

# THE GERMAN PARADOX

# THE GERMAN PARADOX

A study of German political  
and economic life, with special  
consideration of the problem of  
East Prussia

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## INTRODUCTION

THE English people cannot be too thankful for the good fortune which places them on an island within the general civilisation of Europe and yet separates their frontiers from those of other nations. France, Italy, Germany, Poland have all had to work out their destinies in a closer community, with sometimes conflicting interests, so that they have been forced almost inevitably to study one another, to help one another and to quarrel with one another by turns, while for England in the past it has been more easy to develop her own traditions undisturbed, within the security of the sea.

Nevertheless, the times in which we are living, with their new methods of transport and communication, by air and land and water, have altered the nature of Great Britain's isolation just as much as they have changed the conditions under which the nations of the European continent live together. English observers, whether political, financial or commercial, are now studying developments in Europe with closer attention than ever before. Europe itself is realising, especially since the beginnings of the present crisis, that economic collaboration is of greater importance, if it can be achieved, than political individualism at

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the expense of other nations ; and this new conception is finding expression in a mass of literature upon the economic policies of England, Russia and Italy in particular. Quite apart from these expositions of economic theory, or criticisms of them, a practical attempt has been made to introduce a regime of economic collaboration in the Danubian States, with the assistance of the whole of Europe.

By a curious contrast, however, very little examination has been made into the present economic policies of Germany, a country of continental character with interests inalienable from those of the many countries which surround it ; and it is with an idea of supplying that deficiency to some degree that I present the following study to English readers. An explanation should first of all be made of the circumstances under which it came to be written. My original intention was to prepare a short sketch of the dynamics of German post-war development, based upon the excellent statistical and economic works of German scholars. But with every attempt to synthetise that development as something unified and progressive I found myself faced only by divergent arguments and irreconcilable traditions. My work is, therefore, a statement

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of the paradoxes which I had to recognise, for there has been in Germany since the war a growing separation between the natural economic development of the people and the official economic policies of the Government of the Reich.

The prosperity and solvency of Germany are primarily based on the export of manufactured goods, which was, until quite recently, always on the increase ; yet through all the changing administrations at Berlin one policy has been followed of high agrarian tariffs and high prices for food, so that the vital forces of industry are being impaired. This agrarian policy of the Reich is directed against the agricultural countries of Eastern and Central Europe, although they are more valuable customers for German industry than the countries overseas. Successive governments have preached an official gospel of the *Drang nach Osten*—the eastward expansion of Germany—despite the fact that for fifty years past, and still to-day, the movement of population is away from the east of Germany into the central and western provinces of the Reich. At the present moment the eastern provinces of Germany are underpopulated, yet it is exactly upon a pressure of population to the east that German politicians base their claims for the

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annexation of racially alien territories. Here is a paradox in itself, when a nation is given a political direction clean contrary to the direction of its natural economic development, and particularly in the case of a nation which should be, with its decisive civilisation and culture, possessed of self-knowledge above all others.

My investigations, then, have led me by all roads to Germany's eastern provinces, and especially to East Prussia, for they are the key to the whole divergence between political and economic interests, between industrial and agricultural policies in the Reich. Moreover, I hope that my investigations will be of value to others besides Germans and Poles, for many of the discussions in post-war Europe have centred upon that Baltic coast and eastern plain which contain not only the German provinces of Pomerania and East Prussia but also the Polish provinces of Poznanian and Pomorze, the great trade routes from West to East, into Russia, the great waterway of the Vistula from South to North, into the Baltic, the Free City of Danzig, and the new Polish port at Gdynia.

This territory, which embraces Poland's only access to the sea, her main artery of foreign trade and her only seaport, is of vital interest to the Polish people, for whom these pages



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were originally written. It is more important for them than for English readers to have exact knowledge of developments in modern Germany, but the recent difficulties of Germany have focussed the attention of the world upon her, and London is now equally concerned with Paris, Rome or Warsaw to understand the causes and the remedies for the general economic plight of Europe, which depends in large measure upon conditions within the Reich. So it only remains to explain how it is that a Pole can be well fitted to describe without obvious ignorance or undue bias the economic processes of modern Germany.

Everybody knows that Germany and Poland have not yet established the normal economic and political relations of neighbouring States. On the other hand, there can be no doubt that the Poles possess, above all other peoples in Europe, a thorough knowledge of the German mind, gained under circumstances which even the Dutch, for instance, or the Swiss have never experienced. For a thousand years Germans and Poles have met not only on battlefields but also at conference tables, in their home circles, at markets, in shops and offices, in schools and churches. They have lived together and worked together. After the Mongol invasions, Polish kings and princes

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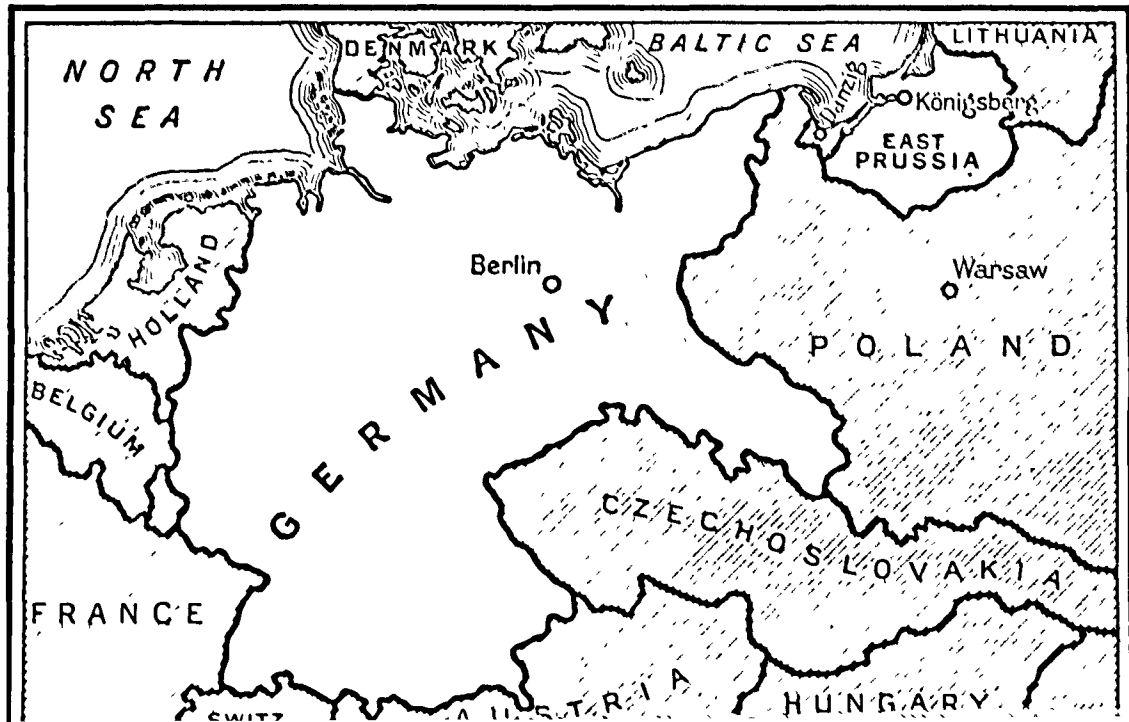
called into their country German knights, burghers and peasants, who built up the towns and inhabited the ruined villages. These settlers, whose descendants became excellent citizens of the Polish State, were only one of the waves of German immigration absorbed by Poland, so that to-day many of the most patriotic Poles bear German names, just as there are in Germany many patriotic Prussians with Polish names.

Another great historical process began when Conrad, Duke of Masovia, inadvisedly summoned the Knights of the Teutonic Order to a Crusade beyond the Vistula. The Teutonic Order, having exterminated the Prussian tribes, survived the defeat of Tannenberg in 1410, and the Treaty of Torun in 1466, to become transformed after the Reformation into the Prussian Monarchy, which brought about the dismemberment of Poland. For a century and a half the German division of Poland had then to deal with colonisation on a large scale, which was supported by all the power of the Prussian State and by exceptional legislation. The struggle was for every acre of the soil and for the soul of the people. While it lasted, Poles had to share the life of Germans in field and factory, in the army, in the departments of the State, and they acquired then an insight

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into the German mind hardly possible under other circumstances.

That struggle is over. The Poles, at least, have no desire to embark on it again. After a century and a half of Prussian domination in the provinces of Pomorze and Poznania, after five hundred years of German overlordship in Silesia, they have emerged victorious when there seemed no hope left, stronger in numbers and in full possession of a distinct national character. But they have acquired as well a spirit of equanimity, with a knowledge of the virtues and the defects of the great German race, which enables them to discuss, without rancour, not only the present relations between Germany and Poland but also the inner processes of Germany's political and economic life at the present day.



# I

## ECONOMIC NATIONALISM

THE German Reich found itself in 1919, after the Treaty of Versailles, with its territories lessened, in Europe alone, to the extent of 70,201 square kilometres ; its post-war customs area, if we accept a temporary exclusion of the Saar Basin, is 468,753 square kilometres. The territorial losses of the Reich included those eastern provinces which were restored to Poland. In them agriculture was highly developed, and from their surplus, before the war, the German Empire used to draw a certain quantity of foodstuffs. They were, moreover, the most sparsely populated areas of the Empire, with the exception of Pomerania and East Prussia.<sup>1</sup>

<sup>1</sup> The agricultural regions restored to Poland from East Prussia, West Prussia, Pomerania, Brandenburg and Posen amounted to 42,417·3 square kilometres. with a population of 2,936,176 (census of 1910). When that figure was taken, the density of population (69·2 to the sq. km.) exceeded that of the adjoining agricultural districts which still form part of the Reich : the surplus of exported foodstuffs was, therefore, probably less. The present density of population of this area is calculated at 73·7 to the sq. km. *Statistisches Jahrbuch für das Deutsche Reich*, 1927, pp. 10-11.

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It is with this forfeiture of the Polish provinces that some German economists connect the noticeable deficiency of foodstuffs in present-day Germany, which amounted between 1925 and 1929 to an average yearly figure of 3,515 million marks. But clearly, other explanations must be sought for the deficiency, because even before the war, in 1913, there was already a shortage in Germany of the foodstuffs dealt with in the two first groups of the international statistics amounting to 2,010 million marks. In proportion to the pre-war purchasing power of the mark, and to the volume of trade at that time, the discrepancy stood at something approaching the present figure. Other considerations show, however, that the post-war shortage, exceeding the figure for 1913, does arise from new circumstances within the Reich.

Two new factors which go a long way to account for the deficiency since the war may be noticed at once. Although the population of Germany to-day is approximately equal to that of 1913, there is an essential difference in its composition: the number of children has decreased as against the number of adults, that is to say, of full consumers. Furthermore, the percentage of the rural population is less than it was. There is also the second factor of

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importance, that the consumption of foodstuffs has acquired a more luxurious character. This is shown by the import figures for southern fruits (amounting in value to about 255 million marks in 1930), for early foreign potatoes, fruits and vegetables (making a total adverse balance of 362 million marks in 1929), and for expensive wines, teas, and coffees of the best quality, which pre-war Germany did not import in such large amounts.<sup>1</sup>

One might have thought, after the loss of the Polish territories, that the agricultural eastern provinces of the Reich—Pomerania, East Prussia, the border province Posen-Westpreussen, and Lower and Middle Silesia—would play an important part in supplying Germany with food, for their total area in round figures is 101,000 square kilometres, and the level of their agricultural quality is not below that of the Polish border provinces. They are described, with Brandenburg, as

<sup>1</sup> The figures for foreign trade will be found in *Statistisches Jahrbuch für das Deutsche Reich*, 1930, p. 191, and in Wl. Woytinsky, *Zehn Jahre neues Deutschland*, Berlin, 1929, pp. 112-13. Woytinsky gives the following: fruit and southern fruit, 1913, 249·9 million marks, 1927, 402·7 million marks; coffee, 1913, 219·7, 1927, 269·3; cocoa, 1913, 67·1, 1927, 97·9; tea, 1913, 8·1, 1927, 18·7. The luxury character of food imports is also insisted upon by M. Sering, *Deutschland unter dem Dawes-Plan*, Berlin, 1928, pp. 133, 160 ff.

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Germany's *Kornkammer* or granary, even in official publications. The facts, however, so far as the production of grain is concerned, belie the name.

Professor Wilhelm Volz places the figure for the importation of wheat from eastern Germany into other parts of the Reich at 28,000 tons a year, which is equivalent to 1 per cent. of the wheat crop in central and western Germany, and for the importation of rye at 343,000 tons, which is equivalent to 7·6 per cent. of the rye crop. "The German East," he concludes, "is of no importance whatever in the Reich's wheat supply, and quite insignificant for its supplies of rye. A staggering discovery."<sup>1</sup> The importance of the grain surplus of Germany's eastern provinces is indeed slight in face of the two, or two and a half, million tons of foreign wheat which Germany imports yearly from abroad. The situation would remain unaltered if the 42,000 square kilometres of territory surrendered to Poland (with 90 per cent. of the population Polish by race) still lay within the German customs area; for the

<sup>1</sup> ". . . für das Reich spielt der deutsche Osten als Weizenlieferant gar keine, als Roggenlieferant eine recht unbedeutende Rolle. Eine erschütternde Erkenntnis." *Die Ostdeutsche Wirtschaft*, Langensalza, 1930, p. 85. His excellent analysis of eastern Germany's share in the Reich's food supply will be found on p. 85.



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wheat imports from Poznan (Posen) into the Reich did not exceed 25,000 tons a year before the war.<sup>1</sup> The railway statistics for 1912 show insignificant general exports to Brandenburg and Berlin—931,000 tons—against an internal turnover in Poznan and West Prussia of 8,359,000 tons ;<sup>2</sup> and in any case the provinces ceded to Poland, which have an area only rather more than a third of Germany's present *Kornkammer*, feed the industrial population of Polish Upper Silesia.<sup>3</sup>

Eastern Germany, nevertheless, has had a predominating effect of its own upon the Reich. It is notorious that the shortage of supplies became acute in Germany during the war, and to the deficiency of food many strategists and politicians ascribe the collapse of her powers of resistance. But the great landowners of Prussia had been at the head of the war clique with the leaders of the iron

<sup>1</sup> Hedinger, *Der Getreidehandel in der Provinz Posen*, states that Poznan exported before the war 208,000 tons of rye and 24,900 tons of wheat a year.

<sup>2</sup> Volz, *op. cit.*, p. 49.

<sup>3</sup> The highly exaggerated statement is sometimes made (*vide* Woytinsky, *op. cit.*, p. 39) that these Polish provinces could feed 4 to 5 millions of the German population outside their boundaries. The industrial area of Upper Silesia ceded by Germany is 3,725 sq. km., with a population of 918,785 (in 1910)—a density of 246.6. *Statistisches Jahrbuch*, 1927, pp. 10-11.

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industry, so that after Germany's defeat ideas of revenge began to move along parallel lines with the personal interests of the East Prussian agrarians, who formed a very influential and energetic group. At the same time an economic doctrine came to the fore, advocated disinterestedly by prominent economists and of a sort to appeal to large sections of the nationalist population—it had for its slogan, “German self-sufficiency in foodstuffs.”

This idealistic but fallacious belief in the virtues of full economic independence has infected nearly every nation since the war; inevitably the practice of it does incalculable harm, not only to the nation itself but also to its neighbours. The notion of complete economic self-sufficiency strikes at the most essential function of international relations, at the exchange of goods and services, just as it would within the community if each individual insisted upon supplying all its own wants for himself. Undoubtedly, a community may protect its own production against foreign competitors, but limits are set to that protection by national necessities on the one hand and by the principle of reciprocity on the other. When those limits are exceeded a passion for retaliation arises in other nations, and there begins a vicious circle of reprisals which results

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in an unsound exchange and a general crisis. More than that, the community loses its sense of interdependence, with other communities, upon an animated exchange, and suffers from a consequent neglect of profitable investment, of natural conditions, of racial endowments and of tendencies developing for the future.

Quite disproportionate efforts have been made by Germany in recent years to make herself independent of all foreign food supplies. The powerful resources of German agricultural science have been devoted to every aspect of a problem which attracts the equal attention of the industrialists, of the large landowners and of patriotic economists.

The increased output resulting from mechanical cultivation in the U.S.A. and Canada first suggested the importance of mechanisation, which the German manufacturers enthusiastically supported with credit facilities. The *Institut für Konjunktur-Forschung*—the Institute for Enquiry into Market Conditions—puts the sale of agricultural implements and machinery at 600 million marks a year, and the maintenance or renewal of machinery at another 225 million.<sup>1</sup> If we accept these

<sup>1</sup> The yearly expenditure on agricultural machinery was calculated to be 825 million marks in the *Vierteljahrshefte zur Konjunkturforschung*, No. I, p. 40, 1928. An

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figures as correct, it appears that since 1924 mechanisation must have cost German agriculture over 3,500 million marks.

It is by no means accepted without question by German agriculturists that these investments are reasonable for Germany to undertake, although they are known to have made a splendid return under American or colonial conditions, where there are vast areas of uniform soil, where also labour is scarce and expensive. There are economists who even bring forward the progressive substitution of machinery for manual labour in eastern Germany—the only provinces where there are many landed properties of over 500 hectares—as the main reason for the flight of population from those districts to the industrial centres and large towns. Our own general impression is that, what with the many sub-divisions of

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idea of the increased use of machines between 1907 (with the pre-war territories of the Reich) and 1925 may be gained from the following statistics: tractor-ploughs (1907), 2,995; (1925), 8,813; seeding-machines (1907), 290,039; (1925), 543,705; chopping-machines (1907), 14,633; (1925), 145,638; potato-digging machines (1907), 10,064; (1925), 173,703; threshing-machines (1907), 732,772; (1925), 1,055,151; grist mills (1907), 25,588; (1925), 319,670; cream-separators (1907), 295,795; (1925), 1,415,699. See *Wirtschaft und Statistik*, 1927, pp. 764-5.

