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AGREEMENTS.



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state negotiations about equitable interest rates under present world conditions.

The World's Greatest Need.

What the world wants above everything else is a universal currency system. That does not mean that every State should give up its chosen currency unit—dollars, pounds, francs.

But it does mean that every State should measure its currency by the same standard, for which hitherto the world has found gold, and gold only, suitable.

Before the war we actually had this universal standard—namely, gold. It worked perfectly. The very conception of the "transfer problem" was unknown. It is true that the price of gold could, to some extent, be "managed," but the limits within which this could be done were very narrow and the operation had no appreciable effect on trade.

Since then the reparations payments and international debts have concentrated the world's gold reserves into fewer and fewer hands. I am constantly asked how I can go on advocating the gold standard for Germany when Germany has no gold. People will not believe in the efficacy of gold unless they can see the gold. But since the time when the rapidity of transport turned the world into a single economic organism the world has become dependent also on a single universal instrument of payment—gold. It is the only completely objective standard.

The absence of this unit-currency and the lack of confidence are bringing us to the point where nations feel outraged if they discover that their customers are selling more than they are buying.

The world is slowly sinking back to the practice of trade by barter. And yet the payment of Germany's debts depends essentially on her selling more than she buys to at least the value of the amounts she has to transfer.

In my opinion, world recovery will not come about until two conditions have been fulfilled. One, the return of the great nations to the gold standard; the other, the re-adoption of free trade. By that he does not mean that all import duties on manufactured goods must be abolished. Revenue duties have always existed without disturbing trade, because they are purposely designed to permit the exchange of goods. The greater the trade the greater the revenue. Prohibitive tariffs have the opposite aim.

Free trade is essential to the maintenance of the gold standard; because it is trade that enables gold to move about freely and perform its function. But Dr. Luther sees the best prospect for the fulfilment of these conditions if England takes the lead. What the world needs is both a clearing market and a universal currency. The nations had such a clearing market before the war in London. No other place in the world is so central. No other city has the centuries of tradition at its back. If trade were resumed the prospects for the London acceptance houses would be far brighter. But while England is highly protectionist, goods cannot pass that way. England's commercial greatness was due to the fact that London used to function as the pivot of world trade; England's enterprise was world-wide.

A beginning towards freer trade might be made, for example, by following the steps taken by Holland, Belgium and Luxemburg—by a progressive lowering of tariffs within such a union. But it can only be done quickly enough under the initiative of a powerful nation with world-wide interests, influence and prestige. And, above all, it demands co-operation of the Press to help the masses of voters behind the statesmen of every country to see what is necessary. Great changes cannot be made without public sympathy and approval. By doing this England could lead the world to a brighter future."

DIREKTOR HANS KRAEMER.

Among his colleagues and friends Herr Direktor Kraemer is usually referred to as "Clever Hans," while in international circles he is acknowledged to be one of Germany's most brilliant thinkers and keenest economic experts.

Although he is on the presidential Board of the Federation of German Industries and a prominent figure in the Reich's Economic Council—that body of experts which advises the German Government on the practical aspects of all Bills affecting economic affairs that come before the Reichstag—and has been a delegate at every international conference from Versailles to Lausanne, Herr Kraemer's chief activity is still that of a private business man. For many years he was managing director of Rotophot A.G., one of Germany's finest printing works.

Endowed with an almost uncanny faculty for seeing straight to the crux of those confusing economic tangles that to-day play such a predominating part in international politics, his life as a leading industrialist and man of affairs has kept him from becoming an unpractical theorist.

LEADING INDUSTRIALIST'S STRONG VIEWS.

USELESS CONFERENCES.

TRADE, NOT LOANS, THE PRIMARY NECESSITY.

What Mr. R. J. Barrett, Managing Editor of *THE FINANCIAL TIMES*, learned during his recent researches in Germany is summarised in the current series of articles, of which this is the second.

So much seems to depend on the outcome of the projected World Economic Conference that Mr. Barrett decided to obtain the views of Herr Direktor Hans Kraemer, one of Germany's leading industrialists, as to what Germany really hopes to see accomplished.

The answer, which contained many surprises, is given in the following article.

"Orders—not money. Orders—not money," repeated Herr Direktor Hans Kraemer at the door as he shook hands cordially after the talk was over, thus crystallising into three words the essentials of the whole German problem he had just reviewed so lucidly. The brevity of the formula gives an exact picture of the man.

In opening the conversation, I had suggested that, if the World Economic Conference were to succeed in paving the way to freer markets, Germany would presumably need the help of London in reborrowing part of the £300,000,000 or more paid back to foreign creditors within the past two

years, as a direct result of which many business operations in which the capital had till then been actively employed had to be suspended.

"The World Economic Conference?" exclaimed Herr Kraemer, in surprise. "Do you honestly expect any result worth mentioning to come of it? Those who are just now predicting that a new era of prosperity will follow show an optimism not justified by facts. What practical results ever came of the Genoa Conference of 1922? The experts there assembled correctly diagnosed the causes of the economic derangements from which the world was then suffering and said what would happen if these

were not removed. Had we acted at once the world crisis would never have arisen.

Gravity of the Position.

"But once the conference broke up, its recommendations were forgotten. Public opinion had not been prepared for the sweeping but indispensable changes.

Matters have become far more complicated since then. Many evils threaten to become chronic.

"Public opinion is farther than ever from being ripe for the drastic treatment that has by this time become necessary. Economic confusion increases faster than public understanding develops. The Press in the present crisis bears an enormous responsibility. No other educative medium can work fast enough.

"Unless a consistent effort is made to enlighten the wide masses of people in all countries to the real gravity and urgency of modern economic problems world conferences will effect nothing. Statesmen cannot act without public approval at their backs.

"England is no exception to this rule. Without our ever having clearly realised it, the pre-war world had evolved into a piece of fine-adjusted, perfectly-adapted economic mechanism. Under the regime of Free Trade, London had become the world's market for a great many commodities. Based on gold with an absolutely rigid value, the pound sterling had become the currency of world trade. The vast quantities of goods sold through London kept the world busy. London took its profit. Protection and currency instability have killed the business.

An Indispensable Part.

"We have at last begun to realise that this centralised market for goods and money was an indispensable part of the world's economic machinery.

Without, of course, intending to do so, England, in abandoning the gold standard and adopting Protection as a fiscal policy, has removed one of the essential parts of the world economic machine.

"No substitute is available. Paris can never supplant London as the world's Money market nor Amsterdam serve as a world merchandise exchange, while New York is too far away. The world will never recover until London resumes its old function.

"This means that, before any international conference can help matters, the pound sterling must be stabilised on gold. That does not necessarily mean a return to parity. What is needed first and foremost is the restoration of confidence. As long as the value of the world's chief currency fluctuates incessantly every business deal becomes a gamble. A margin of 5 per cent. or more to cover the currency fluctuation risk must be calculated into every transaction. If the pound changes its value considerably in the course of a current contract, the business inevitably brings loss, perhaps even catastrophe, to one party or the other. Someone is certain to be hurt, either by a fall or by a rise.

"In such circumstances, people are afraid to engage on operations that need a long time for their completion. Nobody wants to lend on long term. What the world wants is at least one currency whose value remains unchanged and whose stability is beyond all possibility of attack.

"Unless England stabilises the pound soon—at latest by next April—the advantages gained by the abandonment of the gold standard will disappear. But the longer the present uncertainty lasts, the greater the want of confidence will become. The depreciation of sterling dragged a number of other currencies off the gold standard at once. Since then many more have followed.

"Already the confidence in the dollar is weakened. We have got to the stage

when even a gold cover of 100 per cent. cannot safeguard the currency permanently. France has gold enough, but its economic and budgetary outlook is growing worse at an alarming rate. Countries like Holland and Switzerland, despite their gold reserves and accumulated wealth, are in a desperate way, chiefly because other countries like Germany, with its 65,000,000 of buyers, have to restrict their consumption of imported foodstuffs and to discourage their nationals from spending their holidays abroad.

"Gold or its equivalent is now being demanded for all international payments. Unless there is an early restoration of the leading currencies to the gold standard, no currency will withstand the strain. In the chaos that would then result, every vestige of confidence would disappear.

Frequent Tariff Changes.

"This uncertainty about the future of the currencies of the great countries of the world is largely responsible for the dislocation of trade. To protect their currencies, countries believe it to be necessary to make frequent changes in their Customs tariffs so as to restrict import.

Every country has for a long time been following the policy of trying to make export a maximum and import a minimum. As if everybody could sell and nobody buy.

"How can a business man plan for years ahead—as we all used to do—to improve his factory, train a more expert staff, promote industrial research, advertise his products on distant markets and build up the needful distributing organisation if he does not know from day to day what Customs tariffs or import restrictions or contracted quota may be decreed by countries to which he exports? Here, too, stability is essential. Confidence is destroyed by uncertainty.

"Absolute free trade is not essential. The discrepancies that have grown up in recent years are too great to permit us to dispense entirely with tariffs for the present. When, for example, one considers the differences in the cost of production of many prime raw materials, one sees that, for the time being, there must be some way of making adjustments.

Intentional Obstruction.

"The workers in the copper mines of Belgian Congo get 22½ Belgian francs per month, those of British South Africa are paid 22½ shillings per month, while miners in the United States have to receive \$22½ per week. Unrefined sugar costs in New York at the moment Rm.3.05 per cwt, refined sugar Rm.5. This is imported merchandise. In Germany, refined sugar costs Rm.31 per cwt. And Germany is a sugar-exporting country! In some cocoa-producing countries it costs more to pick the pods from the trees than is obtained from the sale of prepared cocoa grown in other countries.

"In such circumstances, how could the produce of all countries find a sale on the world's markets at the same time?

