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GERMANY UNDER THE
DAWES PLAN

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GERMANY
UNDER THE DAWES PLAN

*Origin, Legal Foundations, and Economic
Effects of the Reparation
Payments*

BY

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PREFACE

DURING recent months the Agent-General for Reparation Payments has repeatedly suggested that Germany's reparation liabilities be definitely fixed. The views held by Germany as to her capacity to pay differ widely from those held abroad; nor is there any greater agreement as to the legal aspects of the question. In these circumstances, it appeared to me necessary that a careful inquiry should be made into the working of Germany's economy under the Dawes Plan, and that this inquiry should be made to cover the origin and the legal basis of that scheme.

The problem, in its various bearings, involves far more than merely German interests. With the conclusion of the London Agreement in the year 1924, there began a general recovery from the economic effects of the war. Indeed, not until that agreement came into operation did the war really cease, although the Armistice had been signed more than six years before. This "ten years' war" had impoverished Europe—especially Germany—and had sunk the temperate zone of the northern hemisphere into deeper and deeper distress, the crisis of which was reached during the Ruhr Occupation in 1923.

It was felt principally by the farmers, who, in selling to the inhabitants of the industrial centres, were forced to adapt their prices to the purchasing capacity of the marginal buyer. The capital received from the United States after the conclusion of the Dawes Agreement has increased that purchasing capacity, particularly in Germany; it has stimulated international trade and, though much still remains to be done, it has improved the agricultural situation in all non-tropical countries.

The inter-relations and problems of agriculture and industry here touched upon I have dealt with more fully in a study¹ presented to the World Economic Conference in May, 1927, as well as in a speech delivered on that occasion and reprinted here as a supplement to the present volume. But at Geneva it was only possible to scratch the surface of the complex questions of political foreign debts. The crucial problem of Germany's economy and of international trade relations was left undiscussed at Geneva.

The purpose of the present work is to study the new conditions of existence in which Germany has been placed, to examine the movements of capital and commodities caused by the payment of tribute and to analyze their intense and mutually opposing influences upon economic and social evolution. From the conclusions thereby arrived at an attempt has been made to discover a basis for a just solution of the reparation problem upon which the concord and welfare of the nations so largely depend.

M. SERING.

Berlin-Dahlem,
August 28, 1928.

From the very first it was intended to publish an English translation of the present work. Unfortunately, illness on the part of the author delayed the publication. For the same reason, the translator has been requested to assume entire responsibility as regards the proof-sheets.

¹ A revised German edition has been published under the title of *Internationale Preisbewegung und Lage der Landwirtschaft in den ausser-tropischen Ländern*. Berlin, Paul Parey, 1929.

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APPENDIX

SPEECH BY PROFESSOR DR. SERING, BERLIN,

IN THE AGRICULTURAL COMMISSION OF THE WORLD ECONOMIC
CONFERENCE ON TUESDAY, MAY 10TH, 1927.

GENTLEMEN,

I have taken the liberty of tendering you German and English copies of a study concerning International Price Movements and the Condition of Agriculture in Non-Tropical Countries. By means of figures and diagrams prepared upon uniform principles, it shows the movement of prices and the elements of which that movement is composed. Only those agricultural mass products are discussed in it which serve as food for the manufacturing populations of Europe. The prices are determined by the trade between the more highly industrialized districts of Europe (Great Britain, Belgium, Holland, Germany and Scandinavia, France, Italy, Switzerland) and the thinly-populated countries which produce, by extensive cultivation, the big agricultural surpluses. This exchange between agricultural and industrial countries is the pivot on which world commerce turns, that world commerce which binds the whole of civilized humanity together since the earth has been girdled by railways and steamship lines. The *price relation*, then, in which agricultural products stand to industrial goods on the world market is decisive for the economic welfare of the hundreds of millions of people concerned directly or indirectly with world commerce.

In these exchange relations there have been two great crises. The first crisis lasted from 1875 to 1900, the second began in 1920 and is by no means over yet.