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landed property, the variations of soil found in relatively small areas, and the necessity for strongly marked differentiation in the rotation of crops in order to maintain production, the mechanisation of tillage after the American example is not feasible in Germany, any more than it is elsewhere in Europe, with the exception of Russia and some parts of Roumania or Hungary. Nor can complicated agricultural machinery be always a profitable investment where trained mechanics and repair shops are not available on the spot.

Another means devised for the increase of agricultural production in Germany was to develop the use of fertilisers, already widespread before the war. Her natural riches, as well as the technical genius of her people, favoured that policy. To the first Germany owes her position in the potash industry, which almost amounts to a monopoly, to the second her leadership of the world in the production of synthetic nitrogen.<sup>1</sup> In 1929, over

<sup>1</sup> For figures concerning the production of fertilisers, see *Statistisches Jahrbuch*, 1930. For consumption, Sering, *op. cit.*, p. 134, gives the following :

	1913-14	1926-7
1. Pure azote . . .	185,000 tons	400,000 tons
2. Phosphoric acid . . .	555,000 „	475,000 „
3. Pure potash . . .	490,000 „	717,000 „
4. Lime . . .	3,436,000 „	1,434,000 „

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13 million tons of potassic salt were extracted in Germany,<sup>1</sup> and she herself used nearly one-half of the concentrated product (about 700,000 tons of pure  $K_2O$ ) on the fertilisation of her fields and pastures. While in 1913 the trade balance of nitrates revealed a deficiency of 158 million marks in favour of Chile saltpetre, by 1925 already, when the world production of fixed nitrogen reached 1,250,000 tons, Germany's record participation was 450,000 as against Chile's production of 385,000 tons. And in 1928, of a world production of 1,679,000 tons, Germany's share amounted to 700,000.

Technical improvements connected with these two principal fertilisers, and the better organisation of work and sales, resulted in a fall in the price of artificial fertilisers, as compared with the price level of 1913, at a time when the prices of all manufactured goods were rising. It may be said that in the application of artificial fertilisers modern Germany has reached the limit of technical possibilities. She has also, by the development of the nitrogen industry, secured her position in the manufacture of explosives,—once more the

<sup>1</sup> The potash extraction in 1930 decreased to about 12 million tons, probably owing partly to the world crisis and partly to the agreement with the French producers.

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policy of revenge and the policy of self-sufficiency in foodstuffs appear as complements of one another.

TABLE I

### *The Trade Balance of the Reich—1925-1930*

Sources : *Statistisches Jahrbuch*, 1930, p. 191 ; 1931, p. 174.<sup>1</sup>

Following Professor Sering, *op. cit.*, no account is taken of emendations in the valuation of goods.

In millions of marks :

Group	Import	Export	Balance
1925			
I. Animals . . .	122·0	21·7	
II. Food and drink	4,023·0	519·8	- 3,603·5
1926			
I. Animals . . .	119·7	24·4	
II. Food and drink	3,571·0	503·8	- 3,162·5

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<sup>1</sup> The system for the classification of goods adopted by the international conference at Brussels affords no true picture of the food deficiency. We must make use, therefore, of the excellent analysis given in *Wirtschaft und Statistik*, 1931, p. 319, which, by the inclusion of certain items and the exclusion of others, arrives at approximately the correct figures. Fodder for animals is the chief factor making for the variations.

German foreign trade in all kinds of goods serving the nourishment of man and beast, with wines, spirits,

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Group	Import	Export	Balance
1927			
I. Animals . . .	170·9	29·1	
II. Food and drink	4,326·1	440·8	- 4,027·1
1928			
I. Animals . . .	145·2	18·8	
II. Food and drink	4,023·3	605·7	- 3,544·0
1929			
I. Animals . . .	149·7	22·0	
II. Food and drink	3,822·7	701·5	- 3,248·9
1930			
I. Animals . . .	118·4	68·7	
II. Food and drink	2,969·0	479·8	- 2,538·9 <sup>1</sup>

tobacco, etc., has reached the following figures in millions of marks :

	1925	1926	1927	1928	1929	1930
<i>Import :</i>						
	5,081·0	4,526·5	5,512·2	5,573·2	5,213·5	4,088·1
<i>Export :</i>						
	660·9	624·5	564·9	743·3	838·5	673·7
<i>Deficit :</i>						
	4,420·1	3,902·0	4,947·3	4,829·9	4,375·0	3,444·4

In the years 1925-9 there were no unmistakable signs of a reduction in the food deficiency. The figures for 1930 must be treated separately on account of the substantial reduction in the prices of imported foods.

<sup>1</sup> The drop in the food imports in 1930 was caused by the considerable reduction of food prices. Calculated on the basis of prices in 1928 the imports of food in 1930 represent an increase of 546·1 million marks.



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Group	Import	Export	Balance
1925			
III. Raw materials, semi-manufactures	6,211·7	2,024·4	- 4,187·3
1926			
III. Raw materials, semi-manufactures	4,947·7	2,732·1	- 2,215·6
1927			
III. Raw materials, semi-manufactures	7,148·9	2,607·8	- 4,541·1
1928			
III. Raw materials, semi-manufactures	7,243·7	2,703·6	- 4,540·1
1929			
III. Raw materials, semi-manufactures	7,205·1	2,926·3	- 4,278·8
1930			
III. Raw materials, semi-manufactures	5,508·1	2,449·6	- 3,058·5
1925			
IV. Manufactures	2,005·4	6,753·0	+ 4,747·6
1926			
IV. Manufactures	1,363·0	7,154·3	+ 5,791·3
1927			
IV. Manufactures	2,538·7	7,723·5	+ 5,184·8
1928			
IV. Manufactures	2,459·0	8,701·5	+ 6,242·5
1929			
IV. Manufactures	2,269·3	9,832·9	+ 7,563·6
1930			
IV. Manufactures	1,797·1	9,037·5	+ 7,240·4

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<i>Sum total of balances :</i>	Plus	Minus
1925		3,043·2
1926	413·2	
1927		3,383·4
1928		1,841·6
1929	35·9	
1930	1,643·0	

Despite these intensive efforts, during years of normal prices for agricultural products the annual figures for the German food deficiency show no signs of decreasing. Up to the end of 1929 it was not once reduced below a net yearly value of 3,000 million marks according to the Brussels classification ; and not below 3,900 million marks according to the amended Brussels classification. It is here that other far-reaching factors enter in. For the consumption of wheat, which before the war averaged 95 kilograms per head per year, had again reached 91 kilograms (1928), but the consumption of rye, which in 1913-14 was calculated at 153·1 kilograms per head, in 1928-19 reached only 116·2 kilograms, including the quantities used for fodder. The simple explanation of those figures is that the town population eats wheat bread, while the country population eats rye bread ; but the country population of Germany is constantly decreasing in percentage and in absolute numbers.

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Bearing in mind that Germany has to import large quantities of wheat annually, let us examine more closely her position with regard to rye. The poor soils of eastern Germany, which must be worked under unfavourable climatic conditions, cannot yield a plentiful supply of wheat; they do supply a surplus of 750,000 tons of rye a year, which is sold abroad with the assistance of bonuses paid out of the State Treasury.<sup>1</sup> Thus, even the present rye production is a burden to the Treasury of the Reich, and no increase in the wheat crop, to reduce the deficiency in foodstuffs, may be expected from eastern Germany.<sup>2</sup> This is a real *impasse*. No wonder drastic proposals are made, among them Professor Volz's for a general rationalisation of German agriculture which would include the cessation of rye cultivation by western and central Germany in favour of the eastern provinces; a reform which, obviously, could only be carried out by more or less open compulsion from the State, with all its consequences.

When cereals seemed to offer no possibilities

<sup>1</sup> The turnover in rye was: 1929, imports 27·5, exports 83·4 million marks; 1930, imports 8·9, exports 24·9; 1931, imports 10·3, exports 6·9 million marks.

<sup>2</sup> Yet there are responsible German politicians heard to insist that provinces of Poland producing mainly rye should be annexed to the Reich.

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of diminishing the food deficit, Germany turned her considerable energy and skill to the improvement of stock breeding.<sup>1</sup> Thus, Falke's programme of *Grulandwirtschaft*—meadow-land farming—aimed at bringing cattle breeding in Germany up to the Danish or Dutch level, and was expected to take away from those two countries substantial sums of their exports to Germany. Holland in 1929 exported to Germany dairy produce to the value of about 262 million marks, Denmark to the value of 183 millions. In 1931 these exports were reduced to 138 and 87 million marks.

The period of negotiation for a commercial treaty with Poland was also marked by a considerable propaganda for an increase in the number of pigs in Germany. German agriculturists contended that the importation of pigs from Poland would spell the ruin of German agriculture, and after several years of

<sup>1</sup> Intensive breeding of horned cattle and pigs accounts for the considerable increase in the imports of fattening fodders, such as oil-cake, bran, maize, barley, etc. It is extremely difficult to calculate whether it is more profitable to import killed meat or food for livestock. One fact at least is certain, that Germany, by closing her frontiers to the animal products of European countries, has considerably reduced their purchasing power in the German industrial market.

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bargaining, Germany agreed to the importation of a yearly quota of 350,000 pigs. As no fewer than 22 million pigs are slaughtered in Germany every year, it becomes clear how ruthlessly the German campaign of economic nationalism is at present being pursued, and also how modest are the concessions which Germany is prepared to make in the interests of her industries.<sup>1</sup>

The situation is paradoxical. German agriculture benefits by tariffs and by all other means of governmental protection carried to their utmost limits ; and yet, with the single exception of rye, the whole of its production is not sufficient to satisfy the capacious home market. But there is a further paradox, and the most striking of all, that the financial situation of the German cultivators is desperate.

It is instructive, in this connection, to review the statistics of the mortgage charges on German agricultural property. Before the war, the total mortgage burdens on all classes of German farmers amounted to 13,000 million marks, a sum which had accumulated over a century and a half, from the days of Frederick the Great, who was an outstanding pioneer in

<sup>1</sup> The treaty with Poland remains unratified and the Customs war is assuming more acute forms as time goes on.

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land improvement. These credits, therefore, represented the achievement of very extensive works : great areas drained, vast marshes reclaimed, idle land afforested, buildings erected, stock provided, and agricultural industries, such as distilling, sugar-refining and starch-making, developed from their beginnings. By intense cultivation and fertilising the yield per hectare had been increased to an unprecedented extent on the generally rather poor soils of Germany.

More than that, during the Great War the German countryside was not invaded or damaged, except to a slight degree in East Prussia. And then, by a crowning mercy, the debts of landowners were enormously depreciated in consequence of deflation and of the subsequent total collapse of the mark. When the currency was re-established, and the ratio of the old paper mark to the new one fixed by statute, German farmers small and great emerged with their property untouched and with their debts reduced to about 4,000 million marks—a reduction of the pre-war burden by about two-thirds.

In 1924, then, after the stabilisation of the currency, German agriculture had exceptional opportunities for success in world-competition. Not only was its own nation bent upon the

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idea of self-sufficiency, but neighbouring nations also, France and many of the countries of Central Europe, had had their most fertile lands devastated and were still struggling with the problems of reconstruction. Yet within five years German agriculture had acquired new debts amounting to about 9,000 million marks, and with this difference, that the rate of interest on the new obligations was nearly double the rate obtaining in 1913.

The *Institut für Konjunkturforschung* calculated the debt load on German agriculture for December 31, 1927, at 10 milliards of marks, putting the old pre-war debts at 3 milliards, and leaving out of account the guarantee-mortgages of the Rentenmark. The whole matter has since been examined in a parliamentary enquiry, and the "Preliminary Report on the Indebtedness of German Agriculture" (1928) reached a significant conclusion: <sup>1</sup> "At the end of 1923 agriculture had almost entirely paid off its debts. Since then, until the middle of 1927, the new debts have reached an amount estimated at 6 to 7 milliards of marks which have been accumulated in less than four years." On that estimate the debt has been

<sup>1</sup> See No. 4085 of the publication of the Reichstag, *Vorbericht über die Verschuldungsverhältnisse der deutschen Landwirtschaft*, March 9, 1928, p. 2.

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growing at a rate of from  $1\frac{1}{2}$  to 2 milliards of marks a year ; and the committee assumed the pre-war rate of interest to have been 4 per cent., the present one to be 7 per cent.

Whatever the estimate, there is no doubt that the medium and large landed properties of the country are in a state of catastrophic indebtedness. Official departments and independent economists are equally guarded when they discuss the reasons for it. Professor Sering, a leading German authority, points as an explanation to the difference in the prices of wheat, beef and butter in the United States and England, as against prices for the same articles in Germany, compared with those ruling before the war.<sup>1</sup> It is true that there was, during the mark inflation period, a very serious difference of prices, to the detriment of the German farmer ; but after that period, at the very time when these new debts were contracted, tariff protection with duties pay-

<sup>1</sup> With Professor Sering's arguments in *Weltwirtschaft*, compare J. Fisahn, *Ostpreussen und Posen*, pp. 36-7. The average index price of wheat in Berlin (1925) was 243.5 marks per ton, in London 243 marks ; of beef in Berlin 1,826 marks, in London 1,757.3. At the end of 1930 the prices were : of wheat in Berlin 247.3, in London 136.1 ; of rye in Berlin 151.4, in London 85.8 ; of beef in Berlin 111, in London, 142.4, chilled beef 130.61 ; of choice butter in Berlin 272.26, in London 262.13.



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able in the new good currency operated strongly in favour of the German farmer and gave him a privileged position. Professor Sering's explanation is not, therefore, very convincing.

We are faced here by the financial ill-success of such an important economic group as the medium and large landed properties which are concentrated in Eastern Germany. We are faced by the fact that those properties have accumulated debts in the course of a few years at a pace and to an extent which must give rise to apprehension. And the situation appears even more formidable when we consider the statement of Herr Kurt Ritter, an outstanding expert on German financial conditions, that Germany "at the present moment has no agriculturists with capital who could, or would be willing to take over the inheritance of those who have encumbered themselves with debt or have mismanaged their farms."

Anyone with a personal acquaintance of German farmers will certainly admit that, on the average, their knowledge of farming and their capacity for management stand very high indeed. If this is accepted as a basis for argument, we must reach the conclusion that, as a class, and but for cases of recklessness and

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mismanagement quite natural with a numerous class, they are not responsible for the present state of affairs. Then we must rather enquire whether German economic conditions in general are not so adverse to intense agricultural production that neither the great capacity of the home market, nor the most determined tariff protection, can counterbalance their disastrous effect on agriculture. In other words, the problem we have to solve is whether the German farmers are not simply victims of the idea of self-sufficiency in foodstuffs, whether they are not swimming against the tides, so that even the strongest of them must drift towards financial and social ruin.

If that is the correct statement of the problem, it can only be resolved by a thorough examination into the present state of Germany's population, and of tendencies apparent in its development. In that will be found to lie the explanation for the financial failure of German agriculture and of its efforts to supply the foodstuffs of the nation.

*Note.*—To exhaust the literature of the subject it would be necessary to collect not only the economic works, but also all the technical agricultural works which deal with it, and that is scarcely possible.

## II PROBLEMS OF POPULATION AND INDUSTRY

GERMANY'S economic destinies are intimately connected with the development of her population in general, and of her agricultural population in particular. According to the last census of 1925 the people of the German Reich numbered 62,410,619; at the present time (1932) the figure exceeds 63 millions. But an examination into the structure of that population discloses serious gaps, caused by the Great War, and other weaknesses which spring from a variety of causes. These must react profoundly in the future upon the life and character of the nation.

The enormous losses of the war—which were so heavy that from 1915 to 1918 the excess of deaths over births amounted to 1,449,421—have been veiled so far by the large accessions to industry, year by year, of young men born before 1915. The rate of births in the years around 1900 was so high that Germany has not suffered, like France, from any labour shortage. Before the period of post-war confusion came to an end, yearly

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contingents of twenty-year-old youths entered the market, each more numerous than the last. They brought with them a consciousness of strength, and from them are recruited Germany's wonderfully developed military associations, with their typical ideas of revenge, of territorial expansion and of aggressive nationalism. The series culminated in 1928 and 1929, with quotas of 660,000 young men, but for all that they give an illusive picture of Germany's procreative powers; a real crisis of population and economics will take place in Germany in three or four years' time.

We have computed, on the basis of tables of mortality, that in 1936 Germany will have 377,800 men at the age of 20 and 21 years; there will be 331,200 in 1937, 301,800 in 1938 and 331,800 in 1939. Only then will be revealed the full tale of the "unborn" caused by the years of war, famine and family separation. (See Table II, page 53.)

These independent estimates (made in 1927) receive confirmation from the Statistical Office of the Reich, in detailed calculations for 1930 and 1960, made on the assumption that there would be a constant figure for 1,160,000 children born each year.<sup>1</sup> "In the approach-

<sup>1</sup> Should the decrease in the number of births stop at the figure of 1,160,000 a year, Germany's population

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ing years, with those born in the war years 1915 to 1919 reaching an age when they are capable of earning a living"—in Germany the years between 15 and 65—"the increase in the number of bread-winners for the first time, but only temporarily, comes to a standstill." <sup>1</sup> Again, "according to calculation, the number of those capable of earning their living diminishes therefore between 1931 and 1934 by a total number of 360,000, while between 1925 and 1930 it was still increasing by 550,000 a year." <sup>2</sup>

Also, quite independently of that four-year period, one must take into account a chronic decline of procreativeness in the German people, as marked as any ever before observed

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will, up to 1960, increase by 5,400,000, but then a rapid absolute loss of population will set in. It is impossible, in fact, to predict whether the rate of births will maintain itself at the present level. The number for 1928 is 1,182,815, but for 1930 is 1,127,450 and for 1931 only 1,031,508.

