells them when the mark goes back to a cent apiece, or maybe more, in which case he reaps an extra profit.

But let us turn for a moment's consideration to the development in capital, industry and transportation, which we mentioned in the first paragraph of this article.

In 1914, Germany had 4395 ships aggregating a registered tonnage of 5,240,000. Under the terms of the treaty, she was forced to surrender all ships over 1600 tons and one-half of those from 1000 to 1600. It meant that 5,000,000 tons passed from the German flag to the ownership of allied nations. In addition, she was compelled to produce 200,000 tons of shipping every year for five years for the benefit of her competitors. Understanding that without a merchant fleet, adequate to her industrial needs and output, Germany would be impotent, so all capital that could be diverted from not absolutely essential industries was so directed to ship construction.

One of the first steps was to acquire by purchase or lease 10 per cent of the total Swedish commercial fleet. This gave the Germans 20,000 tons at once; subsequently an additional 20,000 tons was secured. Dutch and Norwegian vessels were also annexed. The energetic Teutons went so far as to charter former German vessels allotted to the British under the Paris Treaty. With millions of British-owned ships lying idle, the English were not averse to making this kind of a deal. Incessant chartering of alien vessels enabled Germany to begin her export trade without much delay, and she resumed her commercial relations with South America and the Dutch East Indies during the Spring of 1919.

This performance, however, was incidental. Before 1919 ended the German shipyards were booming and they have resounded with activity and out-

put ever since. The effect of compliance with the treaty upon Germany was well put by Dr. Wilhelm Cuno, director-general of the Hamburg-American Line, who said:

"I venture to say that before another year passes many (this report was made in July, 1921) will not be building a single ship for the Allies. German ship construction is fatal to them, for it aims at their labor production. While the loss of our mercantile marine seemed staggering at first, it will be a good thing for us in the end. We are now capitalizing every advance made in shipbuilding since the beginning of the war, and the result will be that German shipping of the future will be the best in the world. Where our new merchant fleet will consist of highly efficient vessels, perfectly adapted to the needs of commerce, the Entente will be burdened with those formerly belonging to Germany, many of which are already obsolete."

In an article on "German Trade and Shipping," which appeared in the "Saturday Evening Post," Jan. 7, 1922, J. F. Marcossion writes, that:—

"German shipping construction has only received a check. Under the terms of the Shipowners' Agreement the Government subsidy is spread over a period of five years, with a definite allowance for each year. Four or five of the large ship-construction companies immediately entered into programs that have exceeded their annual quota, and some of the tonnage will have to be held in abeyance. German manufacture has increased at such a rate, however, and the necessity for shipping is therefore so much keener, that a readjustment of the endowment will probably be made. This will enable the yards to continue at full blast.

"German shipping naturally falls into two branches: one is actual construction, and the other is the freight and passenger business. Let us look at construction first. Today the thirty leading yards have a capacity of 750,000 tons a year, and it is expected that this total will be turned out in 1922. The army of employees has grown from 25,000 in 1914 to 125,000 at the present time. Every company has increased its capitalization. The case of Blohm and Voss at Hamburg, who built the 'Vaterland' and the 'Bismark,' the two largest ships yet constructed, will illustrate. In 1914 its capitalization was 20,000,000 marks; it is now 40,000,000 (this represents gold marks—not paper! R. K.). The German yard at Hamburg increased its capital from 10,000,000 marks to 70,000,000. So it goes.

"The real test of German shipping is to be found in the box office. The dividend rate has kept pace with an expanding capitalization. Blohm and Voss for example, have increased their rate from 5 to 7 per cent.; the immense Vulkan Works of Bremen, from 12 to 15 per cent.; Howald Yards at Kiel from 12 to 20 per cent. In no instance is a German shipyard paying a smaller return than in 1914.

The moment you poke into the organization of German shipyards you find the inevitable trust line-up. Practically every concern of consequence is linked with one of the great industrial groups. Here you have a further manifestation of the efficacy of the vertical trust, which provides insurance against curtailment in the supply of raw materials.

Little remains now of the problem but to show how, even with all these developments, it is impossible for Germany to pay the sum demanded by the Allies. Values equal to two billion dollars per year would have to be produced for 42 years over and above those necessary to balance imports. Never in her whole history was Germany able to do this. And it is less likely that she can do this now when all countries are endeavoring to increase their export trade. The world market can only absorb so much; and, because of the chaos ruling in production in all countries, the demand can never be regulated. This would have to be regulated in order to allow Germany to fulfill her obligations to the nations concerned with reparations.

But those nations who are not concerned, and those who are but slightly concerned, together with those who would be most hurt by full compliance with the terms of the treaty, will have something to say against such a proposition. The lesson which I have tried to make clear to "Clarion" readers is the incompetency of the present ruling class to rule without hurt to society as a whole; nay, their very impotency in this way is obvious to those who un-

(Continued on page 5)