Temporarily, tariffs must be used as a corrective. But the evil of tariffs arises when they are used not as a judicious regulator of trade but as an intentional obstruction.

"In the latter case, the enterprise of the business man has no sooner found some way of doing trade despite the tariff than new restrictions are invented to checkmate him. Just as in the case of currencies, what the world needs for the restoration of confidence is stability.

"Every time tariffs are changed, trade suffers new dislocations. Even when a tariff is imposed as a temporary provision there is great danger, since new businesses spring up under the protection of the tariff, so that it becomes increasingly difficult later to remove the barrier.

"All the countries of the world have raised insurmountable walls against one another, but have forgotten to put in the doors. And

that is precisely what creates the transfer problem. For decades before the war Germany did an immense finance business with London. Did anyone ever hear of credits becoming 'frozen'? Did anybody ever suggest that Germany might try to evade her obligations? Why should such an intention be hinted at now?

"The fact is that most German firms are both willing and able to pay—in reichsmarks. The case of the amount of \$25,000,000 owing by the Deutsche Bank to American creditors which becomes due in September is a typical case. The reichsmark is a gold currency with full, unimpaired purchasing power. Those creditors prepared to accept reichsmarks will receive their capital back in full. But the Deutsche Bank cannot pay in dollars, simply because dollars are not to be had. We cannot print dollar notes in Germany. We can only get them by selling goods. If you stop the exchange of goods you stop the possibility of making payments.

"Answering your original question, I can only say that Germany is not in need either of long-term loans or of short-term credits, except reimbours (self-liquidating) credits. The 'standstill' agreement has done immense damage. Hundreds of firms that had credits in London for use as required were cut off by the 'standstill' agreement from their financial machinery. Protection provided for the benefit of certain weak businesses meant crippling many strong ones. Admittedly, it enabled Germany to keep to the gold standard. And as long as Dr. Hans Luther remains governor of the Reichsbank Germany is not likely to leave gold. But the price is the shrinkage of our volume of business.

"'Orders—not money' is the formula that alone can solve the German debt question. No world economic conference can do anything substantial to mend matters until currencies are stable and international trade possible."

GRAF SCHWERIN VON KROSICK.

Among the men of present-day Germany whose personalities make a profound impression on the British visitor is the Minister of Finance, Graf Schwerin von Krosick.

Just forty-five years of age, scholarly and almost ascetic in appearance, the Minister would seem unusually young to cope with the immense responsibilities of the moment were it not for the fact that his quiet, clear, concise answers reveal the pre-eminent ability, the strength of character and the extensive experience that justify his appointment.

Though educated for the law, Graf Schwerin von Krosick entered the service of the Ministry of Finance as early as 1920. His rise was rapid. Since 1st January, 1929, he was Chief of the Budget Department until made Minister in June, 1932. His official career has given him a complete mastery of the machinery of public and State finance.

Part of his student days were spent at Oxford. They have distinctly left their marks. In discussing to-day's problems, the Minister weighed every word as carefully as if he were pleading a case at the Bar. Every answer was of clear-cut, mathematical precision.

FINANCE MINISTER AND INTEREST RATES.

KEY TO THE SITUATION.

MUTUAL AGREEMENT NECESSARY BEFORE REDUCTION.

Continuing his series of articles on Germany's problems, Mr. R. J. Barrett, Managing Editor of *THE FINANCIAL TIMES*, who recently returned from a long stay in Germany, to-day sets out the attitude of the Minister of Finance toward interest rates and public and private debts.

The Minister directed attention to the fact that in the case of private debts the difficulty is of finding some means of bringing debtor and creditor together. Creditors are scattered all over the world and there is nobody legally empowered to act on their behalf.

Representative bodies of debtors and creditors might arrange meetings through the Central Banks of the creditor countries and the Reichsbank. This would take time and the necessity for speedy action is very great.

"You expect straightforward, conclusive statements about many matters of extreme complexity with whose treatment the Cabinet itself is still grappling," said the Minister of Finance (Graf Schwerin von Krosigk) with a smile. "In the circumstances, the best I can do is to show you the nature of our problems and suggest the direction in which their solution might be sought.

"Public opinion is just now very much agitated about the suggestion that the present German Government might decree a radical cut in the interest rates on all home and foreign loans and credits, or even go so far as to enforce a scaling down of the capital value of the debts themselves.

"The question of interest rates is a key problem in Germany. Moreover, it has become one of the foremost subjects of political controversy. If a plebiscite were to be taken at this moment, it is very probable that a great majority would be found to favour the forcible reduction of interest rates, while there would be no sanction obtainable for the scaling down of debts. Doubtless you will object that the man in the street is not equipped with enough knowledge of the technical processes of finance to be allowed the last word on such a sweeping change. But the fact is that Governments cannot rule without the approval of public opinion.

No One-sided Regulation.

"Our desire is to avoid a one-sided regulation of the problem." (Since this talk occurred, the Minister for Economic Affairs, Dr. Warmbold, has

denied categorically that the present Government will deal with the interest and private debts problems by dictatorial decree.

It is, in fact, stated that the Cabinet has never contemplated such measures.)

"Whatever changes have to be made must be the outcome of mutual agreement. In the case of the private debts the difficulty is in finding some means of bringing creditors and debtors into direct contact so that they may negotiate. The creditors are scattered over a great many different countries. They are not organised in any way. There is nobody legally empowered to act on their behalf.

"There is, of course, no inherent reason why representative bodies should not be formed and authorised to act," continued the Minister. [My own opinion is this could be most readily arranged through the central note banks of the various countries, perhaps even through the Bank for International Settlements.—R. J. B.]

Diminished Reserves.

"But this would take considerable time. Public opinion in the creditor countries would have to be brought to see the necessity of the step. Meanwhile the urgency is very great. Without desiring to do so, the Government might be compelled by the emergencies of the situation to act in a decisive manner, no matter how distasteful such a course would be.

Clearly it is impossible for us to continue indefinitely to make huge payments out of capital.

"If the machinery of production itself has to be sold off to pay the bailiffs, the debtor will come to the end

of his resources long before the debt is liquidated. It is unsound to enforce payments except out of earnings. The constant increase of private indebtedness brought about by the necessity of keeping up reparations payments was, in effect, an inroad into our diminished capital reserves.

"After all, the holdings of foreign exchange at the Reichsbank—out of which foreign interest and amortisation payments are made—are at a dangerously low ebb. Unless extreme care is exercised, we shall get nearer and nearer to the point where there is no cover behind our currency at all. So long as the cover is below the statutory minimum, the public is uneasy and confidence in the reichsmark suffers. The minimum legal cover is 40 per cent. At present the cover oscillates around 25 per cent. But quite apart from that, we dare not allow the reserves to shrink to such a narrow margin that we should be unable to cope with any unexpected emergency.

"As you know, much of the existing private indebtedness of Germany is the direct outcome of reparations payments. Money had to be found to keep the instalments paid as they fell due. But every precaution was taken by the German Government at the time to see that debts were not contracted for non-productive purposes. The Ministry of Finance set up an Advisory Board to which all proposed loan transactions had to be submitted."

Since then, Graf Schwerin continued, world conditions had changed radically. Interest rates on the money lent to Germany were abnormally high. All these post-inflation loans were based on gold and the interest made payable in gold equivalents. Since 1929 gold had risen enormously in value. The debt service had become correspondingly heavier. Were prices to rise again, many of Germany's present problems would solve themselves automatically.

“Countries that had bought from us for generations shut up their markets. This was a development nobody expected on such a scale. Export being hindered, many purposes for which borrowed money had been used ceased to be self-liquidating.

In such cases we cannot be reproached with having borrowed carelessly.

Two Ways Open.

“To cope with the private debt burden in existing circumstances two ways—in theory—are open. One is by the revaluation of the currency, the other is through the general lowering of interest rates.

“There is no intention of trying any experiments with the reichsmark. In Germany such manipulations involve too many dangers.

“The second way is also full of perils. The adaptation of the debt service on the foreign indebtedness to the present situation can, as has been said, only be achieved by mutual agreement. In actual fact, the interest rates at present are much too high. That is true not only for the foreign, but above all also for the inland debts.

“Conversion on the principle and scale so admirably undertaken in England is, for the moment, impossible in Germany. A normal Money market and public confidence are essential. Even England, whose converted securities were at par, had to proceed cautiously and wait a long time for the favourable moment.

Just now our standard securities, which were at par till June, 1931, are at a considerable discount. England has both lowered the value of her currency and reduced her debt service. Our economic position is affected very unfavourably by England's success.

Germany is not in the position to follow either example.

“In reality, it is not possible to fix interest rates arbitrarily. The law of supply and demand continues to operate. Nominally,

for instance, our Gold Mortgage bonds (gilt-edged), which stood at 100 a year ago and yielded 8 per cent., are now obtainable for 65-70, bearing nominally 6 per cent. (Interest rates were lowered by decree in December, 1931.) The actual yield to those who buy now is therefore over 9 per cent.

“By a general forced conversion at this moment, those who bought their bonds at 100 would suffer a further reduction of income and be hit far more severely than those who acquired at 65. This class of security is specially sought by the small saver, not the speculator.

Distinction Between Creditors.

“Moreover, conversion by decree would make no distinction between those responsible for their own misfortune and those whose embarrassments are due to forces beyond their control. There would be no justice in protecting the insolvent borrower at the expense of the thrifty lender. Such a policy would destroy the very confidence we are trying to create. People would fear that the step might be repeated.

“To ease the general situation, we should very much like to lower taxation, thus permitting people to spend more of their incomes, thereby creating employment and relieving the Exchequer of the payment of doles. What we should lose by lower rates of taxation might be compensated by the increase in the number of taxpayers. But such a process takes time to complete itself. A failure in the experiment would mean catastrophe. The lag is the real danger. That is why, in the immediate future, a general lowering of taxation can hardly be attempted.