The first great agricultural crisis I shall pass over with a few words. It was a consequence of the greatest colonization of all times, which after rapidly opening up the western prairies of the United States was continued after the eighties in Canada, the La Plata region and slowly also in Australia and South and North Africa. By flooding the markets it caused a heavy fall of grain prices, but—in contrast with the present-day situation—was accompanied by a brilliant rise in Middle and West European and East American industry. In sharp contrast with our own days,

industry in these areas was plentifully supplied with raw materials and food-stuffs and found abundant markets in the new countries, which had to be provided with all the resources of modern civilization.

For this reason the grain-growing countries of the European continent were able to protect themselves against the great wave of overseas competition by customs duties without lowering the standard of living of their industrial population.

But with the turn of the century the period of overflowing wealth came to an end. Between 1900 and 1914 agricultural prices rose very high. The change was caused by the conclusion of the colonization of the western areas of the United States. Since the nineties the United States have completed with extraordinary rapidity their transformation into an industrial State. The number of their urban consumers has increased more rapidly than their agricultural output. The consequence has been a rapid decline in the agricultural exports of the United States.

All the other colonization areas together were incapable of replacing this deficit; for none of them is so favoured in natural conditions of production as the United States, and none of them offers the needier colonists such favourable terms as the United States of America at the time of the opening up of the West.

And thus the increasing need of food-stuffs on the part of the industrial populations of Europe could no longer be satisfied by *extensive* farming. The growing demand for bread-corn and meat made an increase of the output per unit of area necessary. As a result of these circumstances, that price standard was restored which, save for a quite exceptional period of twenty-five years, had persisted for centuries, viz. the standard formed by the tendency of agricultural prices to outrun industrial prices. This tendency is caused by the law of diminishing returns, according to which, other things being equal, it costs more to produce a hundredweight of wheat by intensive cultivation than by extensive. Thus "other things being no longer equal," intensive agriculture, even in free trade countries, again became profitable, agricultural prosperity revived, and the foundations of prosperous development as a whole were strengthened.

This upward tendency was interrupted by the war. During the war the United States and Canada undertook the task of replacing the loss of the supplies from Russia and the Danube countries. The remoter southern continents supplied farm products of high specific value, *e.g.* meat, butter and cheese. The wheat-growing areas in the United States and Canada, under the *stimulus of double prices*, were extended by about 10 million hectares between 1914 and 1921. Then the war boom suddenly broke

down in the spring of 1920, when the American Government ceased to grant further credit to the Allies, and it became patent that these countries were not in a position to pay for the American produce out of their own resources. A general collapse of prices occurred, but the slump in agriculture was much severer than in the manufacturing industry. The resulting ratio of prices was once more adverse to agriculture, and the farmers—dependent upon the sale of food-stuffs to the European manufacturing populations—were no longer able to cover their costs of production. In the United States from 1922 to 1925, about 25,000 farmers went bankrupt, and about three million people left the farms; in 1922, 7·3 per cent. of the farms were ascertained to have been given up by their owners. Starting from the United States, the crisis involved all other countries producing grain and meat.

What were the reasons for the price decline in agricultural produce? They are not to be found on the *supply side*. Measured by pre-war requirements, there can be no question of an excess production of bread and meat, as will be seen by reference to Diagram XII, pp. 24–25 of “International Price Movements.” The diagram shows that, except in Italy and Spain, the inhabitants of Western and Central Europe had less bread-corn during the severe depression from 1921 to 1924 than before the war. Even following upon the rich harvest of 1925, the food-stuff supply in the industrial areas proper was by no means as favourable as in pre-war years. Moreover, as far as can be ascertained, the number of home slaughterings has been so reduced that, despite increased imports from Argentina and Australia, the supplies of meat in all manufacturing countries except Great Britain are lower than they were before the war. Thus, on the *supply side*, the conditions are similar to those of pre-war years. As then, so now, the United States are again about to restrict their grain and meat exports to very narrow limits (compare the coloured curves on the figures in the pocket at the end of “International Price Movements”). Their agriculture is being adapted more and more to the requirements of an industrial country by the expansion of their dairy-farming and certain intensive branches. Everywhere east of the Mississippi less wheat and even less maize is being cultivated to-day than in the year 1900. Before the war, Russia and the Danubian countries took first place as wheat exporters; since the war, however, the supply from that quarter has almost ceased; it has never been possible to replace the loss of Russian fodder-barley in any way. The colonial countries proper, *i.e.* Canada, the Argentine, Australia and New Zealand, develop very slowly, as there is a lack of wealthier immigrants.