<sup>1</sup> *Wirtschaft und Statistik*, December 1930, p. 971. "In den nächsten Jahren kommt mit dem Uebertritt der Kriegsjahrgänge, 1915-1919, in das erwerbsfähige Alter die Zunahme der Zahl der Erwerbsfähigen zum ersten Male, aber nur vorübergehend zum Stillstande."

<sup>2</sup> *Ibid.* "Die Gesamtzahl der Erwerbsfähigen geht daher von 1931 bis 1934 rechnermässig um insgesamt 360,000 zurück, während sie von 1925-1930 noch um jährlich 550,000 angewachsen ist."

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in the history of the white race. We know that France has also observed a similar transformation.<sup>1</sup> In 1790 her birth-rate was still 35 per 1,000 of population. Eighty years afterwards, in 1870, this figure had gone down to 25, and to-day it is only 18. But a decline which, with the French, occurred slowly, over the course of a century and a quarter, has been achieved in Germany in record time. It was prophesied by Pareto twenty years ago ; were he still alive he would be astonished by the way in which his prediction has been fulfilled.

Six years after the intoxication of the Franco-Prussian War, Germany showed a rate of 40 births per thousand, exclusive of still-born children. The decrease began, yet in 1902 she still held the position of France in 1790, with a rate of 35. In 1914 it was only 27, and thirteen years later it was 18—no more than that of France. And what of the future ? Will the German nation stop in this quick race towards death ?

In 1872, with a then population of 41 millions, 1,626,037 children were born in Germany. But in 1931, with a population of 65 millions, only 1,031,508 were born ; in that year the excess of births over deaths was

<sup>1</sup> For a comparison with France, see G. Rageôt, *La natalité*, Flammarion, Paris.

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305,525. It is interesting to notice that Poland in 1931, with less than half the population of the Reich, had an excess of 471,000 births.

Even at that, we know the excess of births in Germany to be due almost entirely to the progress of sanitation. With 11·7 deaths per thousand of the population, Germany has the most favourable yearly death-rate in Europe, excepting only Holland, Norway and Denmark ; but the fact is equally established that this cannot be maintained indefinitely. Her old people are increasing in numbers. Despite all progress in sanitary conditions, they must pay their tribute to death. If the decrease in the birth-rate continues at its present *tempo*, the German Reich will soon enter upon the period of declining population. At the present moment already, the basis for the population pyramid of the future, that is to say the number of new-born children, is narrower by 30 per cent. than it was in 1872, and 43 per cent. less than in 1910.

This is not the place for a deeper analysis of all the causes, many of them rather mysterious, which have brought about such a crisis in a race which, after the Russians, is numerically the strongest in Europe. Nor will the closest research establish with certainty to what proportion the decrease in the birth-

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rate is due to the urbanisation and industrialisation of the people, or to the very rapid rise in the standard of living, or to the less favourable complementary results of sanitary science, which devotes its successful efforts to the strong as well as to the weak ; or how much again results from the penetrating psychic effects of defeat in Germany's bid for world domination or to a change in religious feelings and in the general outlook on life. This last factor found statistical expression in the census of 1925, when 1,140,957 persons registered as not belonging to any religious denomination. This was about eight times the figure of 1910, and to judge by the Communist poll at the last elections, the present figure is considerably higher again.

The prospect of a diminishing population ought to influence the whole trend of German national politics in the direction of peace. It should lead to an abandonment of policies based upon force of numbers and to a substitution for them of sympathy and co-operation with other nations. So far, however, the expression of these other ideals is only feebly heard in Germany. The mood of Imperialism was justified, to a degree, in the pre-war days which saw a rapid expansion of the German race. It still prevails, as the results of the last



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elections showed ; but if it continues, the impression can hardly be avoided that in this nation of prominent statisticians and great thinkers the power to perceive reality has been beset by some sort of atrophy.

In the structure of its population as regards trades and professions the German Reich has also undergone another important change, of which the most striking characteristic is a flight from the land to industry. At the census of June 5, 1882, 15,983,761 people were enumerated as living by agriculture, and 13,946,994 as engaged in industrial occupations ; at the census of June 25, 1925, the industrial population was 25,781,281, and the agricultural only 14,373,256. In the course of 43 years, then, the agriculturists had been reduced from 40 per cent. to 23 per cent. of the total population of the Reich. Agriculture had given over to towns and industries not only the whole excess of births over deaths, but also more than one million and a half of its original fund of population.

This process has long been so marked that a special term—*die Landflucht*—was coined to define it years ago. No programme for the development of national economics in general, or of agriculture in particular, may be drafted without taking it seriously into account.

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Dr. Heim, the chief organiser of peasant associations in Bavaria, is therefore quite right when he ascribes the essential cause of Germany's crisis in agriculture to the small natural increase of the population.

For many scores of years industry has been concentrated in the Saxon region of Central Germany and around the Saar and the Rhine. Accordingly, the flight from agriculture to industry has its geographical expression as a flight from, even as an evacuation of, the eastern provinces in favour of the central and western provinces of the Reich. This phenomenon has nothing whatever to do with Germany's defeat in the war, or with the creation of the Polish and Baltic States. In the census statistics of 1907 it was already revealed that nearly 2,494,000 people born in East Germany were living in the central and western parts, while only 359,000 people born in the centre or the west were living in the east.

At the very time when Prussian officials, dazzled by the ideas of Frederick II and of Bismarck, supported also by the powerful machinery of State finance and of extraordinary legislation, were preparing their schemes of colonisation in the east—"Nach Ostland wollen wir reiten"—the masses of the German people, between whom and the soil of the east

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there were no ties of sentiment, were already migrating westward. In the west they knew that better wages awaited them, that the sky was clearer, life merrier and civic liberty more full. The centre of gravity in the German mass had actually been shifting westward, towards the French and Belgian frontiers, since the middle of the nineteenth century, while German opinion, more and more hypnotised by East Prussian propaganda, believed that they were still advancing to the east, just as they had advanced many centuries before.

Here was another paradox ; the result is shown in the figures for density of population. The average rate for the whole of Germany is 137 per sq. km. But in Westphalia that average is 237, in the Rhineland 297. In East Prussia it is only 61, in Pomerania 62, and in the *Grenzmark Posen-Westpreussen* the inhabitants per sq. km. number no more than 43, and the process of evacuation still continues. Between 1910 and 1925, 135,000 people migrated from East Prussia and 50,000 from Upper Silesia. From the provinces of Lower Bavaria, the Upper Palatinate and Upper Franconia, on the Czecho-Slovakian frontier, 121,000 persons emigrated during the same period to other countries of the Reich. The *Drang nach Osten* of patriotic imagination

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has long been the *Drang nach Westen* of physical fact.<sup>1</sup>

Up to the present time the shortage of agricultural labour in Germany has been made good by an influx of seasonal labourers from Poland, which has not been restricted to a yearly quota. Of the total of 115,298 foreign labourers possessing permits and employed in agriculture in Germany during 1930, 103,540 were Poles.<sup>2</sup> That is despite the large contingent for the year of German youths entering the economic market; and despite the fact that agricultural wages in Germany are nearly double the wages of adjoining countries. One

<sup>1</sup> Apart from all ethnical, historical, or juridical arguments the logic of facts must be recognised here. For a State to demand territorial acquisitions in a direction opposite to the spontaneous migration of its people—for a State to show appetite for new provinces, adjoining older ones which are already being deserted wholesale, despite large appropriations of money—that is for a State to act *contra naturam*. Germany, when demanding the incorporation of Polish Pomerania within the Reich, is indeed like a gentleman of seventy insisting upon marriage with a girl of seventeen.

<sup>2</sup> *Statistisches Jahrbuch*, 1930, p. 318. The yearly quota of Polish agricultural labourers for the season 1931 was reduced to 30,000. In 1932 no Polish labourers were allowed to cross the German frontier. The pre-war movement into Germany of land-workers from the Polish provinces of Austria and Russia for seasonal occupations has been calculated at 400,000 per annum.

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can imagine what Germany's plight will be in the matter of agricultural labour during the approaching four-year period, when instead of 660,000 youths in a year, only half that number will enter the market. When that period of labour shortage begins, as it must begin in all the belligerent countries eighteen years after the outbreak of the Great War, Poland's temporary assistance to Germany, through the supply of seasonal labour and of potatoes for stock-raising, may be the only possible salvation for German agriculture from complete collapse.<sup>1</sup>

Dr. Hainisch, a former President of the Austrian Republic, has noticed that a flight from the land becomes more marked the more rationalistic modes of thought are made accessible to the agricultural population. Moreover, to bring back industrial labourers to the soil is such a difficult undertaking that we know not a single instance of its success anywhere ; seldom does one who has left the soil return to it. Indeed, the *Landflucht* is very much assisted in Germany by social legislation

<sup>1</sup> The national income from agriculture is calculated by the *Institut für Konjunkturforschung, Vierteljahrschrift zur Konjunkturforschung*, 1928, vol. i, p. 40, at 12,547·4 million marks in 1926-7, one-third being income from cultivation and about two-thirds from stock-raising.

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which insures the industrial labourer against the risks of sickness, unemployment or incapacity for work.

This adds another complication to the trend towards aristocracy which is going on in German industry: of which the principal characteristics are that those branches pay best which need only a small number of hands in proportion to the value produced, or which require highly qualified and well-paid labour. The margin of difference between industrial wages and those which agriculture can afford to pay has been growing for many years. It will continue to grow and to intensify the agricultural crisis.

It is also true that the public charges of the German Reich, excluding social charges, have increased from 7,252 million marks in 1913-14 to 20,800 million marks in 1928-9—or three-fold if the loss of territory be considered.<sup>1</sup> And agriculture has to pay back to industry the protective duties by which the cost of living is increased several per cent. in prices for manufactured goods, which are for the

<sup>1</sup> The total public expenditure of the Reich, federal States, municipalities, communal unions and Hanseatic towns for 1928-9 amounted to 20·8 milliard marks; more than three times as much, counting territorial losses, as for 1913-14, when it was 7,252·6 million

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most part dictated by well-organised cartels. If, during the first five years after the introduction of a new currency, the indebtedness of German agriculture has increased by 9,000 millions, and a greater number of the medium

marks. The following were characteristic figures of this expenditure :

	Million Marks	
	1913-14	1928-9
General administration	486·3	868·7
Fiscal administration . . .	259·6	822·7
Police . . . . .	221·9	870·4
Army and Navy . . . . .	1,821·8	826·9
Social and welfare . . . . .	1,121·0	3,586·0
Education . . . . .	1,395·8	3,198·0
Public Debt . . . . .	500·1	903·0
War charges, exterior . . . . .	—	2,178·4
„ „ interior . . . . .	—	2,315·1

The German Empire had quite an efficient police force, though its cost was one-fourth of the present ; hence the malicious supposition that in the German budget the costs of the next war exceed the costs of the last. At least the truth remains that the Republican administration is three times more expensive than the monarchical. *Wirtschaft und Statistik, Sonderbeilage, Die Ausgaben und Einnahmen der öffentlichen Verwaltung, 1931.* Woytinsky, *Zehn Jahre neues Deutschland*, pp. 174 ff.

The income of various social insurance bodies in Germany amounted in 1929 to 6,126·6 million marks and in 1930 to 6,487·8 million marks. In this figure is included the subsidy from the State funds, 574·2 million marks and 1,037 respectively. Compare *Wirtschaft und Statistik, 1931, p. 406.*

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and large landed estates have become insolvent,<sup>1</sup> it is impossible to cherish the illusion that the next few years—years of an agricultural crisis—will see any improvement in the plight of German agriculture.

Germany has not, then, succeeded in the policy of securing her own resources for food-stuffs. On the other hand, a policy of high agrarian duties, which the Minister Schiele has been able to dictate on account of a specific situation in home politics, is the cause of open conflict between Germany and some of the best buyers of German goods, such as Holland, Denmark, and the whole group of agrarian States in East-Central Europe.

At the same time many branches of German industry are rendered less capable of competing on foreign markets by the high cost of living and by the burdens of an unduly inflated public expenditure, which is falling more and more exclusively upon industry itself. As German statisticians compute the income from agriculture at between 12,000 and 15,000 million marks a year, all in all, or about 20 per

<sup>1</sup> A process illustrated by the increased number of sales by auction. In 1924, 34 estates of a total area of 871 hectares were put up for auction; in 1928, 304 estates of a total area of 13,993 hectares. J. Fischer, *Ostpreussen und Polen*, p. 35.



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cent. of the total national income, agriculture is not in a position to bear much of the liabilities of the Reich.

On that point there is a sharp contradiction to be discerned between the problem of German agricultural policy and the problem of the Reich's solvency—a contradiction of importance to the whole of Europe.

TABLE II.

*Numbers of Men in Germany, aged 20-21, from 1925 to 1947*

Sources : Census of the German Reich, June 15, 1925. General tables of male mortality for the years 1924, 1925 and 1926. *Statistisches Jahrbuch*, 1926, pp. 38 et seq. ; 1931, pp. 31 et seq. ; 1932, pp. 13 et seq.

CENSUS OF 1925.		Year of maturity of each group.	Number of deaths (actual till 1930 and estimated for subsequent years) in intervening period.	Number of men attaining 20-21 of subsequent age.
Age Groups.	Actual Numbers.			
20-21	623,695	1925		623,695
19-20	629,214	1926	2,960	626,524
18-19	659,187	1927	5,337	650,850
17-18	668,162	1928	7,663	660,499
16-17	669,928	1929	9,541	660,387
15-16	661,711	1930	10,941	650,770
14-15	664,949	1931	11,889	633,060
13-14	632,400	1932	12,669	619,731
12-13	642,889	1933	13,764	629,125
11-12	623,407	1934	14,145	609,262
10-11	590,853	1935	14,175	576,678
9-10	387,705	1936	9,835	377,870

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CENSUS OF 1925.			Number of	Number of
Age Groups.	Actual Numbers.	Year of maturity of each group.	deaths (actual till 1930 and estimated for subsequent years) in intervening period.	men attaining 20-21 years of age.
8-9 .	340,314	1937	9,127	331,187
7-8 .	310,585	1938	8,801	301,784
6-7 .	341,933	1939	10,144	331,789
5-6 .	642,633	1940	20,520	622,113
4-5 .	638,834	1941	21,897	616,937
3-4 .	617,247	1942	23,041	594,206
2-3 .	512,418	1943	23,598	548,820
1-2 .	553,973	1944	26,213	527,760
Numbers calculated on a basis of the numbers of boys born in the years 1925, 1926 and 1927.		1945		536,120
		1946		508,540
		1947		478,835
Boys actually born :		1923-670,024		
		1924-656,272		
		1925-666,667		
		1926-632,370		
		1927-597,765		
		1928-609,052		
		1929-591,159		
		1930-580,328		

*Remarks.*—The German census of 1925 presents a clear picture of Germany's population pyramid, showing how many persons there were then living in their first year, in their second year, in their third year, and so onwards. Granted that there is no radical change in sanitary conditions, etc., it is possible

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to estimate, on the basis of statistical data as to the present death-rate, how many persons in a thousand out of any given age-group will live to be 21. The number of men attaining military age year by year up to 1947 is, therefore, computed by subtracting from every yearly contingent the number indicated by the death-rate. Thus, the figure for 1940 is obtained by taking the five-year-old age-group on the 1925 census and subtracting from it the number in that group which is not expected to reach the age of 21.

As the number of births is always uncertain, the figures for 1931 have been accepted as constant for the future.

The diagrams of the Reichstatistisches Amt, published in *Wirtschaft und Statistik*, show that a great increase may be expected in the number of old people, with all its economic, social and political consequences. Despite such future prospects, the Reich has at the present moment a record number of young men, and in that fact lies one of the most striking paradoxes of modern Germany.

### III SOME FINANCIAL BLUNDERS

THE territory of the German Reich was not touched by the devastation of war, with the exception of a narrow strip of East Prussia which was reconstructed while hostilities still proceeded. The soil of Germany, it is true, was quite considerably impoverished. Parts of her industrial establishments, especially the ironworks, had to have their plant renewed. Others were found, after the war, to be retaining antiquated equipment, unequal to the progress of technique and organisation of labour which had intervened. Nevertheless, there was no question for Germany of war devastation in the sense of what befell France or Belgium, Poland, Serbia and Rumania.

Immediately after the war, Germany entered upon a course of paper money inflation. But foreseeing an unavoidable catastrophe in her currency management, she resolved, with admirable consistency and determination, to take out of it a maximum of work and of tangible value, and thus to increase her national wealth. Banknote emissions were made to serve, not only purely fiscal or

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inflammatory ends but also purposes of economic organisation and of credit.

German financiers cleverly accentuated this economic character of the inflation, while the scholars applied themselves to the creation of new, *ad hoc* theories of money. At the same time Germany was being rebuilt at a pace that can only be described as American. This appeal of theory and of fact to the easy-going minds of the *nouveaux-riches* was considerable : the belief established itself that in course of time Germany would bring the mark exchange under control. Abroad, thousands of agents were buying goods against marks, or selling mark obligations and mortgages. Mr. McKenna possessed sufficient information to express the opinion that about one million foreigners speculated on the rise of the mark. Then, with super-inflation, those mark liabilities outside Germany became a dead loss to the foreign bulls, and Germany is supposed to have gained between 7,600 and 8,700 million gold marks from the failure of her currency.<sup>1</sup>

The inflation period coincided with a development of German towns so splendid that hardly anything else like it is to be found in Europe. Possibly only Miami in Florida and

<sup>1</sup> Compare M. Sering, *Deutschland unter dem Dawes Plan*, p. 33.