“With regard to the ‘standstill’ debts, large transfers cannot be undertaken simply because the exchange is not obtainable. The case of the \$25,000,000 repayment due in September by the Deutsche Bank is typical. Unless the creditors are prepared to accept marks for use in buying German goods, the only possibility would be the issue of gold certificates for the amounts in question, redeemable by the German Government at parity at its option whenever the Reichsbank has acquired the requisite exchange. This method would at least give the creditors something tangible and negotiable.

“But whatever way you view the problem,” the Minister said in conclusion, “it all comes back to the basic fact that Germany can only pay in goods. There is no other way.”

MINISTRY OF ECONOMIC AFFAIRS.

Those whose talks with Mr. R. J. Barrett, Managing Editor of "The Financial Times," have been reproduced in this series of articles have all asserted that at least one condition is indispensable for the solution of the German debts problem—namely, open markets.

Clearly, then, Germany will concentrate all at the coming World Economic Conference on attaining this end. Mr. Barrett therefore decided to press for a clear, authoritative statement on Germany's plan of attack. Who would be in the position to furnish this?

Quite close to Berlin's famous Tiergarten—that extensive forest of oak and elm right in the heart of the capital—is the quiet, residential Viktoriastrasse, the veritable Park Lane of Berlin. One of its elegant, modern buildings, over whose facade ivy is already clustering, stands back from the street, surrounded by well-kept lawns. Not two minutes' walk away the roar of the traffic is deafening. But here, the whole seems emblematic of seclusion, repose, meditation. This is the German Ministry for Economic Affairs.

Inside—its silent corridors strongly suggest the cloister. Its rooms, simply and comfortably furnished in excellent taste, are separated from one another by sound-proof walls. All its colours, subdued in tone, blend harmoniously. Nothing jars or distracts. Here are kept busy the men who plan the future commercial policy of Germany. Here it is that Mr. Barrett came to ask what Germany intends to do at the coming conference.

All the information in the accompanying article was supplied by persons at work in this human hive. As far as memory and translation permit, their statements are given in the actual words used.

CONDITION INDISPENSABLE TO SOLUTION.

FOREIGN MARKETS.

TASK BEFORE WORLD ECONOMIC CONFERENCE.

What Germany expects of the World Economic Conference is determined by the extent of her private indebtedness to foreign creditors. To realise how difficult the task is, as well as to see how vitally the interests of the creditors are affected, it is essential to bear certain statistical facts in mind.

At the end of February, 1932, Germany's total credit indebtedness amounted to Rm.20.6 Millions (Mds). Of this, Rm.10.15 Mds represented short-term credits due before the end of February, 1933. Rm.10.47 Mds were long-term debts repayable after February, 1933. About half of the short-term credits—Rm.5.04 Mds to be exact—is subject to the Standstill Credit Agreement of 1932.

To these amounts must be added the foreign capital in Germany invested in Industrial shares, fixed-interest securities, house and landed property and participations in German businesses. According to the estimates of the Second Basle Conference of Experts, held in December, 1931, these direct investments amounted to between Rm.4.9 and Rm.5.9 Mds.

So that, altogether, the total amount of foreign capital in Germany at the end of February, 1932, was between Rm.25.6 and Rm.26.6 Mds.

These figures have altered very little since. About Rm.8.4 Mds, or 40 per cent. of the total, has been advanced by foreign banks, the rest by private persons. Of the short-term credits, advances account for Rm.3.2 Mds, self-liquidating credits Rm.3.3 Mds. The long-term debts are mostly loans. At that time Germany's chief creditor was the United States of America, whose claim amounted to Rm.8.4 Mds on 29th February, 1932, or about 40 per cent. of Germany's foreign private debts. On that date Holland, Switzerland and Great Britain had claims amounting to

Rm.9.2 Mds, or 44 per cent. of the total. The rest—16 per cent.—was spread over a great many countries.

"What really matters for the moment," said one of my official informants, "is not the amount of the indebtedness itself but the sum required for the yearly debt service. Amortisation payments can be effected by the taking up of new credits, whereas interest payments have to be met in full. The essential figure is, therefore, the one denoting what Germany has to pay per year to other countries in interest.

"Estimates carefully prepared by the German Record Office for Foreign Debts show that during the 'standstill' year 1932-33 (1st March, 1932, to 28th February, 1933) Germany has to pay foreign countries interest amounting to Rm.1,225 millions, of which one-half is interest on short-term and one-half on long-term credits.

"Then come the amortisations. Of the regular periodic instalment repayments, Germany has Rm.213 millions to pay in that year, while the once-recurring amortisations total Rm.300 millions. Altogether, therefore, Germany has to transfer during the "standstill" year 1932-33 an amount of Rm.1,738 millions, to which a further possible Rm.100 millions must be added for sums not reported to the Debt Records Office.

Enormous Debt Service.

"Thus the German balance of payments for the year March, 1932-February, 1933, is burdened with a debt service of Rm.1.8 Mds. Even if one assumes that a part of the extraordinary amortisations will presently cease, there is no escaping the fact that,

in the next few years, Germany will have to provide for a fairly steady foreign debt service of Rm.1.5 Mds (£75,000,000 at par).

"By far the greater part of this service can only be met out of the surplus

of exported over imported goods, because the surplus sums earned by Germany through services rendered foreign countries are so small that they do not account for more than one-tenth of the present debt service (Rm.1.5 Mds).

"With world trade hindered as it is at present, Germany cannot create an annual surplus of anything like Rm.1.5 Mds by its foreign trade. This, in fact, would only be possible if both import and export were to grow far beyond their present volume.

This expansion also presupposes that the extent of the German home market would be greatly widened, for only in that case could the German people as a whole continue to create new wealth on a sufficient scale to permit of their parting with such a large sum yearly without suffering. Export prices can only be kept competitive if the turn over is large.

"Germany can, in fact, only maintain its debt service if all creditor countries are prepared to accept the necessary volume of goods equivalent to their respective claims for interest and amortisation.

Hence the creditors themselves have the moral obligation to remove the hindrances to trade that now prevent the delivery of goods necessary to discharge the debts due by Germany.

"That is to say, the world faces the alternative either (1) of removing the obstacles that prevent Germany paying what she owes, or (2) of forgoing—temporarily or permanently—the repayment of the private debts contracted by Germany under quite different economic conditions and suppositions. That is the task the World Economic Conference has to undertake. Germany is ready to do its part in working any scheme devised to lighten its load and enable the country to maintain its economic activity.

"There is not a moment to be lost," emphasised another well-known autho-

rity in the Ministry. "Among its recommendations the Hague Finance Conference of 1920 stated: ' . . . Only if we recognise that the time has come in which all countries must help one another may we hope to create that atmosphere by which the restoration of normal conditions and the end of our present troubles may be expected. Finally, the undersigned wish to give expression to their conviction that we have before us problems of the utmost urgency for which solutions should be found without delay. Every month that passes will make the problems more refractory and render their ultimate solution still harder.

"All the available evidence leads to the conviction that Europe has extremely critical times to face, and that no time should be lost if catastrophes are to be avoided.' This warning was unheeded. According to programme, the catastrophes arrived.

Ever since that time we have consistently made one fundamental mistake that the conference warned us against—

not because we lack the requisite knowledge, but because we have been unwilling to face the plain facts.

"In the first four years after the end of the war, when economic chaos and currency demoralisation scourged almost every country of the world, every Government sought to protect itself by hermetically sealing its market against import while making strenuous efforts to increase its export. That is, every country tried to throw the burden on to the world market. Nobody seemed to consider that the world market is nothing more nor less than the sum total of all the individual markets.

"The import of one country is the export of some other. Hence the universal policy of throwing the burden on to the world market in the end recoiled on every country alike.

"Advocates of the policy of economic self-sufficiency have never been wanting

in any country. But since 1925, when the world currencies returned to gold, trade barriers were progressively lowered and the world began to recover that organic economic unity it possessed before the war without clearly knowing it.

"This spontaneous trend of development back to the pre-war state went on with respect to one market only—that for goods. It was not allowed to occur in the labour market or the capital market. Immigration restriction laws prevented workers moving away from congested areas, thus relieving the tension. Reparations and international war debts kept capital from flowing naturally to where it was really wanted. Quite artificial conditions were created that prevented the forces of convalescence from acting.

"No account in practice has ever been taken of the fact that all three markets—goods, labour, capital—depend on one another. Failure to admit these intimate relationships was the real reason of the sterility of the World Economic Conference of 1927. That conference confined itself entirely to studying questions of international trade, neglecting those of labour and finance. In demanding open markets, Germany does not wish to create the impression that freer trade alone will solve all our troubles.

"The best proof that the world is still hypnotised by dreams of economic self-sufficiency and is blinded to the interdependence of the markets for goods, labour and capital is the fact that creditor countries at one and the same time demand payment of debts and refuse to accept delivery of goods.

COURSE OF EXPORTS.

"That Germany would be capable of meeting all its obligations if permitted to do so is seen from the development of its export since 1925 (when Germany returned to the gold standard and recovered its right to make trade treaties). Export rose from Rm.9.2 Mds in 1925 to Rm.13.5 Mds in 1929. But by 1931, under the universal return to the policy of economic self-sufficiency, export had fallen to Rm.9.6 Mds. But whereas in 1929 Germany was export-

ing 31 per cent. of its total production, in 1931 the proportion had risen to 38 per cent., despite the shrinkage of world trade. This shows the intensity of our national effort.