If the reason for the unfavourable development of agricultural

prices is not to be found on the supply side, it must be sought in the demand.

Prices are abnormal because Europe's capacity to compete and the income of the European industrial population have been reduced. According to incontrovertible laws, it is the capacity of the indispensable "marginal purchaser" which determines the price of the whole in any given market. Among all the nations dependent on agricultural imports, the German people is the most impoverished.

The agricultural distress, therefore, reached its climax when, in the year 1923, for well-known reasons, German national economy and mass purchasing power entirely collapsed, the gold value of exported commodities sank to less than half their pre-war value, the real wages of the skilled worker dropped to a quarter, and of the unskilled to two-thirds of the pre-war level. This impoverishment was shared by the farming population of the whole earth, in so far as that population produces food-stuffs for European industrial areas.

The restoration of a stable currency, carried out in Germany in November, 1923, by her own efforts, and the negotiations of the Dawes Committee which led to the London Agreement of August, 1924, began the revival of agricultural prices. The loans which now streamed plentifully into Europe, and especially into Germany, from the United States stimulated industrial production and were, for the greater part, converted into wages and salaries. In this way they increased purchasing power and production to an extraordinary degree. This is the decisive reason for the fact that the prices for wheat and meat also rose in the whole world after the middle of the year 1924 and the price disparity on the international markets decreased. It is true that the bad harvest of the year 1924 was a factor in this changed state of affairs, but the following year brought the highest grain yield ever attained, and yet the prices of wheat on the world market rose higher than in the previous year. But even then the price level was still anything but normal. I beg to emphasize very strongly that the prices could not be looked upon as "normal" in the economic meaning of the term even if agricultural produce had maintained its pre-war value in terms of industrial commodities, but only if a rising tendency in the ratio were more perceptible; for this tendency is the condition on which the intensification of farming depends, which now, as before the war, has become an urgent necessity for economic welfare.

An increasing exchange value of agricultural products by no means necessarily entails a rise in the prices of products of the soil. For the manufacturing industry, by cheapening the production

and consumption goods which it supplies to agriculture, can enable the farmer to increase his output without increasing his costs. This is, indeed, the chief task which national economy allots to the manufacturer.

Since the war, the tendency towards increasing values for agricultural products as compared with manufactures is observable only in respect of fertilizers, this being due to revolutionizing inventions in this branch of industry. In comparison with the agricultural prices in Great Britain and Germany, implements and machines (and at times also concentrated fodder) are once more approximately as cheap as before the war, but not cheaper. In other countries, even in the United States and Canada, the agricultural machines stand at 175 per cent., which is considerably higher than the general price-index figure. And everywhere the farmer has to give for consumption commodities (clothes, shoes, domestic utensils, services) considerably more products than before the war. Thus the standard of living of the agricultural population is reduced and the receipts from its labour lowered.

The price disparity is the decisive reason why in the United States and Canada the prosperity of the farmer is so far behind that of all other categories of the population; for the American farmers will long remain dependent upon exporting considerable surpluses. And according to the prices obtained for this surplus, the price of the whole stock is determined.

European agriculture, however, does not suffer from price conditions alone; its suffering is increased by the very high taxes and interest on debts, and with this we touch on the decisive reasons for the diminution of European prosperity.

What are the causes of the reduced purchasing capacity of the European industrial countries?

1. They are to be found partly in the direct effects of the war. The war reduced the proceeds of the soil in the importing continental countries and decimated their live-stock. But this damage is gradually healing.

2. The reduction of the economic productivity of Eastern Europe caused considerable repercussions in the industrial countries. The transformation of Russia, Roumania and other Eastern countries into a domain of small and smallest holdings has caused a reduction not only of their own grain exports, but of the counter-stream of industrial products towards the East. Germany especially is one of the sufferers in this connection, having formerly been the country which almost everywhere in the East held the foremost place among the importing countries.