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Los Angeles in California, in the whole world, have buildings and palaces of modern growth surpassing those that sprang up in Germany at once after the war. During the same period the greater part of the reconstruction of Germany's merchant fleet was carried out. With 4,254,601 tons register (July 1931), that fleet again takes fourth place in the world, after England, the United States and Japan ; but it has a greater percentage of new ships than any of them. In 1929, the mercantile marine figured to the extent of 743 million marks on the credit side of the German balance of payments.<sup>1</sup>

Already in that same inflation period, Germany undertook to complete great schemes for electrification and for the refitting of her industries. It was a time when her savings—the fatty tissues of her national organism—were feverishly turned into the productive elements of bone and muscle ; the German community emerged lean and hungry, with a diminished stock of savings in cash, but with full stores of energy.

The amount of productive work accom-

<sup>1</sup> See this item in the assets of the balance of payments, in *Statistisches Jahrbuch*, 1930, p. 193, under "*Schiffsverkehr plus Passagiergeschäft*"—"Shipping freights plus passenger traffic."

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plished in Germany was of a kind likely to command the respect both of Europe and of America. The financial world soon forgave the Germans its losses in mark speculations, and bowed to their practical success ; especially because the Germans, after having reached the extreme limits of inflation, have found the means to create a new, sound money basis in the *Rentenmark* ; and also because the solvency of Germany with regard to war obligations had become the very key and pivot of interallied obligations.

So much has been written on Reparations and interallied obligations that it seems superfluous to make any detailed analysis of them here. It is enough to seize the fundamental principles which underlie them ; and, as is usual in large movements of affairs, the moral considerations here coincide with most vital economic interests. The first principle is that, for the Allied Powers, immediate gains ought to have given place to consideration of a full reconstruction, a *restitutio in integrum* of all the countries devastated and weakened by the war, without regard to their greatness or to their political influence.

The various governments of Great Britain, with a feeling for older traditions and with fuller conceptions of the economic and financial

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well-being of the world, accepted this principle when they suggested a scheme for a general reduction of interallied debts. France, on her part, repeatedly appealed to the United States for a considerable reduction in those obligations, setting forth the devastation of her country, the sacrifices of her blood, and the original over-valuation of deliveries in kind. The decision, naturally enough, lay with the United States as principal creditor.

For the time being that decision was taken against the Anglo-French representations, to the disadvantage of world economics and, there can be little doubt, to the detriment of America's own prosperity. The apprehensions of France lest Germany should have difficulties in fulfilling her obligations met only with the optimistic slogan from the United States that Germany must be made a "going concern" by the influx of American capital.

Such a decision of policy as that had, as it was bound to have, incalculable consequences, but its origin can be easily explained. For generations the genius of the American race has been concentrated on the problem of production. The problem of finance has never presented any fundamental difficulties in America, considering the enormous natural riches of the continent and the efficiency of



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the national type. Before the war, financial assets were supplied to her without stint by Europe to the extent of about 6 milliard dollars. And in the colossal and constantly expanding home market of the United States there had been no sales problem since the construction of the Erie-Ontario Canal at the beginning of the last century. Accordingly, when the war opened up new possibilities for sales and gave an added impulse to the development of industry, the whole attention of the Americans was concentrated upon problems of technical improvement, of rationalisation, and of labour-organisation in the field of production.

At the end of the war, the United States found themselves the fortunate possessors of war profits to the amount of about twenty thousand million dollars ; from a debtor nation they had become the principal creditor of the world ; and with that history, the problem of Germany's solvency presented to their eyes the simple solution of increasing Germany's industrial production. It is always a dangerous fallacy to judge the circumstances of others by one's own, and most dangerous of all when one's own are prospering.

As the atrocities of the war receded into past memory, the great problem of the economic

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reconstruction of Europe became narrowed more and more closely to the problem of extracting war reparations from the ultimate debtor—from Germany—and the method of that extraction was, first of all, to strengthen her economic life by new credits. In the first four years after the stabilisation of the mark—from 1924 to 1927—the financial assistance granted by the Allied Powers to Germany reached the sum of 5,259 million marks in foreign issues, and the total of credits in goods, bills of exchange, securities, etc., amounted to about 4,000 millions according to Dr. Schacht, or 5,000 millions according to Professor Sering.

Because of these credits a gold reserve was created at the Reichsbank, and the deficits of the German trade balances were made good. In fulfilment of the American theory, Germany's powers for production were indeed substantially increased, but far too much, out of all relation to the capacity for absorption possessed by Germany's natural markets, which were the European markets. Production was financed, but the market for sales was not financed. Germany, untouched by the devastation of large-scale warfare, was given opportunity for a development bordering upon the sumptuous, but countries actually ravaged by German armies in a German war found

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themselves unable to obtain financial assistance. They were left to carry on their work of reconstruction out of current revenue, to the detriment of their purchasing power in the markets of the world.

It is difficult to understand how this mistake could have been made. A problem of such importance as the reconstruction of the economic life and purchasing power of a hundred million people in Eastern Central Europe seems to have entirely escaped the attention of the high priests of finance. Notwithstanding the appalling devastation suffered by Serbia, Rumania and Poland—all of them countries associated with the victors of the Great War—they were left without a proper assistance of credit at the important moment.

The markets of the world had already suffered enormous losses in consequence of the Bolshevik revolution and the economic policy initiated by the new masters of the Kremlin ; the figure for that loss of exports over ten years may be safely put at over  $3\frac{1}{2}$  milliards of dollars.<sup>1</sup> Yet the high priests of finance

<sup>1</sup> The fall in world-production consequent upon the Soviet regime in Russia may be expressed by a comparison between Russian exports in Tsarist times and under Bolshevik rule. See *Die Wirtschaft des Auslandes*,

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looked on unconcerned while, in addition to that loss, another tremendous narrowing-down of the world-market was showing itself in the financial anæmia of all East Central Europe. And all the time new garden cities, splendid municipal buildings, aerodromes the like of which were not to be found in any other country, ornate theatres, cinemas, opera houses, swimming-baths and sports grounds were being laid out in Germany, for the most part on money borrowed from abroad at a pernicious yearly interest of 9·2 per cent. per annum.<sup>1</sup>

There is another characteristic of that situation equally difficult to understand. Poland, Rumania, Latvia and Esthonia are the immediate neighbours of the Soviet Union. Poland, at the very commencement of her new national life, single-handed and with her own forces, stopped the advance of the Red Armies towards the West at the very gates of Warsaw,

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Berlin, 1928, p. 519. The imports of pre-war Russia (within its present frontiers) must be assumed at a round sum of one milliard of gold roubles—or half a milliard of dollars. Russian purchases abroad, from 1917 to 1927, amounted to 3,273 million roubles—exactly 1,600 million dollars, or 160 million dollars a year.

<sup>1</sup> In quoting the rate of interest as 9·2 per annum we follow M. Kuczynski, *Deutsche Anleihen im Auslande*, Berlin, 1928.

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an encounter which has been trenchantly described by an English diplomat, Lord D'Abernon, as the eighteenth decisive battle of the world. One would imagine, on the face of it, that the capitalist world of the West, which was, is, and will be attacked by Soviet propaganda on very sensitive spots, could not be indifferent to the importance of developing the economic life and strength of countries bordering on Soviet Russia. The Russian workman or peasant does not make comparisons between the conditions of his life and those of the worker in England or France ; but the degree of well-being in communities just across the frontier, which were recently comprised in part within the Russian Empire, all of them communities well known to him and connected with his own even by family ties, must supply most striking comparisons to his mind. If there is one factor which might work for the victory of moderate elements within the Soviets, it is the economic prosperity and development of those countries neighbouring Russia which still move within the orbit of Western Capitalism.

The moral obligations of the Allies to one another, a regard for the triumph of democratic liberty over collective slavery, the necessity to maintain a normal growth of

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markets—all these were pushed into the background in the greedy minds of money-lenders, who desired at all costs to extract a maximum of cash from their debtor. And in particular, American financiers and politicians fell far below the level of genius of those who originated and organised the American machinery of production.

It is significant that, before the war, the stock of gold at the Bank of England never exceeded 150 million dollars ; yet the City of London regulated the distribution of gold and of world credits successfully, without any serious jamming. The Americans amassed nearly 5,000 million dollars—thirty times the maximum of the Bank of England's reserves before the war—and then sat majestically on this store of gold. Typical symptoms of hyperæmia were the result : over-production and over-speculation at home and, in further consequence, a slump incalculable in its ruinous economic and social effects. Had the United States decided to invest abroad not half per cent. of its national income, *i.e.* 500 million dollars a year on the average, but three times as much, speculation would hardly have reached such proportions. Having attained, in consequence of the war, the banking primacy of the world, America was not equal to the task of gold and credit

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distribution. And to that the fact is due that the financial centre of the world is again shifting, with the substantial assistance of American financiers themselves, in the direction of Paris.

German financiers, and those numerous German banking firms which are settled in foreign capitals, cannot be reproached for having done their best to attract into their own country a maximum amount from abroad. They have, in fact, splendidly carried out what they conceived as a national duty. But it might perhaps have been better for Germany herself if her industries had not grown over-large in dimension, if her public expenditure had not become so inflated, if the standard of living of her people had not been raised to a level so difficult to maintain. It was one of the results of over-investment abroad that it gave Germany an enhanced political value and thereby encouraged her to demand the revision of frontiers. And the victorious Allies, by according to the Reich the assistance of credits in plenty on the very eve of a breakdown of sales, doubled the pressure of competition upon many branches of their own industries, and conspicuously improved the technical efficiency of those chemical and metallurgical industries within the Reich which are decisive for its success or failure in case of war.

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The Germans between the years 1923 and 1929 did not merely attract as much foreign capital as possible to their own country. They spared no efforts in addition to prevent part of that capital from turning to countries which they wished to preserve exclusively to themselves for economic expansion in the future. The pressure which they exerted was especially strong as regards Poland, Germany's most important eastern neighbour. When German hopes for the defeat of Poland in the struggle against Bolshevism came to nothing; when the suggestion, assiduously fostered by the German Press, that the Polish State was the phenomenon of a season, was disproved by Poland's increasing consolidation; then resort was made to more drastic, and more dangerous, policies. Germany endeavoured, as she is still endeavouring, by her own bold assertion of territorial claims upon Polish Pomerania and Polish Upper Silesia, to create an impression in the West that a Polish-German conflict is unavoidable. It is by these methods that an atmosphere of insecurity has been created about Poland's financial situation, despite Poland's most exact observance of her liabilities and despite the thrifty management of her domestic finances. But here also, in fact, Germany has damaged her own best interests.



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Her propaganda has been masterly ; but the plain truth has undoubtedly been overlooked, that a weakening of Poland's purchasing power means a direct loss to German industry.

We shall see later on that the province of Pomorze, ethnographically Polish, is of no direct economic importance to the Reich. It is, however, of paramount importance to Poland, because it offers her the only possible means of free economic contact with the nations of Western Europe. And Germany's attack upon Poland's rights in Pomorze, no less than the attempt to create a customs union with Austria, form part of a grand strategic campaign against the countries of East Central Europe, with a view to encircle them, to isolate them from the rest of Europe, and to establish in them the financial, the economic, and consequently also the political preponderance of the German Reich.

The revelation of the monopolistic aims pursued by Germany is clear enough. Her ambitions can only arouse a fierce resistance from the nations concerned, in Eastern Europe, and from the nations interested, in the West. The eastern countries of Europe are of prime importance, because of their own economic power in the first place but hardly less because of their bearing upon the problem of Russia,

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their own neighbour, a problem which becomes one of increasing urgency from day to day.

Considerations such as these should induce the Western Powers to enter, at last and before it is too late, into a more active, a more fruitful and a more provident co-operation with the nations of East Central Europe, for their economic consolidation and to fortify their purchasing power ;<sup>1</sup> it is a vital policy now to consult the general interests of Europe, not the exclusive interests of a single country.

<sup>1</sup> Since the beginning of the depression, in 1930 and 1931, the policy of restoring the economic prosperity of Europe, by restoring the purchasing power of the whole block of States to the east, has been expressed in resolutions passed by numerous economic conferences of chambers of commerce and by delegates and experts from countries associated with the League of Nations. It was the dominant idea running through the deliberations of the Conference of Agricultural States in Warsaw. See *Notre force d'achat*, by A. Plutynski, in the *Messenger Polonais* of August 28, 1930.

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EVEN a superficial examination of Germany's trade figures is enough to show that her prosperity (indeed her solvency) depends upon the export of manufactured goods. In 1929 their value reached the imposing total of 9,832 million marks, while her imports of manufactured goods from abroad were worth only 2,269 million marks, with a tendency to decrease.

It would, however, be a mistake to suppose that Germany's commercial policy is dictated by a sense of that economic reality. It would be a mistake to suppose that her leaders in economics and politics acknowledge any dependence upon industrial export or that they take all possible steps to establish reciprocal connections with foreign markets. Almost the very reverse is in fact the case, as may be seen from a comparison between the imports of foodstuffs into Germany and the exports of her manufactured goods.

Food supplies come into Germany from two main groups of countries. There is the American group on the one hand, comprising Canada, the United States and the Argentine,

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and on the other the agricultural countries of Europe. The comparison may be best established by considering the two years before the crisis (1928 and 1929), thus leaving out of account the serious drop in the export of manufactured goods from Germany to countries overseas which occurred in 1930.

The figures are arresting. During those two years the exchange of foodstuffs between Germany and the three countries of America gave the latter a total balance in their favour of 2,252 million marks, while their total adverse balance in the exchange of manufactured goods with Germany was only 1,507 million marks. In other words, without considering the German deficit in the exchange of raw materials with those countries, we find that for two years Germany had to remit in cash, as payment for food, 745 million marks to Canada, the United States and the Argentine.

During the same two years Germany's principal purveyors in Europe supplied her with foodstuffs to the value of 2,750 million marks, but they bought from her manufactured goods to the value of 5,000 million marks. The cash balance in favour of Germany amounted, therefore, to 2,249 million marks, and it enabled the Germans not only to buy foodstuffs in America, but also to make up a

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considerable part of their deficit from the supply of American raw materials.

These figures are characteristic indications of Germany's agrarian policy, which is mainly directed against her European purveyors of foodstuffs, and which expresses itself by increased duties on butter, eggs and meat, by an export bonus on pigs, by veterinary regulations, transport restrictions, and so on. Accordingly this particular aspect of the question should be supplemented by further details.

In the European group of countries supplying Germany there are two, Italy and Spain, which stand in a class by themselves. Their bill for foodstuffs was 537 million marks, but they bought from Germany manufactured goods to the value of 938 millions : the proportion between the two accounts was as 100 to 174. In a class by themselves also are the Soviet Union and Lithuania, both of them close political friends of Germany. They supplied foodstuffs to the value of 233 millions—an insignificant figure, considering the numbers of the Russian population—and they bought her finished goods for 553 millions : a proportion of 100 to 237. Denmark and Holland, again, have enormously developed their trade exchanges with Germany. They supplied

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during the same period food worth 1,334 millions and bought manufactures for 2,108 millions, a proportion of 100 to 157.

But no fewer than eight nations of East Central Europe find themselves in a position with regard to Germany which deserves special attention. They are: Poland, with a population of 32 millions; Rumania, with a population of 18 millions and a half; Czecho-Slovakia, with 15 millions; Yugo-Slavia, with 13 millions and a half; Hungary, with 6 millions; Bulgaria, with 6 millions; and Latvia and Esthonia with 3 millions between them. We have here to deal with a group of nations possessing a rapidly increasing population of 96 millions, mainly engaged in agriculture. They have also suffered, to a greater or less degree, from the devastation of war—with the exception of Czecho-Slovakia and Hungary—and from a loss of the savings made by several generations. Nevertheless, during the same two-year period, although Germany only bought from them foodstuffs to the value of 645 millions, they took from Germany manufactured articles to the value of 1,400 millions. The proportion between the two sums was as 100 to 217, and the cash settlement was 755 million marks—almost exactly what Germany had to pay in cash for food supplied from

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America. When, therefore, in the early months of 1930, Germany embarked upon the policy of increasing agrarian tariffs, there was a natural agitation in those countries for the revision of commercial relations with one who had become an unfriendly customer, and for joint action in defence of their own interests. It may be added here that the projected Customs Union between Germany and Austria gives substance to these protests. Austria, so far, has been a good customer among the countries concerned ; the Customs Union implies the danger of Germany gaining unfriendly control over the Vienna foodstuffs market and with it a fatal domination over the whole group of nations in East Central Europe.

We have already seen that when foreign financiers allowed Germany to monopolise the flow of free capital from abroad they did not sufficiently consider how far their own prosperity was dependent upon the development of markets, or in general upon the purchasing power of those 96 millions in Eastern Europe. Excluding Czecho-Slovakia, where industry had been long established, the purchasing power of that agrarian group amounted (in 1928) to no more than 13 dollars per head of the population. At the present time, during a crisis which has penalised agricultural

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countries, their foreign purchases are necessarily even less. Yet they are not poor so far as natural riches are concerned. The soil in parts of Hungary, Rumania, Yugo-Slavia and Poland is better than any other in Europe—the “black earth” districts of Russia are alone superior. Their climate is mild and temperate. Besides an abundance of coal and salt, lead, copper, quicksilver, zinc, china clay, aluminium, gold and silver, they possess the only considerable deposits of oil and natural gas in Europe. The Carpathian and Sudetian pine forests, the “black earth” oaks of Poland and Croatia, supply the best grade of store timber. If we add the many spas of world-wide fame, the lakes, mountains and sea-coasts attractive for tourists, we may fairly say that the wealth of the group is rather above the average of European countries. It is only their misfortune that, with a native industry and thrift also above the average, they have for ages suffered the invasions of Huns, Mongols and Turks or the domination of foreign enemies in Europe ; and slaves seldom gather riches. But they have started life afresh after the impoverishment of the last great war, which was for them only one of a long series.