"On the basis of such statistics," interpolated my first informant, "attempts are constantly being made to prove that Germany could easily maintain, year by year, this or that surplus of export over import for the payment of its creditors. At every international conference the same question isavelled in an exasperated way at the German delegation: 'Well, what amount could you pay?'"

"No clear answer can honestly be given. It all depends on the total volume of world trade. And this, in turn, depends on the stability of the world's currencies, so that, strictly speaking, the restoration of currency stability must come first. When this step was taken in 1925, trade barriers began to fall automatically. With currency decay, the policy of economic self-sufficiency came into fashion again, as it had done in 1920.

RAW MATERIAL PRICES.

"Moreover, one must not lose sight of the fact that the export surplus Germany has created of late has been largely due to the fact that the prices of raw materials have been falling faster than those of manufactured goods. In a word, Germany has been buying cheap and selling dear. World recovery must start with the rise of raw material prices. While these are moving upwards Germany will be buying dear and selling (relatively) cheap. The present surplus, measured by values, must consequently shrink, even though the bulk of exported goods does not diminish.

"Germany expects the World Economic Conference to find a solution of the problem of private indebtedness and to establish a general economic policy for the whole world, such that Germany will thereby be enabled to discharge her obligations in full as 'ein ehrbarer Kaufmann' — 'an honourable business man.'"

DOKTOR EDUARD HAMM.

Ever since the war ended, Doktor Eduard Hamm has been one of the outstanding authorities on all matters connected with the promotion of German commerce. Born in Bavaria in 1879, he was educated for the profession of law. But in 1919, his strong leaning towards, and his natural aptitude for, a business career brought him the portfolio of Bavarian Minister for Trade.

After three years of office, Dr. Hamm was called to Berlin to the post of Reichs-Minister for Economic Affairs. What were, beyond doubt, the most tempestuous years that Germany has ever passed through then followed. The military occupation of the Ruhr paralysed industry. The headlong depreciation of the German mark created new problems for the Minister every day.

During Dr. Hamm's term of office the currency was stabilised. The Dawes Plan, putting reparations on to a new footing, was adopted. Amid such crises, only men of extraordinary capacity were equipped to wrestle with the tasks of government. His colleagues in the Cabinet at that time were Doktor Gustav Stresemann and Doktor Hans Luther.

Since 1925 Dr. Hamm has devoted his entire energies to unravelling those tangles into which German commerce is constantly being drawn. Among his other appointments, the former Minister for Economics is now principal member of the governing Board of the Deutscher Industrie und Handelstag (Associated German Chambers of Industry and Commerce).

As Director of the Chief Committee on Travel Industries, Dr. Hamm takes a keen personal interest, far exceeding the normal claims of office, in developing this comparatively new German industry.

GENERAL AGREEMENT ON SEVERAL POINTS.

VALUE OF INVISIBLE EXPORTS.

POSSIBLE LARGE REVENUE FROM TOURIST TRAFFIC.

After one has been studying the question of German indebtedness for some time, certain points of agreement in the opinions expressed by all competent judges of the situation begin to emerge. For instance, that for the next few years the average sum that Germany will have to transfer is in the neighbourhood of, but probably not less than, Rm.1.5 Billiards (Mds) or £75,000,000 at par. Next, it seems to be the universal conviction that substantial payments can only be made by the export of goods. Thirdly, that the export surplus in the current year will not reach anything like Rm.1.5 Mds, so that there will be no possibility of transferring the whole amount due for interest and amortisation.

The fourth and last link in this chain of reasoning is that either the demands of the creditors must be reduced or restrictions imposed by the creditor countries against the import of German goods must be removed. Frequently, in fact, one even hears it said that as the creditors themselves have changed the conditions prevailing at the time the money was borrowed, the moral responsibility rests with them for finding a solution of the present problem.

One is forcibly struck by the fact that the possibility of a more intensive exploitation of the "invisible exports"—international services—is passed over in silence. By one official source, it is true,

the statement was made that all such earnings "are so small that they only amount to about one-tenth of the yearly debt service of Rm.1.5 Mds." The essential question is, not what is being earned from these sources now, but what they might be made to yield if handled in the right way.

Among the chief items of this category are freights and passenger fares in German ships, insurance premiums, bank charges, commissions and the outlays by foreigners travelling through Germany. It may be admitted that as regards the first five items named little improvement might be expected, since the competition with foreign countries is already severe. But as regards the increase of German earnings from tourist traffic, we have very recent statements of prominent German experts indicating that here lies an almost unexploited and promising field where well-directed effort could go a long way towards solving the whole transfer problem.

Researches undertaken by the League of Nations on the subject of the balance of international payments show that normally the total amount spent every year by the nationals of the thirty countries considered must be about Rm.6 Mds, or £300,000,000 at par. About one-third of this comes to Europe. Although 1929 was a peak year, its figures are convenient for comparison in this case, seeing that we want to arrive at what Germany might reasonably be expected to earn ultimately from this source.

Switzerland \$38.6 millions (1926), Austria \$28.2 millions and Belgium \$29.2 millions. Germany actually spent \$31 millions more on tourism than she earned therefrom. Foreigners in 1929 spent altogether in Germany \$45.3 millions (German statistics say Rm.190 millions), but German nationals left no less than \$76.3 millions (German figures Rm.300 millions) in foreign countries.

The chief tourist countries of Europe are France, Italy, Switzerland, Austria and Belgium in that order. In 1929 all of these countries earned substantial net amounts from tourism, France \$333.2 millions, Italy \$128.7 millions (1927),

Towards the end of 1927 the potentialities of this industry, till then not intensively developed, were realised in Germany. In a lecture delivered by Professor Dr. K. Thiess in Düsseldorf, entitled "Tourism and the Balance of Payments," it was shown that citizens of the United States spent \$646 millions more on foreign travel than foreigners spent in the United States.

French Example.

In reichsmarks this amounts to Rm.2½ Mds—the sum Germany was expected to pay in a full Dawes year.

The professor startled his hearers by arriving at the conclusion that tourist traffic, properly nurtured, might be made to solve the whole transfer problem.

That this was no grotesque dream is seen from the way the German earnings from tourism began to increase from that moment. From authentic sources it is well known that France earns year by year from this industry net sums varying from Rm.1.2 Mds to Rm.2.5 Mds. In 1929 the yield was \$333.2 millions, or Rm.1,400 millions, slightly less than what Germany now has to transfer.

According to official figures published by the United States Department of Commerce on "The Balance of International Payments of the United States," the amounts spent by American travellers in Europe totalled \$300 millions in 1927 and \$335 millions in 1929. Of these sums, France obtained \$190,000,000 in 1927, or nearly two-thirds, while Germany received only \$20,000,000. That is, before Professor Thiess's speech, France earned from American travellers 9½ times as much as Germany.

By 1929 the picture had changed. In that year France earned only \$160,000,000, or less than half the total American outlays (\$335 millions), whereas Germany collected \$52,122,000. France was now earning not 9½ times as much as Germany, but only three times. (German computations set the absolute figures lower. The discrepancy is no doubt due to methods of computation.)

In actual fact France had lost trade valued at \$30,000,000, while Germany had gained to the extent of \$32,000,000. Could anything prove more conclusively the potentialities of this hitherto neglected source of earnings?

Unfortunately, the world crisis began to become acute in 1930, so that the travel industries of all countries suffered. It is a very striking fact that even in this period Germany, in 1930, for the first time, earned as much from her tourist business as her nationals spent on travel abroad, while in 1931 there was a slight surplus in her favour.

So sudden was the rise of the German quota that other countries felt threatened. In France the Tardieu Government voted large sums to modernise and intensify French propaganda in foreign countries. The world crisis by intervening obscured the effects obtained, but experts believe that the rivalry would in the end increase the total number of travellers coming to Europe, rather than check the growth of the young German industry.

To find what is expected from the future by official circles in Germany, I had a talk with the former Minister for Economic Affairs, Doktor Eduard Hamm, under whose supervision the development of this industry is placed. After confirming the correctness of the general conclusions I have just outlined, Dr. Hamm said:

Sharp Decline.

"It is true that prevailing circumstances will compel us to pay more attention than heretofore to the possibility of increasing our invisible exports. Much has already been done. In

1924 foreigners spent only Rm.100 millions in Germany, in 1929 Rm.190 millions. But so much money was spent by Germans abroad that even in 1929 we had a net deficit from the travel industry, including passenger fares, of Rm.40 millions.

But by 1930 this had turned into a surplus of Rm.35 millions, and in 1931 a surplus of Rm.40 millions.

"The preliminary figures for 1932 show a sharp decline. In the first half of the year only 334,700 foreigners registered with the police, as against 487,800 for the same period of last year. The number of hotel rooms hired has fallen by one-third. The depreciation of the pound sterling has led to a great shrinkage of trade. In 1930 11.4 per cent. of all foreigners arriving in Germany were from England and Northern Ireland, in the last quarter of 1931 only 7.4 per cent. and in the first quarter of 1932 about 6 per cent.

"There is, therefore, no likelihood that the invisible exports from this section will contribute much towards the transfer process this year.

"According to American statistics, the outlays of travellers from the United States to foreign countries fell from \$824 millions in 1928 to \$570 millions in 1931. Americans have frequently asserted that their substantial active balance of trade and the heavy interest payments receivable by the United States from Europe are to a considerable extent—if not altogether—squared by the expenditure of American travellers in Europe. Taking Europe as a whole, this may be true. For Germany alone, it is not so.

SERIOUS TASK.