3. The splitting up of large parts of Eastern and Central Europe and the isolation policy mutually pursued by European

States in commercial matters have disturbed the conditions for the development of European economic forces. The endeavours of the larger industries to unify and rationalize their organization after the model of the United States meets with obstacles which it is difficult to overcome.

4. Still worse are the effects produced upon European industry by the prohibitive economic policy of the agricultural countries. The refusal on the part of these countries to accept industrial equivalents for agricultural exports has proved detrimental to their own farming population and is one of the principal reasons for Europe's diminished purchasing power.

5. Finally, since the war, Europe has been burdened with a much heavier unproductive expenditure. This expenditure gives a better idea of the true taxation burden than is to be obtained from the taxation statistics, which cannot be satisfactorily compared with one another, as there are no reliable and uniform methods of ascertaining the national income of the various countries. Even in the United States there are complaints of increased taxation, but in that country a proportionately very large percentage of the taxes is appropriated for increasing public comfort, for the building of motor roads, for the improvement of public education, and so forth. Real diminution of the net national income is, however, only brought about by such taxes as are used for unproductive expenditure, namely, (1) military and war expenses, (2) external political debts. A very careful analysis of the budgets by the German Statistical Office shows that, including the costs for repairing the damage done by the war and for war pensions, the defence estimates are heavier than before the war. Even in the case of the disarmed Central Powers the expenses for the defence forces, including the cost for the reparation of war damage, amounts in gold marks to 108 per cent. of the pre-war military charge.

In addition to the increased military and war costs, European countries have to meet expenses arising out of their external political debt. Before the war there was no such thing as a political indebtedness of Europe to other continents.

According to the Funding Agreements and assuming 5 per cent. interest, the capital which thirteen European States now owe to the American Union amounts to 5.9 milliard dollars. Whereas the interest which, before the war, the United States had to pay to Europe was for railway and industrial loans of a productive character, the interest on the European war debt to America is a sheer loss of national income on the part of the debtor State. Thus expenditure is unproductive in an even more refined sense than the military expenses. It reduces the purchasing power of

the debtor countries by its full amount. The average annual sum of 294 million dollars paid to the United States as interest on the European war debts is roughly equivalent to the entire annual value of the United States exports of wheat and wheat-flour or of animal products. As a matter of arithmetic, then, Europe could have spent without these debts double what she has done for her food-stuffs drawn from the United States. The interest on the political debt increases the taxes in European countries by their full amount and reduces the competitive capacity of their enterprises.

Now, as is well known, the Dawes Plan has fixed the standard annual burden to be borne by Germany at 2,500 million gold marks, so that the international debts arising out of the war may be easily settled. This standard payment would more than double Germany's unproductive expenditure as compared with the pre-war figures; it would increase them from 35½ marks a head to 73½ marks a head, or in absolute figures from 2·2 milliard marks before the war to 4·8 milliard marks a year now. This increased burden is to be borne by a nation whose living space and natural resources have been very severely cut down by the war. There are about the same number of people living in Germany now as there were within her old boundaries in 1910 (63·3 as compared with 64·9 in the year 1910), but her territory has been curtailed, without reckoning the lost colonies, in comparison with 1913 by 13 per cent., cultivated land by 15 per cent., iron in the form of ore by 74·5 per cent. Those are losses which bring down the income of the present population far below the pre-war level, although this diminution cannot be expressed in figures.

I shall not go into the question, much discussed both in Germany and in other countries, whether the German nation would be able to provide the standard payments, or whether an effort to do so would result in a collapse akin to that of 1923 which caused a severe crisis over the whole world.

In connection with the Dawes Plan I will only remark that one must take care not to over-estimate the creative power of credit. Densely-populated industrial countries cannot bear the same rate of interest as countries which, like the United States, operate vast and hitherto unworked areas by extensive economic methods. For here the productivity of work done is incomparably higher, as also—in consequence—is the income from capital and the profit on undertakings. In the areas of high economic intensity, the output of labour and the profit on capital are limited by the law of diminishing returns on outlay.