It cannot be said, then, that a purchasing power abroad at the rate of only 13 dollars



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a head per year is by any means a true measure of the cultural requirements of East Central Europe. The figure is deplorably low ; even at that it was only reached with difficulty ; but it is evidence at once of the anomaly of constructing out of revenue such necessities as railways, roads, waterways, seaports, or governmental and municipal buildings. The people had to take upon themselves the cost of reconstructing about one-third of their houses, which had been destroyed during the war, of clearing their farms after years of neglect, of establishing their civil administrations, and of creating and equipping armies necessary not only for their own defence but also for that of the rest of Europe.

Nine-tenths of those undertakings had to be paid for out of the current national revenue, and the foreign trade of those countries had to suffer in proportion. A policy was followed of deliberate restriction upon purchases abroad ; it was a policy dictated by the absolute necessity of preserving the stability of the currency and of the whole fiscal system. If that group of nations did not purchase abroad at more than a rate of 13 dollars per head of their population, it was not because their requirements were inconsiderable, but because the financial powers of the world considered

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it inadvisable to grant them credits for elementary and paying investments ; because, also, their nearest industrialised neighbour was buying foodstuffs from overseas.

The yearly value of goods which could not be purchased by the East Central European countries in foreign markets, but which they could have purchased with a different distribution of world credits, may be put at a minimum of 800 million dollars. Before the war, the Austro-Hungarian Empire, which included large portions of these States, purchased in foreign markets goods to the value of about 23 dollars per head of population, although the policy of that Empire was highly protectionist. The loss of from 800 to 1,000 million dollars a year from the European turnover is undoubtedly one of the main causes for the economic crisis and of unemployment in the industrial States in the West, particularly in Germany.

Germany's attitude in the matter is, in fact, one of the commercial paradoxes of our day. She is hostile on principle to the economic development of those who would buy her industrial products. She is hostile on principle to the development of the only group of nations which can give her in the future a substantial increase of sales. It is perfectly clear that

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neither Denmark nor Holland, which also suffer from the German tariff policy, nor Spain and Italy, will be in a position considerably to increase their imports from Germany. And the definite policy of Russia, in which she is actually being assisted by Germany, technically and financially, is to make herself independent of all industrial products from abroad. Of this the first Five Year Plan, or even more the projected second Five Year Plan, is the classic expression.

It cannot be said that Germany has put herself in an entirely favourable position by limiting the market of her eastern neighbours in Europe. She has made tremendous efforts to restore her merchant fleet, remembering the proud maxim of pre-war days that "Germany's future lies on the water," and she has looked to the restoration of the market for her wares overseas. But the Anglo-Saxon countries, always conservative, were broken of the habit of buying German goods by the war. In the Far East a new industrial power, Japan, has arisen, successfully competing for what used to be a German monopoly: the cheap production of staple goods in general use. And Germany herself has ceased to be a country of cheap production under the post-war hierarchies of industry and government.

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Year by year, Germany's overseas trade has shown increasing deficiencies. From 1927 to 1929 the average European imports into the Reich amounted to about 52 per cent., but German exports to European countries amounted to 74 per cent. of the total respective turnovers. Over 2,800 million marks a year, earned on European transactions, has had to be remitted by Germany to countries overseas. The crisis year, 1930, produced a very curious development. While German exports to European countries fell by only 6 per cent. as compared with the preceding year, the decrease in exports to Africa was 14 per cent., to Asia 23 per cent., to America 28 per cent., and to Australia 36 per cent. France in that year gave decisive support to her political antagonist by purchasing from her goods to the value of 214 million marks more than in the previous year. In 1927, German exports to France were worth 561.5 million marks: in 1930 they were worth 1,148.6 millions.

The movements of trade during 1930 proved that Germany had already become, in commerce, a country within the system of Europe, and that only in her own continent can she find a solid basis for prosperity. And just as the agricultural countries of Eastern Europe are interested in selling their surplus products to

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Germany, so Germany herself, to an even greater degree, should be interested, as an industrial country, in the economic development and well-being of Eastern Europe.

To-day it is easier to create an industry than to find an outlet for its products. The States of Eastern Europe are indeed too small separately to provide large industry for themselves ; but they might easily create a federation or customs union which, disposing of an area of 1,383,000 square kilometres and of 100 millions of consumers, could venture to embark upon large-scale industrial production for its own requirements. A new industrial federation of that sort could draw upon most of its own important raw materials. It would have, as sources of energy, the cheapest of coal and still cheaper natural gas ; and the wages it would have to pay would be lower than those of Germany at the present time. If the agricultural surplus of those countries were still boycotted in Europe, or the necessity to sell it not removed (as it is at present) by bonuses out of State funds, it would find a ready market in the new industrial centres growing up within the customs union. Nor would the beginnings of that industrial federation be too difficult. Czecho-Slovakia, Poland and Hungary already possess considerable plant on the

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highest level of technique and organisation. A carefully planned industrialisation of the whole group of States would hardly meet with the many difficulties which have confronted the Soviets, for instance, in their not unimpressive effort to execute the Five Year Plan.

Undoubtedly, political antagonisms do exist between some of the States which would form the union, but they must not be exaggerated. In every one the farming community is in a serious plight, and in every one of them, too, discerning minds are grasping the fundamental idea that the prosperous days of the small economic organism are over. Prosperity, in the economic life of the modern nation, depends upon the support of a powerful home market.

The project supplies at least a general insight into the relations existing between Germany and the countries of Eastern Europe. It is a problem of first-rank importance, and even in German nationalist circles there are to be found many who recognise it as a pressing one. An article by Herr Albrecht Haushofer, expressing much of our own argument, appeared indeed in the German nationalist monthly *Volk und Reich*, April 1929, under the title *Zwangsläufigkeiten und Ziele*, and from it we may quote :

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“We are, as compared with 1914,” wrote Herr Haushofer, “a nation of old people; a restriction in the number of births, hardly comprehensible in its dimensions, will in a few years’ time make our economic life feel the need of fresh growth.”

“A people that has left scarcely sufficient strength for a firm hold on the agricultural soil within its own country can no longer claim rights of possession (*Herrenrechte*) beyond its frontiers.”

“It is senseless to open up new fields of production if those at home are being filled with foreigners. It is senseless to claim land if one has no settlers. It is senseless to rule if one has no heirs.”

“One must know exactly what one wants, and know also what one has to offer.”

“We have nothing to offer any countries overseas. We have little to offer to the British Empire. Poland is of more importance on the anti-Russian front than we are.”

It is Herr Haushofer’s opinion that the only field for the expansion of German activities lies in the countries of Eastern Europe, which he calls, in his own phrase, “the sub-Germanic field of ruins.” He argues quite rightly that there, in countries where a great part of the population still speaks or understands German,

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where Germans also are in general respected, their co-operation in technical and economic matters could only result in important advantages to Germany. "Should Germany refuse this," he continues, "the forces of circumstance would certainly bring about an attempt to unify 'the sub-Germanic field of ruins' without Germany, and a more serious attempt than that which has been tried already through the Little Entente."

The actual policies of Germany to-day cannot by any means be reconciled with the facts as they are expressed even by this German nationalist. Neither can they be explained by reference to economic considerations. To explain the present situation we must probe rather more deeply into the national mind of Germany. Every economist and politician sees the basis of Germany's prosperity in an increasing capacity of the markets for German manufacturers ; but Minister Schiele is allowed to continue his agrarian policy, which is sapping the foundations of trade relations with buyers of German goods and restricting the competitive possibilities of German industry. What is the reason? It is that German strategy, military, political or economic, is incapable of entertaining the idea of retreat, even in one sector. Other nations have learned



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to forgo what is less important, but the Germans always attempt to gain their objectives on all fronts, and in every sector of them, simultaneously. In this there lies the strength as well as the weakness of the Prusso-German race.

If the present standards of living in Germany, and the present rate of public and social charges, are to be maintained, there can be no prosperity for agriculture without high food prices. These, again, can only be attained by high duties on imported food. But if these are the measures necessary to secure agricultural prosperity at all costs, it should not be forgotten that they are bound to entail dangers to Germany's solvency and a crippling of the people's power to pay their taxes. In other words, the measures aiming at the restoration of agriculture strike at industry and at the export of manufactured goods.

It would be possible, it is true, considerably to reduce the public charges, which amount, even excluding charges for social services, to 20 milliards of marks a year (as against a pre-war rate of 7 milliards) ; but this again would mean capitulation, and so it is out of the question. It would be possible to calm the German mania for putting up palatial buildings, or to reduce the fantastic sums devoted

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openly or secretly to preparations for war ; but this would slacken the pace of investment demanded by the industrialists and dampen down the hope of revenge which, for want of a better, is still the predominant ideal of post-war Germany.

Until quite recently the economists of Europe were hypnotised by the American argument that consumption must be increased even by artificial means, by accumulating a superabundance of money, by selling on the instalment plan, by a hysteria of advertising, and so on. Consumption was therefore increased in the countries where it was already very high ; but it was neglected in countries where the most elementary economic and cultural needs remained unsatisfied. Not only that, but all possible means were adopted to draw away from those countries impoverished by the war the remainder of their circulating capital.

To-day we have reached a position where the average of the circulating medium per head of the population is in France 300 marks, in England 180 marks and in Germany 90 marks ; but in Rumania and Yugo-Slavia it is 35 and in Poland 20. Such enormous differences as these, which indicate a dangerous disturbance of the economic balance, did not

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appear before the war. It has been accentuated by Germany's policy of extracting money for manufactured goods from the agricultural countries of Eastern Europe and shutting out from her market their agricultural produce. Yet that policy cannot be maintained indefinitely, because it runs counter both to common sense and to mathematics. Surely the German people, a people of poets and of thinkers, will soon see further than their own immediate gain to the permanent establishment of economic and political peace.

If the belief does prevail that war tactics—the tactics of surprise, of breaking the morale, of striking at nerve centres—may continue to be practised upon the countries of Eastern Europe until they surrender their economic independence to Germany, then there is evidence only of a deficiency in the German mind. The rise of those nations after the war was a striking proof that they could survive the most crushing defeat and yet preserve their nationhood, while Germany herself showed during that struggle a unique quality of self-deception as regards the English, the Belgians, the Italians, and at last the Americans. Moreover, there was before the war a significant example of boycotting the foodstuffs produced by an agricultural nation. It was attempted

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upon Serbia, to break her political resistance and to make her submissive to foreign orders. Cut off from the sea, Serbia tried for years to gain access to its only profitable market, in Austria, for its most important export, which was meat. And resentment of the wrongs suffered at the hands of Austria-Hungary flared up at last in the murder at Sarajevo.

It would be too much to recall in detail the memories which haunt those nations: the slaughter of the Czech nobility at the battle of the White Mountain; the suppression of Hungary in 1848 by Austria and the Russian Czar; the dismemberment of Poland which endured for more than a century; the terms imposed upon Rumania by the Treaty of Bucharest, whereby the whole mining wealth of the country was to pass under German control. They are events of the past, and the Germans of the new Republic can throw upon their former rulers the responsibility for past policies. But one could have hoped that the Germans of to-day, striving for an extension of economic influence in Eastern Europe, where there is a wide field for their technical genius, would avoid recalling painful memories and use other tactics than those of economic warfare.

## V

### ARISTOCRACY IN INDUSTRY

MODERN civilisation no longer ties men down with enduring bonds to one craft or profession. We are indeed far from the days when sons inherited from their fathers and grandfathers a workshop which was almost a shrine and when agriculture particularly was an honoured occupation, even for the knights of Europe in times of peace. Nowadays the choice of an occupation is dictated either by purely economic considerations or by the appeal of incidental comforts and advantages.

There are still some races in Europe with a peasant class devoted to the soil as expressive of the highest values in life, but the German race is not one of them. Agriculture has become, with them, an occupation like any other ; the moral attraction of the soil has yielded to the calculation of commercial profits. The assumption must be made that in nine cases out of ten the modern German, and for that matter the western European generally, will leave his work on the farm whenever the opportunity presents itself to better his situation by entering industry or the industrial services.

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It is inevitable that the economic results of this change tell against agriculture. The greater the difference between the average wages paid to field-labourers and those paid to machine-hands or municipal employees, the greater will be the exodus of country people to the industrial towns. The levelling down of that difference in wages, the "closing of the shears" in favour of agriculture, is a process limited on the one hand by the use made of agricultural machinery, which supplants manual labour, and on the other by the price of foodstuffs, which cannot be raised indefinitely by tariffs in a country of Germany's social structure. In Germany, it must be remembered, only about 22 per cent. of the population is dependent upon agriculture for a living. In order to estimate future developments, then, we must consider the conditions for "closing the shears" from the other end—that is to say, by a reduction of earnings in occupations outside of agriculture.

Since 1913 there has been a disproportionate increase in the sums paid to officials engaged by the State, all the more disproportionate in view of the fact that the old Germany was larger than the new. The total State expenditure in 1913-14 was 7.2 milliards of marks, and in 1928-9 it was 20.8 milliards of marks,

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although the purchasing power of the mark had nearly recovered its pre-war value. But the more decisive factor to be taken into account is the tendency noticeable in the development of German industries ; in which 14 million people earn their own livelihood, while another 14 millions are dependent upon them in the wage-earners' families.

All the fundamentals of economics are brought into play by international industrial competition. There is the quality of the individual, the resources of energy and of raw materials in the country, the possibilities of cheaper or dearer food for the labourers, the amount of capital invested in the factories, the level of technical equipment in the factories, the movement of rolling stock and its cost, the organisation of trade, the scale of national and social charges and the international position of the State ; not to speak of any number of national or racial imponderables. It is, however, a characteristic fact that each one of these many elements of success plays a different rôle in the different branches of industry.

Let us take an instance—the cost of labour. There are industries, such as spinning, weaving, or the manufacture of ready-made clothing, where there is practically constant ratio of the number of hands to the quantity of

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output. Even with the best possible machinery the operator is not able to control more than a certain number of looms. Again, each watch, however its component parts are produced, must be put together individually. After the operator has reached a certain maximum efficiency, no further increase of it is possible through mechanisation. But quite a different example is to be found in an electric power station. A small station, producing up to 10,000 h.p., where it would not pay to have automatic fuel feeding, will require more hands than a large one of 200,000 h.p., mechanised in all its details. In such a station as that the cheapness or dearness of labour becomes of secondary importance.

The same arguments apply to raw materials. There are some, for instance wool or silk, in connection with which distance and cost of transport have no importance whatever. But there are others, such as gold quartzites, which must be worked up on the spot, as it is impossible to transport a ton of ore over even a moderate distance in order to extract a few grammes of gold.

The important conclusion is that in Germany the increasing cost of living and the rising scale of public charges are lessening the possibilities of cheap production in those indus-



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tries where the profits extracted from the working-up of raw materials are very small, or where the cost of labour itself is the most important item.

German manufacturers have great qualities of character and splendid traditions of long standing. Unlike the politicians of their nation, they have a considerable power of adaptability to changing conditions of production and to variations in the requirements and tendencies of markets. But even such excellent qualities would not give them colossal results from industry in a country with no particular natural wealth beyond coal and potash, were it not for their two powerful and faithful allies—the German banker and the German scientist. None other than that disciplined trio could make it possible for Germany to assert and to maintain for so long her claim to the economic domination of the world.

It is safe to say that in the future, as in the past, wherever success depends upon an exact application of scientific and technical skill, together with a minute organisation of work, sales and finance, the German will have the best of chances for success in international competition. On the other hand, since the war, technical improvements have been made in all countries at a pace which must almost

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produce a vertigo. Industrial and scientific records pass from country to country like sporting championships. This is true of machine production, engineering methods and chemical processes. Even in the chemistry of dye-stuffs the Germans no longer command any more what was practically a position of monopoly before the war.

It seems to follow from these general premises that German industry must specialise in two kinds of goods : first, goods in the production of which the wages, as compared with other costs, do not play a decisive rôle ; secondly, goods which require the highest technical training to produce and for the production of which, in view of the high standard of work required, adequately high wages can be paid.

This is the tendency of German industry which we may call the tendency to become aristocratic ; and its existence is fully confirmed by current statistics. We may see it in a comparison between the state of German industries in 1907 and in 1925, as revealed by one census after another, and by the cumulative balance sheets of several branches of industry for the past few years.