"Here, beyond doubt, is one of the serious tasks for the future. In 1930 France earned from tourism a net surplus of almost Rm.2½ Mds—even in 1931 Rm.1.65 Mds (Germany, as has been shown, has - to

transfer altogether Rm.1½ Mds). If the nationals of the creditor countries could be induced to spend their holidays in Germany one of the most important European problems, that of the payment of Germany's foreign obligations, would undoubtedly be brought very much nearer solution. In its scenic charm, its historic shrines, its art treasures, its cultural movements, its social work, its chamber music, its opera, its spas, sanatoria, seaside resorts, sport, wines, cuisine, light amusements, its ancient trade fairs, its famous achievements in science, industry and architecture—Germany has a greater variety of attractions to offer the foreign traveller than any other European country. These advantages must be adequately emphasised in Germany's tourist propaganda."

This exactly confirms my own conclusions. In this case, at any rate, competitor countries cannot raise Customs barriers to prevent Germany doing business. All the equipment—railways, motor-cars, aeroplanes, river steamers, hotels, operas, cabarets, cinemas—are there, and all excellent. Above all, this is an industry that could be developed quickly, without leading to great dislocations on the world market.

PRIME NECESSITY.

What is absolutely necessary is the right kind of propaganda in the right quantity. Considering that this industry for a given turnover finds employment for more persons than any other, it is incredible, as official American publications emphasise, that Germany is the only country in the world where the travel industry receives no financial support whatever from the Government. This is all the more remarkable in view of the huge sums now being voted in Germany for relief work.

Dr. Julius Klein, expert on invisible exports in the United States Bureau of Foreign and Domestic Commerce, in his report for 1931, maintains that nothing but the right kind of propaganda is needed in order to gain for Germany a more appropriate share of this trade. Even Soviet Russia in 1931 earned

\$10 millions from travelling Americans, whereas Germany only succeeded in obtaining \$8.25 millions from the same source. The German Press, in discussing these figures, attributes the success of Soviet Russia to its superior propaganda.

The entire sum available in Germany for promoting travel from foreign countries does not exceed £150,000 per year. The amount depends on profits made by the German railways.

Out of this sum the entire costs of accommodation, administration and printing matter of the offices in Berlin, London, Paris and New York have to be borne. The actual publicity matter is thus forcibly restricted almost entirely to pamphlets and folders, excellent in their way, but inadequate. Almost nothing remains for advertising in the daily Press of the countries concerned. In Germany itself about Rm.12,000,000 (£600,000 at par) is said to be spent privately, but this has hardly any effect on attracting guests from foreign countries.

PSYCHOLOGICAL FACTOR.

Above all, the psychological factor is important. What is the use of having attractions if attention is not called to them in the right way? Very little appreciation seems to be shown on this point. Rarely, if ever,

does one find a restaurant or hotel menu translated into English or French—not even on the international dining cars. All foreigners in Germany go to the opera, but no programme has yet come to my notice with an English summary, such as one finds in Vienna.

There is almost no high-class travel literature in English to entertain the traveller, while enlivening his interest in and facilitating his understanding of the country he is visiting. In this direction the co-operation of foreign experts would fertilise the business. Writers and journalists should be encouraged to "discover" the country.

As far as one could judge, no coherent plan of campaign on these lines has been sought out. In the course of the present researches one has again and again heard the opinion voiced that Germany's present predicament has been brought about by the creditors themselves, who logically must now be held morally responsible for the restoration of such conditions as will enable Germany to recover her capacity to pay. This point of view can be understood. But beyond doubt many of Germany's foreign creditors would retort that they are equally entitled to expect that Germany on her part should do her utmost to exploit in full the potentially fruitful field of her invisible exports.

HERR CONSUL HANS JONAS.

Seven years of exile in Siberia broke the spirit and undermined the health of many a German prisoner-of-war. In the case of Herr Hans Jonas it turned the born business man into the confirmed idealist. Young Hans, till 1914 student of languages at Munich University, was just 22 when taken prisoner in 1915. To relieve the monotony of captivity and give himself a purpose in life, Herr Jonas used the years of banishment first of all to make himself complete master of the Russian language, then to familiarise himself with the working of the minds of the Russians of the Soviet. He saw, at close quarters, their struggle against overwhelming odds to bring economic order out of the chaos left by war and revolution.

Through his faculty for making friends among his Russian captors Jonas in 1919 obtained the post of deputy of the Swedish Red Cross at Chita in Transbaikal, and in 1920 was made representative of all the Governments interested in prisoners of war in Siberia.

Believing that the Soviet economic system in Russia had come to stay, Herr Jonas, who is now Consul for Latvia, thought out a plan by which, despite irreconcilable political differences, trade between the capitalistic countries and the vast Russian market of 165 million consumers might be maintained. He studied the point of view of the men of the Soviets, won their confidence and their approval. In Moscow, where business frequently takes him, he now has many influential friends.

Consul Jonas is Direktor of the Königsberg Fair and, owing to his originality, resourcefulness and economical management, the fair is self-supporting. A description of this organisation and its functions appeared in "The Financial Times" of 15th August. Besides managing the fair, Herr Jonas is Chief of the Economic Institute for Studying Russia and Eastern Europe, publisher of the "Ost Europa Markt" and several trade magazines in the Russian language and Direktor of the Municipal Bureau of Travel.

He believes that the business with Soviet Russia is big enough for all who want to share it. Owing to his enterprise, Königsberg is fast becoming a world-centre for information about Russian affairs. Hitherto, all literature published by the Economic Institute has been in German or Russian. Very shortly, a start will be made to issue information in English.

FOSTERING TRADE WITH SOVIET RUSSIA.

OBJECT OF KÖNIGSBERG FAIR.

STRENUOUS EFFORTS TO INCREASE EXPORTS.

Few people, if asked off-hand, could name a single fact for which Königsberg is renowned. Leipzig, on the contrary, is world-famous. Both cities hold trade fairs. That at Leipzig is of immense size. It exists to find markets for German goods in all countries of the world. For over seven centuries it has been building up its world-wide connections. No wonder, then, that at times over one hundred and fifty thousand buyers meet here. Ten thousand exhibiting firms display their samples in sixty palatial bazaars.

Königsberg Fair is modest by comparison. It was not founded till 1920. In no sense does it aspire to compete with Leipzig. For while the Leipzig Fair aims at promoting trade with the capitalistic countries, the Königsberg Fair exists expressly to foster trade with Soviet Russia.

Having no precedents to steer by, Königsberg has had to grope its way forward through the mists of uncertainty. But so much progress has been made that if anything reliable can be learned at all about the economic life of Soviet Russia it is here.

Both cities held their fairs last month as usual. The remarkable fact is that while the fair lasted Königsberg was crowded with distinguished guests. Besides two Cabinet Ministers, many high State officials, a number of foreign diplomats and delegates from the Far East attended. These were not mere courtesy visits. Most of the guests stayed on, studying developments closely.

On the other hand, not a single person of note paid the great Leipzig Fair an official visit. This can only mean that, in high quarters, Königsberg is considered at the present moment of more importance to Germany than Leipzig. In other words, Germany is hoping for more from the development of Soviet business than from an improvement in world trade. In actual fact, until the Königsberg Fair closed its doors a feverish activity prevailed. In Leipzig many of the vast exhibition halls stood empty. The atmosphere was listless and depressing.

This contrast is full of significance. Despite the world crisis, Germany sold to Russia in 1931 goods to the value of Rm.919.3 millions. In fact, Russia bought more from Germany last year than any other country, while Germany imported more from Russia than from any other country, except the United States, Great Britain or the Netherlands. What is more important, the balance of payment was in favour of Germany to the amount of over Rm.600 millions. It is true that this year's business is not likely to exceed Rm.450 millions, but in 1933 Soviet Russia will begin its Second Five-year Plan with a vast programme of new development.

Between 1932 and 1937 the output of industrial machines made in Russia is to be trebled. Last year's production of pig-iron was 4.9 million tons. In 1932 the yield is expected to reach 9 million tons. But by the end of 1937 it is scheduled to amount to 22 million tons.

In 1931 the output of coal was 57 million tons. For 1932 the turnover is

expected to be 90 millions. By the end of 1937 the rate per year is to be raised to 250 million tons.

In the coming five years, between 12,000 and 18,000 miles of railway are to be laid, bridges are to be built, and locomotives and rolling stock are to be manufactured. A great part of the track will be electrified, which implies the building of power stations on a corresponding scale.

Five-year Plan.

When the first Five-year Plan was taken in hand, we were led to expect that an early collapse was inevitable.

If, on the one hand, it must be admitted that the Soviet has not yet solved the problem of high-grade production, it is equally true, on the other, that, as regards quantities, the original expectations in many cases have been surpassed.

It is clear that even if, in the second five-year period, achievement should fall short of what is attempted, the actual accomplishments may still be gigantic, so that the prospective volume of business the Soviet will have to offer would be of considerable magnitude.

According to exhaustive investigations made in Berlin by the Institute for Research on Markets, the goods sold in 1928 by the Leipzig Fair at home and abroad amounted to about Rm.1,000 millions. Last year the export to Russia,

secured largely through the activity in Königsberg, reached Rm.919.3 millions. At this critical juncture, when Germany is straining all its resources to increase export, the concentration of interest on Königsberg to the neglect of Leipzig is therefore easily understood.

"Trade with Soviet Russia," said Herr Hans Jonas, Direktor of the Königsberg Fair, with whom I had a talk, "demands infinite patience. Business experience elsewhere is no guide here. Matters are complicated on the Russian side by the shortage of trained officials. Often in the middle of long and tedious negotiations men urgently needed elsewhere have been recalled to Moscow. Those sent in their places have had to start all over again. Despite such difficulties, the Russian trade is so exceedingly important that we must persevere, since Russia is almost the only market not trying to exclude foreign goods and one of the few where Germany still has a substantial surplus of export over import.