If in Germany, in spite of all progress in the matter of credits since 1924, the farmers have still to pay 7 to 9 per cent. on long-

term well-secured loans, this is a percentage which the margin of profit cannot be made to cover.

The amount of unborrowed capital in Germany is still very small. It is true that the savings which had disappeared in the inflation have started again, but, at the end of February, 1927, the sums invested in savings banks did not total more than 18 per cent. of the entire amount at the end of the year 1913. On the other hand, the debts which had disappeared in the inflation period have reappeared very quickly under the stress of taxation and unfavourable price conditions. Including the revalorized old debts, the interest which has to be found is not less now than before the war. Including the increased charge due to taxation, agriculturists have to find nearly twice as much as in pre-war times; that is, taking into consideration the general devaluation of money, more than one and two-fifths as much as in pre-war times.

What is here said of Germany is true, *mutatis mutandis*, of all European countries and is the principal difference in comparison with the United States. The heavy unproductive expenditure of the State has to be obtained out of the taxes; and the high rates of interest, combined with heavy taxation, prevent the accumulation of new capital. What is true of agriculture is also true of continental industry. The high taxes and loan interest reduce its competitive capacity. Industry has to rationalize its working to the utmost, that is to say, has to apply work-saving methods. In this way more and more workers are thrown out of employment. The high taxes and debt interest in combination with the poorer marketing conditions are the reasons for the enormous unemployment figures which have become a permanent phenomenon of industrial Europe. It would seem to be the fate of this continent to suffer from unemployment, a fate which can only be temporarily averted by inflation and which entails a severe diminution of purchasing capacity, even where real wages are higher than before the war, as in Great Britain, Scandinavia and Switzerland. Germany, however, has both the highest unemployment figure and diminished real wages.

It is comprehensible that industry should seek to improve its position by means of protective tariffs, explaining them by the high taxes, social burdens and debt interest. Agriculturists then demand that the customs duty imposed on manufactured imports should be compensated by a protective tariff on agricultural produce. These demands are justified and logical enough from the point of view of the single undertaking or even of a whole branch of industry. But from the point of view of national economy, and *a fortiori* of world economy as a whole, they cannot

be recognized as a complete and permanently effective cure; for the result can only be to cause a general rise of the domestic price level, thus proving harmful to industrial exports; and, further, they entail increased difficulties in the situation of the workers and a fresh reduction of their purchasing capacity.

A real cure for the evil of world economic depression in general and of the agricultural crisis in particular can only be effected by removing the ultimate causes of this depression.

With regard to Eastern Europe, one may hope that the endeavours of the Governments and populations of those countries will in time succeed in gradually raising the productivity of peasant farming. Promising beginnings have been made. The reduction of the productivity of the soil in Central and Western Europe in consequence of the war is on the point of being overcome by conscientious work. Those are tasks which every nation must undertake and carry out for itself. Many improvements can be made in commercial and credit organization, but all these endeavours, and similarly the endeavours of this Conference to induce the separate nations to lower their protective tariffs, cannot be more than very moderately successful unless the principal wielders of economic power, at their head the United States, take the initiative in thoroughly reforming world economy. They cannot expect the smaller and the weaker nations to take the lead in removing impediments to commerce. It is in their power to raise the standard of living of the European industrial nations, to remove the curse of unemployment and to relieve the distress on their own farms. This assumes that the political debts of the various nations will soon be regulated in a way acceptable to all parties. This is the real solution of the world's economic problems. With the debt regulation should be organically bound up a reduction of unproductive expenditure in Europe and the removal of commercial impediments. A comprehensive plan of this kind would result in tax reduction, in a quickening of capital accumulation, and in the cessation, or at least diminution, of European unemployment; it would revive colonization and produce a general increase of prosperity. The terrible experiences of the war and of post-war years have proved that civilized humanity has a common destiny and that, if single nations be plunged into servitude and poverty, the whole of humanity is involved in suffering. From the recognition of this fact it is to be hoped that that feeling of solidarity will spring up on which President Wilson wished to found a fresh community of nations. Our Conference, however, will have solved its most important task if it succeeds in awakening in the public mind a keen sense of the interdependence of the peoples of the world.

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