Development in the application of electric energy in Germany is represented by the

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imposing figures of  $12\frac{1}{2}$  million kilowatts of installed power and  $30\frac{1}{2}$  milliard kilowatt-hours of current consumed, during 1929. Hard coal and brown coal are, and will remain, the sources for the production of energy in Germany, as water-power supplies no more than 10 per cent. ; but brown coal is becoming more and more important. The output of hard coal has only increased from 140,753 thousand tons in 1913 to 163,440 thousand tons in 1929, while the output of brown coal has risen in the same period from 87,228 to 174,456 thousand tons. It is true that strategic and other considerations have led to a concentration of important industries in Central Germany, where there is a great wealth of brown coal, but other factors account for the greater part of the increased output. The mining of hard coal employed 517,401 men. But improvements in mechanical means of extracting brown coal has reduced to 73,952 the number of men necessary to secure a maximum output of it. The amount of hard coal obtained per man in 1929 was 316 tons ; of brown coal it was 2,356 tons. According to Professor Halbfass,  $4\frac{1}{2}$  tons of German brown coal are equal to 1 ton of hard coal—so that the economic ratio is one of 316 to 523. And because of improvements in mechanisation

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it was possible to level down the average wages in the hard coal and brown coal industries. In 1913 the average wage in the hard coal mines was 1,773 marks per year, as against 1,353 marks in the brown coal mines ; in 1928 the figures were 2,394 marks as against 2,316 marks, with only a slight difference to the disadvantage of the brown coal miner ! <sup>1</sup>

The importance of brown coal to the chemical industry is illustrated by the figure of 197,500 tons of tar extracted from brown coal in Germany, a figure which, compared with the 1,425,300 tons extracted (1929) from ordinary coal, suggests that the results of Professor Bergius' work are most encouraging, though not yet up to expectations. But by nearly doubling her output of brown coal since 1913, Germany has been enabled to maintain her position among the nations as an exporter of coal, although she has lost 19 per cent. of her pre-war output by cessions of territory, and although her own demands for the supply of energy have increased. In 1913, German coal exports totalled (on balance)

<sup>1</sup> These figures for the development of German industry are from the official publications of the Statistical Office of the Reich. As a result of the crisis the output in the year 1930 was reduced to 142,698 million tons of hard coal and 146,010 of brown coal. *Statistisches Jahrbuch*, 1931, p. 96.

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24 million tons, and for 1929 they have decreased to 19 million tons ; but during the same period her brown coal imports decreased on balance from 7 to 3 million tons, and the export balance of coke increased from not quite 6 to over 10 million tons.

Because, moreover, it is possible to mechanise the extraction of brown coal to a much greater extent than that of hard coal, the financial results for it make a better showing. As the cumulative balance sheets reveal, in 1928 hard coal mining companies paid out an average dividend of 3·32 per cent., while brown coal mining companies paid out an average dividend of 8·80 per cent. In the year 1929 the dividends were 4·32 per cent. and 8·79 per cent.

In the production of coke Germany ranks second in the world, immediately after the U.S.A. Owing to the exchange of German coke for French ores, 3,418,000 tons of coke were exported to France in 1929 and 3,252,000 tons of ore imported into Germany, so that she has secured a convenient supply of ores. With an abundance of tar from gas works, her industries of dye-stuffs, medicines, fertilisers and explosives are able to develop splendidly. Her utilisation of coke gas has made tremendous strides. In 1913, when 487,491 tons

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of coal were coked, the sale of coke gas was 151 million cubic metres ; it had increased by 1929 to 670 million metres. The system of pipe-lines for gas, especially the long-distance 12-inch pipe-line, Essen-Hanover-Berlin, is of great importance in Germany's economic life. And in conclusion, the German manufacturer is indebted to the excellent managerial organisation of the gas and electricity industries—and to the application of the latest systems of burning pulverised coal in the power stations—for a cheap and plentiful supply of power, though the cost of extracting the coal itself is high enough.

In the production of pig-iron and raw steel, Germany has already reached her pre-war figures, ranking first among European countries. Here also there is a noticeable decline in the export of heavy goods. In 1913, pig-iron to the value of 66 million marks was exported, and the imports of it amounted to 18 millions ; in 1927 the exports were valued at 35 millions, but the imports stood at 34 millions. In 1913 semi-manufactured iron goods were imported to the value of 2 million marks, but in 1927 they reached the figure of 42 millions. The imports of heavy iron manufactures in 1913 were worth 45 million marks. In 1927 they were worth 233 millions, while

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the export values in the same two years stood nearly equal at about 660 million marks. Though there has been an intensive development of her own foundries, Germany is already becoming a market for unfinished forge and foundry products from France, Belgium, Luxembourg and Czecho-Slovakia. And the machine-building industry is being developed in Germany at a much quicker pace even than her foundries.

The tendency to become aristocratic, of which we have spoken, is most strongly marked in the metallurgical industries. In the production of goods made of iron, steel and metal, the number of persons occupied increased by 26.5 per cent. between 1907 and 1925, to a total of 977,173; in the construction of machines, instruments, vehicles and rolling stock the increase was 94 per cent., and the number of persons occupied stood at 1,271,660 in 1927; and in the highest group of all, electrotechnical, fine mechanical and optical, the increase went by 183 per cent. to a total of 588,713 persons.

For the same period the textile and clothing industries reveal only a slight increase in the number of persons employed, the first by 16.8 and the second by 9.4 per cent. These are industries wherein the cost of wages is a most

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important item for the calculation of profits, and in which mechanisation cannot pass beyond certain strictly defined limits.

The production of zinc is at a standstill : Germany has lost, by cession, 18 out of her 31 zinc-works. In those that remain to her, 110,500 tons of raw zinc were produced in 1913, and only 95,200 tons in 1928. The production of refined zinc and zinc-dust was increased, but 95,000 tons of zinc were imported, on balance. On the other hand, there has been a greatly increased production of pure copper and its compounds, in connection with the development of electrotechnics : thus, 11,500 tons of electrolytic coppers were produced in 1913, and 93,500 in 1929. The same rapid progress is to be noticed in the production of aluminium—from 5,200 tons to 34,000 tons—because of the growth of motor-car and aeroplane industries. Here, again, Germany takes second place, after the United States.

We have already quoted figures for the output of potash and nitrogen. The chemical industries show, of course, the most marked developments of all. Though the number of persons they employ has risen only by 62 per cent., to 316,832, the increase in self-produced power has been 426·8 per cent., to



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1,118,825 h.p. ; and the increase in electrical power utilised has risen as high as 1,110 per cent., to 898,545 h.p. In 1928 the heavy chemical industries paid out an average dividend of 6.75 per cent., and the other branches an average dividend of 9.31 per cent.

The chemical industry is indeed the domain where the high qualities of the German race show themselves at their best. It is founded upon the highly specialised laboratory work of tens of thousands of chemists, on a combination of endurance with system, and on the co-operation of large capital with a system of commercial distribution exactly organised down to its most minute details. Military opinion also recognises that in the event of future war, the chemical industry, together with the metallurgical and engine-building industries, will be of decisive importance.

German statistics of export are evidence that the sales of German manufacturers abroad are narrowed more and more to high-grade goods, to *Qualitätsware* as they are called. And the transformation which has taken place is recognised by Herr Woytinsky, an authority on such matters, in his book, *Zehn Jahre neues Deutschland*, p. 59 :

“Without entering into the details of the

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many branches of industry, we may state that almost the whole of the new labour (about 10 million working hours daily) which has flowed into industry has been utilised in the manufacture of the means of production ; in this way, the most important branches in the production of articles for consumption have been given the possibility of fulfilling their tasks with the greatest possible reduction in the expenditure of human labour, but with perfected machinery.”

The result of this tendency to create an industrial aristocracy is sure to be that Germany will appear more and more in foreign markets as the competitor of nations which are leading in the production of high-priced goods—such as Great Britain, France, Belgium and Switzerland. But it also follows that on the German home market the margin between profits in industry will rather increase than diminish. More than that, the atrophy of procreation in the population of the big towns will entail unavoidably a continued “flight from the land” and a further increase in agricultural wages.

In other words, the signs of the times are all to the disfavour of German agriculture. Had the natural increase of her population not suffered under such a grave setback, had

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she not so intensively, with the assistance of foreign credits, developed her industries, these dangerous symptoms would have assumed less acute forms. At the present moment they are sufficiently grave, and social legislation, which has been expanded in Germany to a colossal scale, has removed the last natural checks upon the migration from the country into the industrial towns.

In the winter months of 1930-1, owing to the world crisis, combined with the rationalising process of which we have spoken, the number of unemployed in the Reich went up to nearly five millions, and in 1931-2 to nearly six. Industrial unemployment on such a scale as that is, of course, not only a financial but also a social catastrophe. An alleviation of the crisis might alleviate the catastrophe ; it might reduce unemployment to a permanent figure of one and a half or two millions ; so that, instead of the 35 per cent. of industrial wage-earners who last winter could not find employment, only 15 or 20 per cent. would find themselves in that plight for the future. But even that release would confront Germany with the dilemma either of continuing her policy of agrarian tariffs, with its consequent burden of unemployment, or of desisting from such a policy : so that she would have to open

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her markets to the surplus produce of Europe's agricultural countries and create new possibilities for her industries by reducing the cost of living. But if she adopted this latter course, in the interests of a healthy industry, the whole artificial doctrine of self-sufficiency in food-stuffs, a doctrine which has been intensively cultivated, would have to be admitted a mistake.

It is not to be wondered at that German patriots wish to keep both branches of production, agricultural as well as industrial, in a flourishing condition, but the two projects are clearly inconsistent with one another. Fifty years ago the Reich embarked upon industrialisation, and to-day its occupational structure is becoming rapidly assimilated to that of England; we should, therefore, expect a development of economic conditions similar to that which occurred in England during the nineteenth century. But such is the disposition of political forces in Germany that, despite a defeat in the war, despite also a Republican form of government, no more than 22 per cent. of the population, representing the agrarian interest and led by the energetic Junkers of Prussia, still maintains the preponderating influence in the State. This agrarian camp exploits, in a masterly fashion, the economic

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plight of all Eastern Germany, which, with the exception of Silesia, is without industries and lives on the proceeds of agriculture. Their argument, that were the policy of protective tariffs on foodstuffs reversed, the depopulation and ruin of those eastern provinces would ensue, and that they might then fall an easy prey to the Polish "lust for conquest," is one which readily finds not only a hearing but even fanatical support in Germany.

So it is impossible to understand Germany's general economic policy without a thorough enquiry into the conditions prevailing in her eastern provinces, and chief amongst them East Prussia, which we shall take as our example. These impoverished agricultural provinces have to be fitted into one organism with a State which maintains a standard of living as high as that of the wealthiest communities in the world. To form this bridge the Reich is at present cutting right across the stream of its own natural economic development and neglecting its own most vital interests. The policy must prove an expensive one ; the whole financial situation of Germany is compromised by it ; and German industry has to carry unheard-of burdens to ensure even its partial success. If further credit assistance is granted

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to Germany from abroad it will only postpone the day when the present policy of agrarian tariffs will have to be surrendered. If that day comes late rather than soon, incalculable damage will have been inflicted upon Germany and upon the whole continent of Europe.

## VI EAST PRUSSIA : HISTORY

GEOGRAPHICALLY East Prussia is divided from the rest of Germany by the Polish province of Pomorze, which occupies the left bank of the Vistula to the Baltic sea-coast. Historically also, East Prussia is a physical expression of the old *Drang nach Osten* which, under the Teutonic Order of the Middle Ages, first established a Germanic state on the far side of the Vistula. For from the beginnings of historical times the territory now known as East Prussia was inhabited by the Prussian people, who were next akin in race and language to the Lithuanians and Samogitians. Only in the second half of the tenth century did they begin to enter into the history of Western Europe, when the Poles accepted Christianity, not, like Kiev and the Balkans, from Constantinople, but from Rome.

The Poles accepted with that faith the duty of converting the remaining pagan tribes, such as the Prussians and the Lithuanians, though Christendom had not then made up its mind whether conversion should be effected by the sword or by the spirit. The Poles, like

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all other peoples of the Middle Ages, wavered between the two until at last, in the bitter religious quarrels of the sixteenth century they devoted themselves to a policy of toleration. As early as 995, however, Boleslas the Brave, the second great ruler of Poland, who had already extended his power over Pomerania (inhabited by a closely related group of Slavs), decided to attempt the peaceful conversion of the Prussians. The problem here was more complicated, for these people spoke a separate tongue. Boleslas sent as a missionary the eminent bishop St. Adalbert, who was murdered by the Prussians while celebrating Mass.

The martyrdom of St. Adalbert and the solemn enshrining of his remains moved the whole of Europe. In the jubilee year 1000, the Emperor Otto III came on pilgrimage to the tomb, where he was received with great splendour by the powerful Boleslas, and at the banquet that followed he placed the patrician crown of a friend of the Holy Roman Empire upon the head of the Polish ruler. Thus two antagonistic Powers, German and Pole, bowed before the witness of the spirit. But as time went on the Polish state became weakened by dynastic divisions, and the German eastward expansion halted after it had exterminated the



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Slavs between the Elbe and the Oder, so that the task of converting the Prussians fell to Masovia, a province of Poland. Two monks, Godfrey and Christian, of Leszno, in Great Poland, zealously continued the work of Adalbert. Christian became bishop of Prussia, subject to the Polish archiepiscopal see of Gniezno, and by his leniency gained the goodwill of the Prussians. But Duke Conrad of Masovia instituted a rule of severity, coupled with robbery and oppression. The Prussians revolted, even invading Masovia, and it was not until 1223 that a joint expedition of three Polish dukes succeeded in putting down the rebellion for a time. The Polish military order, the Knights of Dobrzyn, founded to war against the heathen, was defeated, whereupon in 1226 Conrad of Masovia resolved to call the Teutonic Order into Poland.

The Teutonic Order, founded in 1190 at Acre, came into being at a time when the idealism of the Crusades had begun to wane, when their energies were showing themselves in the creation of new states—such as Cyprus, Rhodes, Malta—of a semi-ecclesiastical character. Duke Conrad granted to the Teutonic Order the lands of Chelmno (Kulmerland) and Lubawa (Löbau). Grants of land to monastic orders were common enough occurrences

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In the Middle Ages, without entailing the establishment of new states, yet this was the very object which the Teutonic Knights systematically pursued. They began their activities by building fortified castles at Torun (Thorn) in 1231, Chelmno (Kulm) in 1273, Marienwerder and Elblag (Elbing) in 1287 and Braunsberg in 1240.

The harsh methods of the Knights aroused the opposition of those whom they were supposed to convert, but the Order never lacked allies, thanks to its monastic character and excellent diplomacy ; one of its most powerful friends was Ottokar II of the Slav dynasty of Bohemia, in whose honour Königsberg was founded in 1254. After the Prussians had been gradually exterminated the Order turned its main strength against the still heathen Lithuanians and Samogitians, from whom they received a setback in 1260. On the west they gave help to the Polish Duke Wladislaw Lokietek in a dispute with the House of Brandenburg over the inheritance of the last Slav Duke of Pomerania ; but in 1308, after a terrible massacre of the population of Danzig, the Knights took possession of the whole mouth of the Vistula for themselves. Neither a papal verdict in favour of Poland nor the interdict pronounced in 1328 by John XXII affected

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the Order, which was then at the height of its power. Occasional Polish victories (as at Plowce) did not serve to weaken the hold of the Knights upon the disputed territory. The Teutonic Order, supported by the German Hansa, had become a European Power of the first rank, and continued its military conquests in Lithuania.

The decisive defeat was to come from a Polish state consolidated by Wladislaw Lokietek, his son Casimir the Great and Louis d'Anjou (King of Hungary and Poland), after the marriage of Louis' daughter Jadwiga to Wladislaw Jagellon, Grand Duke of Lithuania. The Grand Master of the Order refused to accept an invitation to the ceremony, and he was right to do so from the Order's viewpoint. For without further bloodshed all Lithuania followed its ruler in an acceptance of the Christian faith (1387); and the barons at Cracow followed up the work of consolidating western Europe by offering the crown of Poland to Jagellon. Every reason and justification for the Order's existence on the shores of the Baltic was now gone. There were no more heathens left in Europe; conversion had been effected by peaceful means; and the Jagellon dynasty was to continue the work of assimilation and co-operation. The battle of Grünwald-

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Tannenberg, in 1410, with the defeat of the Knights by the combined forces of Poland and Lithuania, was only a material expression of that moral victory.

The defeat at Grünwald brought to light all the defects in what seemed a powerfully constructed State, but which was, in fact, imposing only because it was artificial. German historians have often compared the State of the Teutonic Order in East Prussia with the Papal States or with Venice. But the Papal States depended upon the moral power of their ruler, and Venice was a city, like many others in Italy, controlling territory ; a better analogy with East Prussia would be the Jesuit State of Paraguay, except that the latter was based on moral forces, not on arms. The Teutonic Order gradually became an exclusive bureaucratic caste, which was both a means and an end to itself. It was sovereign and independent to a high degree, for the Knights were entirely free of either family ties or electoral obligations to the governed population. Like other bureaucratic governments it was remarkable for great discipline, energy and ruthlessness, and it created methods which were afterwards developed into the excellent administrative machine of Prussia's later rulers. Characteristically bureaucratic, again, the Order showed

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an unrestrained greed towards its subjects and a tendency always to suspect in them "the limited intellect of subject people." Finally, according to a German historian, "the success of the German advance in the East was in part made possible and given support by the sea-power of the Hansa, which had been founded as a commercial association, but had become the dominant political power of Northern Europe and gave this German colonial country the necessary flank-support."

The Order was not restrained by this fact from transferring the commerce of the territory to its own organisation and furthering it by violent means. The corn, wool, wood, wax, potash and fish which the population produced were sold in southern markets by the agents of the Order ; they tried also to monopolise the Baltic commerce in cloth and metals, and particularly in weapons. We have here the embryonic form of State Socialism and the Soviet system of exchange, as well as the first conflicts with English traders.

So the subject population—gentry, regular clergy and townsfolk—hindered in their free development, turned against the Order after its defeat at Grünwald, and began to look towards Poland. The estates of Prussia formed an armed "Prussian League," the estates of

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Pomerania the "Lizard League," and they called upon Jagellon's son, King Casimir, and the Polish Diet for help. The struggle came to an end only with the Treaty of Torun (1466) by which East Prussia remained in the hands of the Order (except for the bishopric of Warmia), but as a fief of the Polish Crown. Danzig and Pomorze returned to Poland in 1454: their connection with it was unbroken until the partitions of Poland at the end of the eighteenth century.