"Clearly the ultimate object the Soviet Government has in view is to establish for all prime necessities its economic independence of the outside world. In agriculture this has meant the replacement of 62 per cent. of the 26 million small landowners by vast collectivist farms, where all operations have been mechanised and electrified.

"The process has already gone so far that no less than 1,400 tractor stations are now operating as centres from which farm machinery is sent to and fro as required and where repairs are carried out. In industry the aim has been the creation of iron and steel mills, the establishment of a sound machine-

making industry, the erection of power works on a vast scale and the development of an adequate transport system.

"Germany, of course, is very materially affected by the rate at which this programme can be carried out, since the amount Russia will be able to import depends entirely on the rate at which her productivity develops. In Russia one of the greatest obstacles to progress is the insufficiency of technical experts. Factories can be built and machinery installed, but staffs of skilled workers and technicians take generations to evolve. In the hands of immature workmen a large percentage of the output cannot but be defective. Valuable machinery is often ruined by inexpert manipulation.

"This shortage can to some extent be made good by the importation of foreign experts.

Much of the present social unrest in Germany arises from the fact that we have tens of thousands of engineers and technical experts we cannot employ.

"According to Soviet figures, there are no fewer than 3,528 foreign specialists at work, 2,063 of whom are German.

Technicians Wanted.

"In March this year Russia herself possessed 226,700 engineers and technicians. The aim is to bring the number up to 302,400 before the end of 1932. But in reality the country needs several times as many.

"In mining only 25 per cent. of the experts wanted are available, in the chemical industries 33 per cent., in electrotechnics 46 per cent. and, in machine-making 50 per cent. To make

good the deficiency, technical instruction is being rapidly increased. In 1928 there were only 24 research institutes in Russia, but by July, 1931, 121, where altogether 27,000 students were at work. But, despite the combined efforts of seven academies, 300 technical high schools, 650 institutes and 150 scientific laboratories, the output of qualified engineers and technicians in the last two years only reached 1,961.

"From the German point of view, the sooner this problem is solved the more rapidly Russia will increase its demands for those things the country cannot produce for itself. The fundamental aim of the Second Five-year Plan is the promotion of a higher standard of life. Hitherto the Soviet has financed its development step by step out of the unconsumed part of its yearly production.

"The human suffering and privation this has caused is so intense that probably no other people would have endured the strain. Presumably future development will have to be financed in the same way. So that if the standard of life is to be raised as well, the present rate of production must be very greatly accelerated.

"If the worker is to get a larger piece of cake, and the amount left over is to be the same as before, it is evident that the size of the cake must be increased. But even a small rise in the standard of life of a population of 165,000,000 increasing at the rate of 3,000,000 a year promises a great expansion of the future market.

DIFFICULTY OF FINANCING.

"On the German side, the chief difficulty lies in financing the business. Russia pays with bills that run for varying periods up to 21 months. Few German firms can afford to wait so long. But the Reichsbank will make advances against these Soviet bills up to 60 per cent. of the claims admitted by the Russian authorities. The discounting of the remaining 40 per cent. with private banks is still a difficulty.

"Up till now Russia has always kept her financial engagements, so that, in a sense, the ultimate risk is not abnormal. But the total sum the Reichsbank can rediscount must not exceed Rm.300 millions, although, as one lot of credits is paid off, the sums set free are available for financing new business. Nevertheless, the total trade Germany can do with its present financial resources is limited.

"To increase the scope of the business, Germany made a Customs agreement with Russia last May to permit the import of larger quantities of raw materials not obtainable in Germany itself. Expansion in this direction also has its limits.

"The greatest hindrance to business in the past lay in the fact that the control of economic affairs in Russia is under uniform direction, while elsewhere it used to be completely unorganised. The Soviet authorities make frequent changes to adjust their system to practical needs, but all the time they are acquiring greater skill in big-scale bargaining. No private firm has the resources at its command that are available to a Government. Hence, whenever it came to a hard deal, the Soviet could always drive an exceedingly fine bargain.

UNIFIED CONTROL.

"Three years ago the Federation of German Industries set up a body known as the Russian Committee, whose object was to organise a unified control for German industry similar to that possessed by the Russians, so that this body would settle with the Russian Government the broad general lines of business dealing between the two countries. This relieved private firms from the brunt of the battle. The Russian Committee itself, of course, does no trading. Evasion of the discipline can be easily prevented by the refusal of the Reichsbank to rediscount for the transgressing firm.

"This step culminated in the treaty of 15th June, 1932, which fixes for one year the general terms of all trade contracts, leaving the individual firm nothing to settle but

the price, date of delivery and technical details. Agreement can, therefore, now be reached far quicker. The vexed question of credit has ceased to be one on which German firms try to outbid one another.

"In marketing its export, Soviet Russia is making more and more use of foreign trade fairs. Delegates come every year to Königsberg to make careful and exhaustive inquiries about German industrial progress. We, of course, dress our shop window accordingly. To promote the object of the fair, Königsberg has assembled the largest library in the world on Soviet economic questions. The Economic Institute for Studying Russian Affairs works in closest contact with the Russian Committee of the Federation of German Industries. All the current trade literature of Soviet Russia is kept under review.

"As long as Germany alone possesses this specialised mechanism for developing Soviet business we shall not enjoy its advantage to the full. Private firms in other countries will always be tempted to undersell us or make concessions we think unprofitable. Through pooling its experience, German industry now knows pretty well what business pays and what does not.

A COMPACT FRONT.

"With all its defects, the Soviet in its business transactions does present a compact front to the capitalistic world, and profits by

our lack of cohesion. Negotiations between the Soviets and the capitalist countries always suggest a grotesque game of chess in which one player is matched against a group. In the latter case, each figure on the board is moved by a different member of the group who does not concern himself with what the rest do. On the other side, the solitary player may now and again make a false move, but he at least plays consistently according to a preconceived plan. Which side is likely to win?"

* * * *

One could not help feeling that the logical course of procedure would now be for each of those countries trading with Soviet Russia to set up a private organisation similar to the Russian Committee of the Federation of German Industries, whereupon some combined and uniform policy could be adopted for taking advantage of the prospective business arising out of the great expansion planned in Russia. By the aid of mantle trade treaties similar to that of Germany, business could be simplified and expedited, leaving the individual firms less to worry about. This is perhaps the only way in which the evils of Russian dumping can be effectually dealt with. There seems no reason why all countries interested in the Russian trade should not exhibit their samples at Königsberg year by year, using this opportunity to discuss further plans for promoting their common interests.

DOKTOR VON LINDEQUIST.

Although His Excellency ex-Secretary of State Doktor von Lindequist will reach the age of seventy on the 15th of this month, he is still throwing his full vigour into the fight he began over forty years ago, to promote the welfare of German colonists overseas.

Before the war, Dr. von Lindequist was one of the leading figures directing the German colonial policy. At that time, Germany was at the height of its phenomenal industrial expansion. So secure seemed the prospects of its roseate future that Germany was little disposed to trouble about the development of overseas territories. Indeed, many people were definitely hostile to prolonging the expense the German colonies at first entailed.

It was in 1894 that Doktor von Lindequist was first sent out to German South West Africa by the Reichs-Colonial Office. Many years of practical experience overseas led him to realise how supremely important colonies were going to be to industrial countries in the future. In 1900 he became Consul-General in Cape Town and in 1905 Governor of German South West Africa. As Secretary of State he travelled all over German East Africa—now Tanganyika—to examine its suitability for settlement by whites. In 1910 he became Chief of the Reichs-Colonial Office.

Doktor von Lindequist's great aim was to systematise the whole scheme of German colonisation. But before his work had progressed very far, it was cut short by the World War. For the last few years he has used all his initiative and influence to stimulate colonial settlement, preferably in former German colonies, in order to find outlets for Germany's surplus population, especially for the agricultural labourers forced to leave their homes in the ceded province of Posen.

Next month the German Colonial Society, formed before Germany had any colonial possessions at all and continuing after they are gone, will celebrate its fiftieth anniversary. Dr. von Lindequist is its President.

Great curiosity has been aroused by the conferences that have taken place recently between Doktor von Lindequist, the Reichs-Chancellor von Papen and the Foreign Minister Baron von Neurath. These are believed to indicate that Germany is about to initiate a new colonial policy.

CREATION OF A NEW COLONIAL EMPIRE.

AN ECONOMIC NECESSITY.

REDISTRIBUTION OF MANDATES TO BE SOUGHT.

Geheimrat Dr. Hugenberg, one of Germany's leading industrialists and member of the Reichstag, has declared that whatever the ultimate amount Germany will have to transfer to meet the claims of her private creditors only two ways of performing the operation are possible, both of which, in all probability, will have to be used together. These are:—

1. That the creditor countries should take steps to permit the entry into their markets of the requisite quantities of German manufactures and
2. That a new German colonial empire be created.

In 1926, before the Dawes Plan had been long in operation, Dr. Schacht said:—

“The Dawes Plan cannot be executed unless at the same time Germany is allowed a great colonial development. The Allies cannot in the long run accept German goods in payment. . . . The resulting overproduction would consist mainly of articles manufactured in Germany that would compete with those of the very countries that have to receive them.”

It should be understood clearly that while presenting German views on the problem of colonies as a matter of international concern, the present writer must not in any sense be regarded as endorsing them.

Many instances could be cited to show that in Germany the conviction prevails that colonies are an economic necessity

if Germany is to pay her debts. In this connection it should be pointed out that Germany does not regard her former colonies as lost possessions, but as having merely been placed temporarily under the administration of other

countries pending a decision as to their fate.

There is to-day every reason to believe that an attempt will be made shortly to obtain a redistribution of these mandates so that Germany will have territories to develop in her own way and for her own benefit.

To get the authoritative point of view on the matter I obtained an introduction to the former Secretary of State for the German Colonies, Doktor von Lindequist, now president of the German Colonial Society. His views were substantially confirmed by Herr Geheimrat Dr. Albert Hahl, formerly Governor of German New Guinea. Dr. Lindequist said:—"Germany's debts to her foreign creditors will not be paid off in their entirety for a number of years to come. We owe the world to-day just as much as it owed us before the war—Rm.20 milliards. Germany cannot but remain a debtor country for many decades.

"The transfer problem will not be solved in an instant and, when it is, not by any single method.

"It will require the combination of various plans, each of which will contribute its quota. This means that Germany's creditors are not only interested in our immediate future but also all the factors that, now or in time to come, promise to help to put German economic life on a sound basis.

The buying power of 64,000,000 consumers with a high standard of life is one of the vital elements in the stabilisation of the world situation.

"Whenever the question of the future of Germany's raw material supply is discussed, the retort is made that Germany has no need of colonies since she can buy whatever she requires on the world market. True as this appears at first sight, it is in reality a fallacy. Why has there been such a fierce struggle in recent years for petroleum fields? Why have Great Britain

and Russia both tried to develop their own cotton supplies?

Growth of Population.

"In 1871, when Germany was pre-eminently an agrarian country, the population was only 41,000,000. In 1914 the population had grown to 68,000,000. Without going into a mass of statistics here to prove my statement, I mention the well-known fact that after this increase Germany was no longer able to support its population from its own soil. Especially is this true since the Treaty of Versailles removed some of our richest food producing areas—in particular, the province of Posen.

"Emigration under present circumstances is impossible. Between 1919 and 1928 the total number of persons who left Germany was 491,000, or less than the natural increase in any single year of that period. The plain fact is that owing to several decades of prosperity Germany has become overpopulated. Cynical as it sounds, M. Clemenceau's words that 'there are 20,000,000 Germans too many in Europe' are true—20,000,000 people cannot possibly all emigrate.

"Unless Germany can get great and increasing quantities of raw materials to maintain her industrial activities her population is doomed. These materials must be paid for. As we have no colonies, we can only get them in exchange for manufactured goods. Since the war began, many countries from which these materials were formerly obtained have begun to create their own industries and thus use the materials themselves. The development of a cotton industry in the United States is a striking example. It is therefore clear that the farther this industrialisation goes the more Germany will be at the mercy of events in these raw material producing countries and the more sensitively our industries will feel every fluctuation in price and every wave of speculation.

"We are frequently asked what territories we have in mind when the question of the return of certain German colonies is broached. Our colonial policy has two distinct aims. One is to induce part of our surplus population to emigrate, so as to relieve congestion at home. Most of the countries to which our emigrants went formerly have now shut their doors.

"Our former African colonies are not suitable for this purpose, since white settlers there can only live in the highlands. But it is these colonies—German East Africa (Tanganyika), Togoland and German Cameroons—that furnish the raw materials we most depend on—cotton, sisal, coffee, cocoa, rubber, hemp, precious woods, metals, gums, oils, copra, sesame, wax and palm kernels.

"If an agreement were arrived at by which Germany obtained a mandate over these territories, the colonies themselves, although under German sovereignty, would, of course, not form an integral part of the Reich. They would have dominion status. Nevertheless, it would be absolutely essential that the reichsmark currency should circulate in these areas.

"Germany would be under the obligation to grant its mandated territories most-favoured-nation treatment in trade, which means that,

as before the war, all other nations would have the same trading rights there as Germany herself.

"As for the question what direct contribution these territories could then make towards the solution of the transfer problem, the following computations, though based on comparisons, are close enough to justify the conclusions drawn. In 1913 the total trade of the German colonies amounted to about Rm.320 millions, of which Rm.157 millions was import. In 1928 the total trade was valued at Rm.492 millions, of which Rm.229 millions was import.

-Fruit of Long Efforts.

"Had the German colonists not been expelled, so that production was neglected for some years, the second figures would have been much higher.

Only in the last ten years preceding the war was the development of colonial productivity intensive. In 1896, for instance, there were only 11,000 hectares of land under European direction.

In 1913 179,000 hectares. Four hundred German companies with a total capital of Rm.500 millions were then operating. We were just beginning to reap the fruit of our prolonged efforts.

"Comparing these figures with those for the neighbouring British colonies, we see that from 1913 to 1926 Kenya-Uganda increased its total trade by 220 per cent., Nigeria by 120 per cent. and the Gold Coast by 170 per cent. Taking an average of 150 per cent., and calculating the hypothetical output for the German colonies, the trade in 1928 under normal development would have reached a total of at least Rm.800 millions, of which half would have been import.

"Before the war the imports of the colonies from Germany itself were 70 per cent. of the total. Sentiment is a great bond. So that had these territories remained German we should have been exporting to our colonies in 1928 at least Rm.280 millions. As it is, the German share to-day is only 10 per cent. of the imports, amounting to Rm.25 to Rm.30 millions.

"In actual fact, the former German colonies have not grown to computed extent since 1914. For some years they were left to go to rack and ruin. Ten years of systematic development would now be needed to bring them up to the estimated capacity. Even in the first two years the relief they would bring would be appreciable. But at least Germany would be able to buy produce in reichsmarks to the value of Rm.60 millions, for which she has at present to find foreign currencies. This would be the first direct contribution to solving the transfer problem.

LARGE MARKET FOR MATERIALS.

"Germany would also have a market for about Rm.100 millions per year for materials needed for public improvement works—harbours, roads, streets, railways, buildings, etc. This would give employment in Germany to at least 10,000 persons. But it is no Utopian dream to say that, at the end of ten years, the German trade with these territories would reach Rm.500 millions per year, and after that the increase would be steady. Just now there is an oversupply of colonial produce and prices are at rock bottom. But this phase will pass. The transfer problem will still be giving concern, but this trade would then go a long way to solving it. When prices rose the relief in Germany would be all the greater.

"Invariably the objection is raised that Germany is not any longer in the position to finance schemes on such a scale. This assertion must be refuted. In 1913 these colonies were already self-supporting except for the cost of the upkeep of the defence forces. According to mandate reports, these territories are self-supporting. Hence their administration would not burden the German Budget.

EXTENSION OF OPERATIONS.

"The total European population of Tanganyika is only 7,000, of which 2,000 are Germans. Public works would be paid for by the respective Governments out of current earnings. While prices of raw materials are so low planting does not pay. Thus trade and not cultivation is the chief occupation. The products are bought from the natives. Thus vast expenditure on laying out plantations would not be required. We are opposed to the borrowing of money for developmental work, as we are convinced that progress will be rapid enough if such work is financed out of earnings.

"Beyond doubt, also, many powerful industrial concerns in Germany would take advantage of such opportunities to extend their sphere of operations by becoming owners of colonial landed property. Thus they could raise their own produce and assure their supplies just as the Ford Motor Works did in setting up its own rubber plantations in Brazil. In this way enterprising firms would make themselves independent of price fluctuations and of the whims of speculation."

COMING TO ESSENTIALS.

AT the approaching World Economic Conference, the problem of Germany's private indebtedness will stand in the forefront of those demanding immediate solution. So large are the amounts of British capital involved, that this question, for us, is one of prime importance.

To put our readers in possession of all the salient facts, our Managing Editor, Mr. R. J. Barrett, went himself to Germany to make a thorough investigation.

Germany has thus been furnished by "The Financial Times" with an opportunity of stating her own case through a group of her most representative men. All of those consulted hold influential positions. Some of them will attend the Conference as delegates.

Many matters have here been treated from a new point of view. Many facts have been made public for the first time. All the statistics used have been taken from official sources and carefully verified. The figures quoted are those on which the German case will be based. The arguments used here are those that will be put forward then.

The series as a whole may therefore be regarded as a complete and authoritative statement of the German standpoint. The articles give a valuable insight into the mentality of our neighbours across the North Sea.

With certain lines of reasoning "The Financial Times" does not identify itself. But at any rate, we now know where we are. This review of the whole situation by leading men should have enduring value and above all be useful for reference while the World Economic Conference is going on.

DESIRE TO FIND A STRICTLY FAIR SOLUTION.

FACTS FOR ECONOMIC CONFERENCE.

SUMMARISING STATEMENT OF THE POSITION.

When one sets out on an inquiry of such importance and complexity as that of Germany's private debt problems, one has little idea of the intricacies of the task. Determination to do justice and be fair to those invited to state their case means that there is a vast amount of material to be examined, that views must be heard and assumptions tested.

Presently one begins to discover that all expositions are based on a certain number of facts with which everybody in Germany is familiar. It is taken for granted that one knows all about them and accepts them. So that in many a discussion they are not specifically mentioned. But it is precisely these facts that matter most.

With them fixed firmly in mind, the whole German case appears to unfold clearly and logically. In this concluding article it will be my endeavour to assemble these facts in such a way that the reader may be put in possession of the key to the problem.

First of all, let me say that throughout my inquiry I had the impression that there is a sincere desire among all responsible people in Germany to find some solution of the problem of private indebtedness that will be strictly fair to creditor and debtor alike.

The German Government and people would co-operate heartily in working any agreement reached for effecting the transfer. Especially is this the case where banks and old-established firms with direct foreign connections are able and ready to discharge their

obligations now in reichsmarks, but are prevented from doing so by the "standstill" agreements set up to protect the German currency. For decades to come Germany is sure to have to make use of foreign capital; so that every business man is fully conscious of the necessity of maintaining the good name of his country in the credit and capital markets.