East Prussia, which was allowed by King Sigismund I of Poland to become a secular vassal state—Albrecht of Prussia did homage in the market-place of Cracow in 1525—was the cradle of a Great Power, the Hohenzollern Prussia of Frederick II and Bismarck. Poland allowed the work of the Order to remain, after innumerable proofs of the Teutonic enmity, even after the Order itself ceased to exist. The small state of the Hohenzollerns was to grow in strength, thanks to the factors which had constituted the strength of the Order: an efficient administration, a strong and disciplined army and a ruthless use of force and trickery.

As in a pair of scales when one sinks the other rises, so each reverse suffered by Poland at the hands of Turks, Cossacks, Swedes or Musco-

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vites increased the power of the Hohenzollerns, until the greatest of them, Frederick II, at a time of peace and unprovoked by any aggression, planned the partitioning of Poland with Russia and Austria. Poland believed in liberty and had no standing army—it was a pacifist anomaly surrounded by militarist empires. When the Prussians seized Poznan, Torun, Danzig and Warsaw, they cared neither for legal titles nor for ethnological justification, and least of all for the wishes of the population. They took possession by force of arms and by an unscrupulous conspiracy. Now at last, after defeat in the Great War, when they have been forced to restore their plunder, they carefully count their years of possession of Polish Pomerania as a valid legal title for its return.

As for East Prussia, neither the grants of Polish Dukes, nor the confirmation of those grants by Emperors and Popes, can change the historical facts that the country was first inhabited by another people or that the Germans were brought there at divers times for divers reasons. German historians themselves call the state created by the Teutonic Order a *Kolonialland* or a *Kolonialstaat*. East Prussia never formed part of the Holy Roman Empire. It did not become part of the Reich until 1867.

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We can find no exception to the rule that colonial states never form a territorial whole with the mother country.

It may be said that since the war East Prussia is more closely identified with the Reich than ever, when her agrarian Junkers go far to dictate the policies of the German Republic, for the purpose of redressing their own grievances. And that fact makes it easier to discuss the agricultural position of the province, for an enormous flood of statistics and of argument has poured from the printing-houses of Germany and even in foreign countries.<sup>1</sup> The impression has gained ground that an injustice has been committed against East Prussia by the restoration of Pomorze to Poland, that the economic life of East Prussia has been endangered by its separation from the main body of Germany. The fact is cited, for instance, that rates of interest are 2 per cent. higher there than elsewhere in the Reich; though this is due, not to the existence of the "Polish Corridor," but to the high standard of living maintained in the province. Its impoverishment is largely ascribed to a lack of trade with the neighbouring Polish provinces; but this very regrettable decline in commerce has been fostered by the German Government,

<sup>1</sup> For literature on the subject see Appendix.



which has failed to ratify the commercial treaty with Poland.<sup>1</sup>

The old historical separation and the present spiritual identity between East Prussia and the Reich makes that province of more than economic interest to Europe, especially since the restoration of Pomorze to Poland and the creation of the free city of Danzig. It has been used politically to inflame the feelings of Germany's younger generation, and to keep the spirit of war alive in them. It has been used as a card to play with diplomats of the West, so that General Groener can explain Germany's pocket battleships, not as offensive weapons against the West, but as defensive weapons against the Polish threat in the East—though Poland herself has neither cruisers of any sort nor the intention to build any. East Prussia again, with its legend of the Teutonic Order, of the two battles against the Slavs at Tannenberg (in 1410 and in 1914), can be

<sup>1</sup> Negotiations with Germany for a commercial treaty with Poland continued for three years. At last (in March 1930) two treaties were concluded, one a liquidation agreement and the other a commercial treaty; Poland was mainly interested in the latter. The liquidation agreement was ratified, but the commercial treaty remains unratified. However, the initialling of this treaty has been used by Germany as a proof of her pacific disposition, to obtain tangible advantages in the West.

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used as an ideal field for the manœuvres of military associations.

But most of all East Prussia is used as the shield for Minister Schiele and the agrarian party in their policy of putting high duties on imported food. If the Polish "threat" to East Prussia were not continually raised as a spectre, there is no doubt that a large part of the bourgeoisie and of labour in Germany would oppose the policy of the Junkers.

Fortunately the economic argument is the one chiefly used in support of the Reich's political and territorial claims. That argument can be handled impartially, without any necessity to inflame political feelings, and with the statistics collected by the Statistical Office of the Reich itself. For us the following questions are of particular interest.

Is the economic decline of East Prussia more marked than it was before the war, as a number of German writers assert? If the decline is more marked, has this any connection with the post-war isolation of East Prussia from the body of Germany? And if so, what is the connection?

To answer these questions it will be necessary to study the present economic position of East Prussia in the light of the exhaustive materials collected by German scholars, and also to compare it with the situation in the other eastern

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provinces of the Reich which are not separated from it by any frontiers. We must also determine what was East Prussia's economic and financial strength before the war, and consider whether its position among the other provinces of the Reich was not already analogous or similar to what it is at present. After a detailed examination we shall endeavour to formulate—but ruling political passions and political interests out of court—our own diagnosis of East Prussia's economic sickness.

## APPENDIX

### *East Prussia : Sources*

Figures used in the following chapters, as in previous chapters, are for the most part taken from the official publications of the Statistisches Reichsammt—the Statistical Office of the Reich—published by the firm of Reimar Hobbing, Grossbeerenstrasse 17, Berlin, S.W. 16. Particular use has been made of the *Statistische Jahrbücher für das Deutsche Reich*, and of the fortnightly review, *Wirtschaft und Statistik*. Any figure of which the source is not given comes from the official statistics.

First place among German economic publications on East Prussia is taken by *Grundlagen des Wirtschaftslebens von Ostpreussen* (Foundations

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of Economic Life in East Prussia), Gustav Fischer, Jena. Vol. I: *Der Grundbesitz in Ostpreussen* (Landed Property in East Prussia), by Prof. Dr. A. Hesse; Vol. II: *Die Landwirtschaft in Ostpreussen* (Agriculture in East Prussia), by Prof. Dr. J. Hansen; Vol. III: *Die Bevölkerung von Ostpreussen* (The Population of East Prussia), by Dr. A. Hesse; Vol. IV: *Der Handel und die Kreditbanken in Ostpreussen* (Commerce and Loan-Banks in East Prussia), by Dr. F. Werner; Vol. V: *Wohlstandsverhältnisse in Ostpreussen* (Conditions of Economic Prosperity in East Prussia), by Dr. H. Goedel. This publication gives a complete picture of economic conditions in East Prussia in pre-war times and during the war.

Of more recent publications the most important are: *Ostpreussen und der polnische Korridor*, by Dr. Wilhelm Deuticke, Jena, Fischer, 1921; *Bevölkerung und Wirtschaft in Ostpreussen* (Population and Economic Life in East Prussia), by V. Batocki and Schack; *Ostpreussen, Danzig, und der polnische Korridor als Verkehrsprobleme* (East Prussia, Danzig and the Polish Corridor as Problems of Traffic and Transport), by Dr. A. v. Mühlentfels; *Ostpreussen und Polen*, by J. Fisahn, 1930, and *Die Ostdeutsche Wirtschaft* (Economic Life of Eastern Germany), by Prof. Volz. The collective memorandum of

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the Governors of the Provinces, *Die Not der preussischen Ostprovinzen* (The Distress of Prussia's Eastern Provinces), printed privately, is also worthy of notice, as is No. 4058 of the publications of the Reichstag: *Vorbericht über die Verschuldungsverhältnisse der deutschen Landwirtschaft* (Preliminary Report on the Indebtedness of German Agriculture). Excellent material is also to be found in the reports of parliamentary proceedings.

A considerable literature of propaganda has grown up in foreign countries, which it would be useless to cite. But an exception may be made in regard to *Les Frontières Orientales d'Allemagne*, by René Martel, and *The Polish Corridor and its Consequences*, by Sir Robert Donald. Leading German interests consider that the kind of argument used in these two books is calculated to convince public opinion abroad, though the latter was heavily attacked in the Polish daily, *Ilustrowany Kurjer Codzienny*, which offered to substantiate its arguments in court.

## VII

### EAST PRUSSIA : NATURAL RESOURCES

EAST PRUSSIA covers an area of 36,992 sq. km., which is 7 sq. km. less than what the East Prussian was before the war. The loss of territory to Poland and to Lithuania has been almost exactly compensated by the transfer of a narrow strip from the West Prussian province. We can, then, make comparison between pre-war and post-war statistics with considerable accuracy. The territory of East Prussia is 12.57 per cent. of the whole of Prussia and 7.86 of the whole Reich, but the population in 1925, and according to the census, was only 2,256,249, or 3.57 per cent. of the population of the Reich.<sup>1</sup>

The quality of the soil comes up to the German average, with a predominance of sandy clay.<sup>2</sup> There is, however, none of the excellent loess soil which is to be found in

<sup>1</sup> Figures of area and population are taken from the *Statistisches Jahrbuch*, 1930, Part IX.

<sup>2</sup> According to Hansen, *Die Landwirtschaft in Ostpreussen*, the cultivable surface of East Prussia consists of 16.1 per cent. clayey and marlaceous soil, 52 per cent. sandy clay or sands with an admixture of clay, 23 per cent. sands, 5.1 per cent. water.

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southern Germany. Researches for coal of any kind, or mining ores, in the alluvial and diluvial strata have come to nothing. Amber, which abounds in profusion, was only sought after in ancient times, and possesses now no economic importance. Thus the rather mediocre soil of East Prussia is very nearly the single natural resource of the province. To be quite precise, we may mention also the fisheries in the Masovian lake district, and the slight reserves of water-power which it is a paying proposition to exploit. Forest lands form only 18·3 per cent. of the whole province, the average for the Reich being 27·2. The timber industry there before the war consisted of rafting on the Niemen and finishing processes carried out on timber from Russia.<sup>1</sup>

The factors of climate which have a deciding influence on agriculture are much less favourable in East Prussia than in Germany proper, and are also less favourable than those of Poland. The average temperature is from 42·9 to 44·25° F.; Germany's is from 46·4 to 48·2° F., and Poland's is 46° F. In East Prussia the farmer can count upon 153

<sup>1</sup> The best geographical and agricultural description of East Prussia, as contrasted with the rest of the Reich, is by Wilhelm Volz, *Die Ostdeutsche Wirtschaft*, 1930, p. 142.

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working days in the year, as against from 178 to 210 in the Reich. This fact is a limitation on agriculture in so far as it either hinders the cultivation of potatoes, turnips and cabbages, or forces the farmer to supplement his normal number of hands by seasonal labourers drafted from Poland, or makes him secure costly machines and a surplus of horses. The climate, as we shall see, has caused the agricultural industry of East Prussia to devote itself more particularly to animal produce ; so the German propagandist complaint as to the diminishing corn exports of East Prussia appears to depend for its strength upon the public's ignorance of local economic conditions. A further drawback of the climate—which adversely affects the quality of East Prussia's grain crops—is that the largest monthly percentages of the yearly rainfall come in July (15·3 per cent.) and August (12·9 per cent.). Moreover, frequent frosts occur in the spring, inflicting serious damage on crops all along the eastern shore of the Baltic.

The aggregate of East Prussia's natural resources shows it indeed to be one of the poor countries of Europe. Its only real advantage, and that a considerable one, is in its situation on the shores of the Baltic, between the mouths of the Vistula and of the Niemen. Under favourable conditions, that position



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should lead to a great development not only of commerce but of industry, for it has behind it a vast *hinterland* formed by Poland and a part of central and western Russia, with their large populations. A coastal country can base its industries upon working up raw materials brought from its *hinterland*, to be exported overseas, and it can import other raw materials to be worked up in turn for the countries of the interior. Holland may be taken as an example of a country which has used its coastal situation to acquire an outstanding prosperity and culture. Other examples may be found in the seaboard towns of western Germany, such as Hamburg, Bremen, Altona and Lübeck. But the very fact of East Prussia's identification with the Reich makes the exploitation of her economic opportunities at present impossible. It is clear that, within the Reich, both commerce and industries based on raw materials from abroad will gravitate towards the western ports, which are nearest to the great markets and to their sources of origin, and which are at no great distance from the coal deposits of the Rhineland.

Economic co-operation between East Prussia and the Polish *hinterland* depends upon the economic policy of the Reich towards Poland. So long as this remains adverse to Poland—and

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it has been hitherto—there is absolutely no chance of development for the seaports of East Prussia or for the creation there of industries looking to the Polish market. On the other hand, her geographical disposition did not allow East Prussia to co-operate with Central Germany either in commerce or in industry, excepting only as regards trade with Russia and the Baltic States. But here again there are grave difficulties. The high hopes once held in Germany have not been fulfilled, not only because the entire volume of Russia's foreign trade is small at the moment, but also because her railway systems and commercial traditions lead her to Riga and to Libau. Even the rafting of timber down the Niemen to Königsberg cannot be organised because of the conflict between Lithuania and Poland, which is encouraged by the political influence of the Reich from other motives.

This identification of a poor country with the wealthy Reich, which is, after Belgium, the most industrialised country in the mainland of Europe, leaves its mark on every feature of East Prussian life. Despite the undoubted fact that agriculture is almost the sole basis of the economic order in East Prussia, the census of 1925 showed that only 1,024,000 out of a population of 2,250,000—only 45 per cent.—

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found their living by it. The agricultural percentage for the whole of Germany, by the same census, was 23. But in 1884 East Prussia's agricultural population was still 64.4 per cent., and it numbered 1,242,000. Thus, in the course of 43 years, East Prussian agriculture surrendered its entire natural increase of population, and 218,000 of its basic population besides, to its own towns, and more particularly to the other provinces of the Reich.

The most important feature of this connection between the Reich and an indigent agricultural country is the westward emigration of the East Prussian peoples. Between 1840 and 1870 it amounted only to 1,000 a year, but between 1870 and 1910, some 700,000 left the country, on an average of 17,000 a year; and the years from 1900 to 1910 averaging 19,350. In recent years this exodus has assumed proportions which threaten to depopulate the province. Among the many calculations put forward, we may accept the official one of 21,000 a year as being nearest to the truth.<sup>1</sup>

<sup>1</sup> Studies of the emigration from East Prussia have been made by Hesse, in *Grundlagen des Wirtschaftslebens von Ostpreussen*, Vol. I, and by Mann, *Ostdeutsche Wirtschaftsforschung*. Compare also *Ostpreussens Menschenexport*, by Dr. Schonemann, in the *Ostpreussische Zeitung*, April 6, 1927.

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If we put the cost of upbringing from infancy at 3,000 Reichsmarks on the average, we find that the province loses 63 million marks yearly to the Reich on the score of emigration. Since a number at least of the emigrants possess goods, movable or immovable, which are generally sold on the instalment system to those members of the family who remain behind, we might find a considerable figure made up by these sums on the debit side of the province's balance of payment. To offset that, however, it frequently happens that an emigrant sends contributions towards the upkeep of other members of his family. It is difficult enough to assess these sums for purposes of statistics and of comparison.

Such a large emigration of persons in the prime of life has left its traces on the age-average of East Prussia's population. In Germany, according to the 1925 census, 43 per cent. of the total population was aged between 15 and 45, while in East Prussia it was only 40·5 per cent. And on the other hand, East Prussia had 4 per cent. more of children in her total population than the rest of Germany. By rearing citizens, giving them a careful and costly education, and then passing them over as a free gift, so to speak, to the other provinces of the Reich, East Prussia certainly co-operated

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with the whole nation in a manner which has won it full measure of approval.<sup>1</sup> But the province itself has suffered a loss by the emigration. The density of population according to census (1925) was 61 to the square kilometre, as against 134 for the whole Reich. We know also that, as a rule, it is the stronger and more enterprising type that has the courage to emigrate. It can be imagined how deep a mark has been left upon East Prussia by one hundred years' continuous drain upon its population for the benefit of the industrial towns of Germany.

All these facts and movements establish the strong claims of East Prussia upon the Reich, but they do not excuse the false assertion that East Prussia's population crisis is due to Poland's possession of Pomerania. Official German figures clearly prove that the flight from the land in East Prussia has grown step by step with the intensification of industry in Central and Western Germany; and that it is no specific feature of the provinces separated from the Reich by Poland, but common to the

<sup>1</sup> The Great War, during which East Prussia shed more than its fair share of blood, is also a solid reason for the Reich's gratitude. East Prussia's losses amounted to 27·3 per thousand of the population, those of the kingdom of Prussia only to 25·6 per thousand.

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whole of Eastern Germany. A number of German provinces have an even smaller proportion of agricultural population per 100 hectares of cultivable land. The figures under this head are : East Prussia, 37·1 ; Pomerania, 37·1 ; Brandenburg, 37 ; the border province Posen-West Prussia, 35·1 ; Schleswig-Holstein, 29·5 ; the two Mecklenburgs, 29·2. It cannot be said that, in this respect, East Prussia finds herself in an anomalous situation.

Anyone studying the proportions of the agricultural population in the different districts of East Prussia would expect them to vary mainly in relation to the fertility of the soil and to the distribution of great estates, medium sized properties and small holdings. In fact, however, the decisive factors are quite different from these. If we take the governmental regencies of East Prussia, we find the West Prussian (Marienwerder) to be strongest in its agricultural population (41·6), then the Masovian regency of Allenstein (38·3), then Gumbinnen (37·9), and last of all Königsberg (34·8). The neighbourhood of seaside towns on the one hand, and the predominance of an ethnologically pure Prusso-German stock on the other, seem to favour the flight from the land. The census of 1910 gave, for the

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regency of Allenstein, a population of 274,320 defined by their language as Germans, while 267,702 registered themselves as of Polish or "Masovian" speech. The "Masovian" language is really identical with Polish: the separate classification was introduced into the census in order to create a picture of the racial situation more favourable to the Germans. In West Prussia, similarly, the Polish Kashubs were erected into a separate race, speaking "Kashubian."