From official computations, it has just been shown that for a considerable number of years to come Germany will have to pay her foreign creditors yearly amounts aggregating not less than Rm.1½ milliards, but possibly as much as Rm.1¾ milliards—£75 to £87 millions. This amount is net. That is to say, every conceivable deduction has been made for the amounts that Germany has to receive from foreign countries. The assumption has been made, of course, that the Lausanne Agreement will be ratified. All the same, this calculation does not take into account the payments that would arise if Germany were ultimately called upon to issue the Rm.3 mds. (£150 millions) worth of new bonds should the conditions specified in the Lausanne Agreement arise. Nor does it allow for possible reductions by voluntary arrangement with the creditors in the rate of interest payable or of the effect of consolidation of the short-term indebtedness.

Goods or Services.

There is absolute agreement, not only among the German authorities, but also among the foreign experts, that this sum can only be transferred by the export of German goods or the performance of services.

As one high official in the German Ministry of Economic Affairs expressed it—"the world now faces the alternative either (1) of removing the obstacles [so as to permit export] that prevent Germany paying what she owes, or (2) of forgoing—temporarily

or permanently—the claim to repayment of the private debts contracted by Germany when economic conditions and expectations were quite different."

To effect full payment, Germany would have to export year by year at least £75 millions' worth more in goods than she imported. Germany lives by her labour. She imports raw materials and exports finished goods. But it so happens that they are the same kind of finished goods that the creditor countries manufacture and export. So that,

to receive payment, the creditor countries would have to allow German manufactures to enter their own markets, or at any rate those markets which the creditor countries also supply.

In either case, it means that, if Germany pays, German workmen will be kept busy and many creditor workmen left idle. So we have precisely the same problem to solve now as we had when we worked out the Dawes Plan in 1924.

It is important to realise that Germany has not only to give manufactured goods in payment of her foreign debt service, but also in exchange for imported foodstuffs and for raw materials from which the exported manufactures are made.

So that the total quantity of goods to be poured out on to the world's markets to maintain the yearly surplus of £75 millions threatens economically to impoverish the creditors as well as the German debtors.

About the inherent justice of the creditors' claims to these payments very strong opinions are held. Naturally, not against individual lenders. When the German currency was stabilised in 1924, Germany had almost no foreign indebtedness. Under the Dawes Plan, then beginning, reparations payments were to rise year by year till they reached a maximum of Rm.2½ mds: (£125 millions) per year. At that time, Germany was importing far more than

she was exporting. So that the only way for her to get the wherewithal to pay reparations was to borrow from abroad. As a matter of fact, the principal countries able to lend were those having claims to reparations.

As Germany was still debt free, money was readily advanced to German banks and private firms by the creditor countries—above all by the United States, where there was a huge surplus of uninvested capital arising from the receipt of war debt payments from Europe. As interest rates in Germany were high, there was a keen desire to lend.

Much of this money was used for unproductive purposes—for building town halls, museums, parks, churches, blocks of houses. But by far the major portion was used to “rationalise” German industry. The world’s markets at that time stood open.

It was then only a matter of arithmetic to calculate how much would have to be exported every year, then to equip—or “rationalise”—industry to deliver such quantities at competitive prices. To have taken any other course would have proved that Germany had no intention of trying to pay. In 1929, Germany’s export was a record. Things were working out according to programme. Just at that time the world crisis was approaching. Foreign lenders began to withdraw their capital. As the crisis grew acute, markets began to close up against German import.

All the time the value of gold went on rising. In other words, prices went on falling. So that, on the one hand,

the markets in which German goods could be sold were shrinking, while the quantities of goods that had to be sold somewhere or other to keep reparations paid—loans were now unobtainable—grew greater and greater.

In September, 1931, England went off the gold standard. Many countries

followed suit. That meant that all these countries enjoyed an export premium of about 25 per cent. Germany could not compete.

Deflation of Prices.

By the decree of December, 1931, the Brüning Government deliberately set out to lower the standard of life by enforcing by decree a 10 per cent. deflation of prices. Soon after, England—one of Germany’s chief markets till then—put up a prohibitive tariff, thus shutting out many German goods altogether.

In manufacturing costs in Germany interest rates play a very important part. Where in England 5 per cent. would be a normal rate, one would have to pay in Germany 9 or 10. When England converted War Loan—in itself a gain for the world—the breach between England and German manufacturing costs grew wider. Germany cannot follow England’s example in leaving the gold standard, since this would annihilate all confidence in the German currency.

Secondly, all Germany’s foreign debts—Rm.20.6 mds. (£1,030 millions at par)—are in gold. Leaving the gold standard would thus only increase the burden. Neither can Germany convert. Her standard investments at the moment are 30 per cent. or more below par; so that real interest rates are about 9 per cent.

Therefore, negotiations between creditors and debtors will have to take place soon for the voluntary reduction of interest rates. By raising new tariff obstructions, the outcome of the Ottawa Conference naturally makes Germany’s predicament worse.

As all the markets of the world except Soviet Russia—and, above all, the creditor countries—are shutting themselves off against German goods, the great industrial plants installed and equipped in Germany with money borrowed since 1924 are standing idle. Thus Germany has been deprived of any practical advantage from this frozen

capital. Moreover, the payment of reparations was effected by collecting part of this borrowed money in the form of taxes; so that only a fraction of the money remained in the hands of the borrowers. The rest went back to the lending countries. The real rate of interest that industrialists have to earn on the productive fraction they were allowed to retain is beyond what any normal business is able to carry.

These reasons are advanced not as a preliminary to a demand for debt reduction, but to show that, if Germany has got into this predicament, the lenders are themselves largely to blame. Hence, it is argued, they must share the moral responsibility. At the coming World Economic Conference Germany expects that steps will be taken to enable her to earn the amounts she has to pay.

CHANGES IN BRITAIN.

Incidentally, it is interesting to hear that prominent men in Germany utter what sounds like a reproach against this country for having disturbed the smooth running of the world's economic machinery by (1) leaving the gold standard and (2) adopting a Protectionist policy.

The pound sterling, they say, was the currency of world trade. No other could, or can, take its place. The world's savings streamed to London, seeking safety in the pound sterling. London was also formerly a transit market for goods from all parts of the world. Neither Paris nor Amsterdam can usurp this function. New York is too far away.

At the Ministry of Economic Affairs the opinion was expressed that the Customs barriers raised in recent years are largely the outcome of efforts to protect the various currencies. The same process arose just after the war. But once the German mark and the pound sterling returned to gold the Customs barriers faded out almost imperceptibly. No real improvement can be expected till the pound is again on gold. There is no need for a return to parity. The essential is a currency of unchanging value—a standard measure. But tariffs must only be imposed to collect revenue or to regulate trade, not to prevent it. There must be freedom of movement for goods, capital and labour.

Frankly, one was surprised at the complete silence on the subject of "invisible" exports. At present these only produce a surplus of £8 millions yearly. Even prominent Germans have repeatedly urged that here is a field in which Germany could herself do a great

deal to solve the transfer problem, if she were to tackle the task seriously. It was admitted that France, Italy, Switzerland, Austria and Belgium all earn substantial surpluses from tourist traffic. France often over Rm.2½ mds. (£125 millions) yearly. (Germany has Rm.1½ mds. to transfer.) Even Soviet Russia in 1931 earned \$10 millions from travelling Americans (U.S.A. official figures), as against \$8.25 millions left by Americans in Germany. This is attributed by the German Press to superior Soviet propaganda. Until last year Germany was actually spending far more than she earned from this source.

Yet Germany has more attractions to offer the traveller than any single European country. Dr. Julius Klein, expert on invisible exports, of the United States Bureau of Foreign and Domestic Commerce, in his report for 1931 maintains that nothing but the right kind of propaganda is needed to gain a larger share in this trade. Germany is the only large country in the world where the Government spends nothing whatever on developing the industry. From private sources £150,000 per year is found for publicity for the entire world, but much of this is swallowed up in administration expenditure and salaries, so that comparatively little is available for direct appeal to the foreign public. In normal years it is estimated that no less than £600,000 is spent on propaganda of all kinds in Germany itself, but as very little of it is handled by expert publicists the effect on attracting guests from foreign countries is relatively small. There is far from sufficient high-class travel literature of an entertaining kind in English. No logical plan seems to have been thought out for creating what is needed.

THE RUSSIAN MARKET.

Praiseworthy enterprise has been shown in developing the Russian market as a field for export. Last year, Russia bought from Germany Rm.600,000,000 (£30 million) more than she sold. Much is hoped from the Second Five Years Plan, starting January, 1933. The Federation of German Industries has created an organisation for negotiating with the Soviets and arranging mantle contracts to regulate general trading conditions. At the Königsberg Fair, Germany makes a special display once a year for her Soviet customers. Possibilities of trade are limited only on the one side by the fact that Russia has to finance all her purchases out of unconsumed production.

Russia tries to sell for spot cash and buy on long credits. Her policy is always to work up her own raw materials to the highest possible stage. - She is handicapped when world prices are at rock bottom. Germany has not financial resources enough to give longer credit.

Again and again, Germany has raised the argument that the settlement of her foreign debts will not be possible unless she regains her African colonies. If the reichsmark, it is contended, were in circulation in those territories, purchases of raw materials there would economise her foreign exchange, setting free corresponding amounts for the debt service. In the first two years, it is estimated, at least Rm.60,000,000 (£3 million) would be thus available. After that the in-

crease would be steady. After ten years this source would yield regularly not less than \$14,000,000 per year.

Finally, there is no doubt that the complete transfer will have to be effected by the utilisation of several different methods used simultaneously. Each will contribute its quota. But provided currencies again return to gold, tariffs are lowered and stabilised and confidence returns, there seems no inherent reason why means should not be found by which Germany would be enabled to pay in full. But, above all, it is necessary to act quickly. Germany's surplus of export over import this year will be nothing approaching £75 million. So the transfer problem will soon be knocking at our door.