That the racial factor is decisive for the growth or decrease of population, almost all the economic conditions being equal, is proved by the different ratios of the natural increase. The regency of Allenstein had, in 1926, a natural increase of 14.7 per thousand of population—nearly the same rate as for Poland—while the purely Prusso-German regencies of Gumbinnen and Königsberg showed figures of 9.9 and 9.3 respectively. French statisticians have noticed a similar point in their own country, where the group of departments of Normandy, which has the lowest birth-rate, immediately adjoins Celtic Brittany, which has the highest.

Continuous emigration from the whole eastern borders of Germany is making them empty in comparison with the closely popu-

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lated Polish provinces just beyond ; but that process has nothing whatever to do with the fact that East Prussia is separated by Polish territory from the Reich. On the contrary, the closer are her political and economic ties with the Reich, the more strongly must the current of emigration flow. Nevertheless, the voluntary westward movement of the German people does make an excellent pretext for describing East Prussia as in immediate danger from Polish aggrandisement.

The argument is as follows : “ Poland has a regular natural increase of population amounting to half a million a year. Poland has multiplied six-fold the yearly turnover of the ports on her strip of the Baltic coast. She has built a magnificent new port at Gdynia. She is building a new, direct railway line to connect that port with Upper Silesia. In Polish Pomerania a great town, purely Polish, is springing into existence. Industrial plant is being laid out, which will work up raw material from abroad for the Polish market, or which will manufacture goods from raw materials for export overseas. There are rice-mills, oil-refineries, slaughter-houses, refrigerating plants, and more besides. Such an intense development as that on Poland’s Baltic coast threatens the German ports with



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stagnation and East Prussia with annexation by imperialist Poland.”

In fact, the argument should be reversed : let us recall the first beginnings of the port at Gdynia. In 1920, when the Bolsheviki were advancing into the heart of Poland, sympathisers with the Soviets in Danzig, the Socialists and the German Nationalists, prevented the unloading of munitions consigned to the Polish army. A detachment of sappers, sent to Pomerania, felled several hundred oaks in the State forests and rammed them into the sea-bottom at Gdynia—that was the first pier. In time it became clear to the Poles that Danzig, left without any restraining influence, was setting up on a lavish German scale quite impossible for themselves. The port of Danzig intended to take full advantage of its monopoly of Polish trade : it had become the most expensive port in the Baltic. It was impossible to oppose against this process arguments of mutual economic advantage, for the great body of retired Prussian officers and Prussian officials who had settled in the town and ruled it had no ties with its commerce. Therefore the decision was taken to build Gdynia ; and experience shows that both ports have enough to handle. But if the Hitlerite organisations continue their pastime of beating-up Polish

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traders who come to Danzig on business, and if Danzig courts continue to sentence Polish sailors, who have been attacked and wounded, on the grounds of giving false information, then indeed Gdynia's custom will increase at the expense of Danzig's.

Because of the protracted tariff war with Germany, Poland has lost the habit of using German ports for her foreign trade ; the longer the present state of affairs continues the less necessary will Stettin, Königsberg or Elbing become to Poland. Her lines of commerce will more and more converge upon her own strip of sea coast, which will acquire an importance for Poland such as Hamburg has for Germany. When the railway line connecting Silesia and Czecho-Slovakia with Gdynia is completed, with the help of French capital, Poland intends to give friendly states, Czecho-Slovakia and Rumania, full facilities on her railways and in her Baltic ports, in return for similar facilities at Bratislava (Pressburg) and Galatz, on the upper and lower Danube. A Polish air-line already runs a service in ten hours from Danzig to Galatz and Bucharest, and has recently extended it to Sofia and Salonika.

So the argument that East Prussia may be annexed by Poland runs clean counter to the

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logic of facts. Polish "imperialism" rests satisfied with the developments which it is making on Poland's own sea coast, and has less use, year by year, for the advantages of the German ports. On the other hand, so many channels of commerce, so many vital interests, both Polish and foreign, are now concentrated at Gdynia that it is impossible, *without destroying the Polish State*, to fulfil Germany's ambition : which is to deprive Poland of her access to the sea for the sake of the convenience and prestige of two million people in East Prussia.

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IF we know what is the state of agriculture in East Prussia we have reached the economic foundations of the province, for that industry plays the decisive part in its life, despite the fact that, by the last census, only 45 per cent. of the population are engaged in work on the land or on its products.

There have been only negligible changes in the utilisation of cultivable land since pre-war days. Since 1913 there has been a decrease of 82,000 hectares (6.5 per cent.) in the area devoted to grains and fodder, while pasture-lands have increased by 74,000 hectares. Similar changes have taken place over all Prussia to a greater or less degree, in consequence of the new importance given to stock-farming. It is to be noted that the principles of census classification have been altered, and so the general trend of this development stands out less clearly.

To analyse more closely the crops cultivated, we find that the area given up to oats had decreased by nearly 3 per cent. The barley acreage has increased by 1.25 per cent., and

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that of fodder-plants has grown by 1·75 per cent. since 1913. It is more difficult to find a reason for the increased area of forest land, from 653,892 hectares in 1913 to 677,658 hectares in 1927—it is impossible to say whether this represents a genuine afforestation of part of the land, or whether it is only a nominal figure connected with a policy of taxation. On the whole, then, there have been no notable changes in the utilisation of agricultural land.

If we analyse the figures for productiveness per hectare, we find that both Germany as a whole, and East Prussia, are already approaching slowly but steadily the high level obtained between 1909 and 1913. Thus, the production of rye in 1929 came to 14 quintals<sup>1</sup> (of 100 kilogrammes each) per hectare in East Prussia, and to 17·1 quintals in Prussia; of wheat it was 16·9 quintals in East Prussia and 21·9 in Prussia; of barley the same figures were 18·2 and 21·7; and of oats they were 17·9 and 20·6. In all varieties of grain, therefore, East Prussia showed a much smaller yield per hectare than Prussia. The proportion was the same before the war, and these differences in the production of grain must be considered the natural consequence of less favourable conditions of climate.

<sup>1</sup> A quintal is 220 lb. avoirdupois.

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As regards potatoes, however, conditions of soil and climate are so favourable to East Prussia that, while the pre-war average was 138 quintals per hectare, an average of 124·6 was reached in 1926-8, and in 1929 it rose as high as 142, being thus higher than the pre-war average; higher also than the contemporary averages of either Prussia or of the Reich. Very good results were obtained as well from the production of hay and clover.

The degree of intensity in the cultivation of corn can be gauged by the quantities of fertilisers used. In East Prussia 379,000 tons were used in 1913, 207,000 tons in 1926, 317,640 in 1927, and 330,000 tons in 1929. This means that the pre-war figure has been very nearly attained, taking into consideration the increase of pasture-lands.

Since the slight differences between the pre-war and the post-war totals of grain production in East Prussia have been made the subject of general deductions to support other arguments, it is desirable to tabulate their figures.

The average crops were :

	1909-13 Tons	1926-29 Tons	Difference Tons
Wheat	. 158,124	124,633	- 33,491
Rye .	. 761,272	609,610	- 151,662
Oats	. 606,212	442,212	- 164,000
Barley	. 174,848	211,757	+ 31,909

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Taking a round figure per ton of 200 marks for wheat, 120 marks for rye and oats, and 170 marks for barley, we may calculate the total loss of income suffered by East Prussia's agriculture through the decrease in grain production at an average of 39 million marks for the last few years. This is a maximum figure, calculated on a basis of the high internal prices, and disregarding the fact that recent years were more favourable for crops than preceding ones.

In German agriculture, taken as a whole, animal produce has twice the importance of plant produce. The Institute for Enquiry into Trade Conditions estimates animal produce in the Reich at 8,227 million marks. Light is thrown upon East Prussia's position in this regard before and after the war by the figures for railway export of animals to the Reich—there is also an export trade by water. The numbers exported were :

	1913	1928	Difference
Horses . . .	24,604	30,613	+ 5,938
Bulls and oxen	9,236	7,853	- 1,383
Cows . . .	133,892	161,733	+ 27,841
Calves . . .	24,960	63,093	+ 38,133
Sheep . . .	47,781	33,932	- 13,849
Pigs . . .	437,470	521,107	+ 83,637
Sucking pigs .	41,105	141,043	+ 99,938
Poultry . . .	38,866	138,160	+ 99,294

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Calculating by the present (1931) Berlin prices of live-stock and the average weights in the Reich in 1928, the excess (as compared with 1913) on the export of horned cattle amounted to about 7·5 million marks, on pigs to about 19 million marks. The difference in the export of fresh and smoked meats and sausages is not calculated, though it should be considerable since recently there have been well-equipped sausage and bacon factories erected with the financial help of the State.

It must be borne in mind that the consumption of meat, as compared with pre-war times, has increased considerably over the whole of Germany. It is clear, from the slaughter-house figures for East Prussia, that the province has in this respect changed equally with the rest of Germany. The numbers of animals slaughtered in East Prussia were :

	1910	1929
Bulls and oxen . . . . .	16,801	17,282
Cows . . . . .	38,350	52,541
Young horned cattle	29,026	34,039
Sucking calves . . . . .	105,518	122,748
Pigs . . . . .	359,762	414,359

The total numbers of live-stock in East Prussia, with the single exception of sheep, equal or exceed those of pre-war years. Poultry breeding in particular has grown much



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more widespread. The real change-over to stock-farming has taken place in quite recent years, and the results are only just beginning to appear. Milk production is giving exceptionally good results : it has been estimated at 1,433 million litres of milk yearly. In 1928 the average milk supply of a cow was 2,588 litres a year, a figure higher than for Prussia (2,423 litres) and higher than the whole Reich's average of 2,220 litres. East Prussia is in the front rank for the production of butter over Prussia as a whole, with 7·5 per cent., and more particularly for the production of cheese, with about 35 per cent. in the Reich.

Even the most cursory examination of the financial results obtained from animal produce shows that they compensate many times over the loss on grain production. The difference between the price of milk at Königsberg in 1913-14 (which was 16 pfennig the litre) and the lowest price quoted there between 1927 and 1930 (which was 22 pfennig) makes by itself a total of 86 million marks on the whole supply for East Prussia. Nor, of course, is this difference confined to milk alone. In 1913-14, at Königsberg, eggs were quoted at 9 pfennig each ; in 1926-8 they stood at 13 pfennig and in 1929 at 15 pfennig. The kilogramme of butter was 260 pfennig in 1913-14, and in

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1926-9 the average price was 410 pfennig. The same increase may be noted in one department after another.

These few broad facts will suffice to indicate the level of production and the state of the agricultural market in East Prussia. And despite the territorial separation from the Reich, the agricultural figures for East Prussia present an outwardly prosperous appearance. If in the production of corn the pre-war level has not been attained, the reason is that the energies of the farmers have been deliberately turned towards stock-farming, where the general trend of prices has been exceptionally in their favour.

German writers lay great stress upon the loss of markets for exchange with those provinces which have become parts of Poland; the loss of markets, that is to say, in Poznania and Pomorze. As a matter of actual fact, Poznania, which has but little pasture-land, co-operated with East Prussia by importing its lean cattle—some 75,000 head of horned cattle and 95,000 pigs a year—to be fattened on distillery by-products. The fattened cattle were, of course, exported to the markets of the Reich, and the profits went to Poznania, which could compete successfully with its mash against the potatoes of East Prussia. The mills of Polish

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Pomerania and Poznania, which were situated nearer to the coalfields and to waterways leading into the interior of the Reich, imported a certain amount of grain (some 200,000 tons) from East Prussia. The flour, after grinding, was exported, while the bran went to fatten local livestock, destined also for export to the Reich. But to describe this as though Poznania and Polish Pomerania were consumers of East Prussia's agricultural produce is mere juggling with statistics and relying upon a complete ignorance in others of those local conditions. As a consequence of the Treaty of Versailles, East Prussia was freed from the cattle-fattening competition of Poznania and Polish Pomerania, with the natural result that it now sends cattle and pigs into the Reich in large numbers, with the sole difference that they are already fattened, ready for slaughter. There is no need to share the profits with Poznania.

Only a small, a very small, quantity of pedigree cattle or of seed grain were sold to the farmers of the provinces which are now in Poland ; they were sought after as coming from a harder climate. This trade, of course, could continue to-day if Germany were not in a state of tariff war with Poland, and if she would ratify the German-Polish commercial

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treaty. On the whole it must be said that East Prussia and the provinces of eastern Germany have profited by the exclusion of the Polish districts from the Reich, for they have been freed from a strenuous competition with the more frugal Polish element.

The agriculturists of East Prussia work systematically, perseveringly and successfully on mediocre soil and under unfavourable climatic conditions. It cannot be said, therefore, that the farmers of the province are in severe financial straits because of any decline in production or because of a fall of prices. With inexorable logic we are brought to face the facts that the symptoms of crisis, such as emigration and a growing burden of debts on landed property, must spring from opposite causes on the side of consumption, from an excessively high standard of living, from an overgrowth of public budgets and social services, and perhaps also from an inordinate proportion of people not engaged in agriculture who yet remain a burden upon it.

All over Germany there is a rapidly growing indebtedness on landed property, but in East Prussia that growth is the most menacing of all. On a basis of the tax returns for December 31, 1928, and on a basis of land valuation, the Reich's Ministry of Finance has calculated the

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percentage of encumbrance on the soil in relation to its value. The average encumbrance for the whole Reich was 29·9 per cent., but the highest figures were in the following districts :

	Per cent.
Königsberg (East Prussia) . . .	57·1
Stettin (Pomerania) . . .	52·8
Mecklenburg-Schwerin . . .	52·5
Breslau (Lower Silesia) . . .	40·4
Brandenburg . . .	37·1

East Prussia's situation in this respect is thus the worst of all, and yet very similar to that of the whole of north-eastern Germany, where large and medium-sized estates occupy a great part of the cultivable land. How swift the process has been in East Prussia, considered in absolute figures, independently of the constantly rising valuation of land, may be gauged from the fact that while on January 1, 1927, the average encumbrance on the estates examined was 316 marks per hectare, a year later, on January 1, 1928, it had already mounted to 386 marks—an increase of 22 per cent. We must remember, moreover, that these are average figures. Some of the landed estates are country residences in the hands of very wealthy people, members of the late Imperial family, of the aristocracy or of the plutocracy. As there can be no mortgages

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upon these, the average figure for remaining estates must be actually higher.

The heaviest encumbrance of 499 marks per hectare (68·7 per cent. of the valuation) is to be found on estates of 100 to 200 hectares. That the best resistance is put up by peasants, particularly by the peasants of Warmia (Ermland), is testified to by J. Fisahn, an expert on the local conditions of East Prussia. These peasants are in great part Poles, or of Polish extraction. The preservation of their Polish nationality is explained by the fact that, after the Treaty of Torun, Warmia was subject to its bishop and to Poland, not to the Teutonic Order or, later, to the Duke of Prussia.

The official assessment of 657 marks per hectare on East Prussian land, already accepted in estimating its value, differs considerably from the market price. According to statistics collected by the Provincial Chamber of Finance at Königsberg, this was on the average 1,238 marks per hectare between 1910 and 1912 ; in 1924 it was 1,076 marks, and in 1925 it was 1,012 marks. Market prices differed, therefore, from the tax assessment by about 30 per cent., but since the increase in the purchasing power of the mark, and with the growing frequency of forced sales, the market price figures are now approaching those of assessment.

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Some idea of the extent of encumbrance which has been reached on some of the East Prussian estates may be obtained from the figures of the parliamentary enquiry for eastern Germany. Of the estates examined, a debt-load of :

60 to 100 per cent. of the valuation was found in :	of the estates covering :
15 per cent.	5 to 20 hectares
18 " "	20 to 100 "
32 " "	Above 100 "
100 to 200 per cent. of the valuation was found in :	of the estates covering :
14 per cent.	5 to 20 hectares
17 " "	20 to 200 "
18 " "	Above 200 "

Finally, 5 per cent. in the first category of estates, 6 per cent. in the second and 5 per cent. in the third showed a debt-load exceeding the estimated value by 200 per cent. It is difficult for a foreign observer to understand at all how the creditors could bring themselves to grant loans to an amount so far in excess of the estimated value of the properties.

Excessive encumbrance is followed by forced sales, which increase in number and involve a larger and larger area. In 1924 there were 34 estates put up for public sale, covering 871 hectares in all. In 1928 there were

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304 estates, covering 13,995 hectares. The reason why forced sales have not become even more frequent is that, as a rule, the chief creditors are the Government, agrarian institutions and public credit institutions, all of which fear a slump in prices if there are too many forced sales. It is also difficult to find purchasers possessing both money and agricultural experience. And, more than that, there have already been cases in Prussia of subversive and organised resistance to seizures by court orders granted to the fiscal authorities. According to *Das Andere Deutschland*, February 21, 1931, the landowners Otto von Weiss, late of Gross-Plauen (district of Wehlau), Thymian of Weissensee and von Platen of Katzborn, aided by the "demagogue" Hamkens from Schleswig-Holstein, have created a special organisation called the *Bauernnotbewegung* (the Defence of Hard-pressed Farmers), of which the object is to terrorise would-be bidders or to prevent the auctions from being held.

On the other hand, the Prussian Government, both officially and unofficially, is earmarking large credit sums for the purpose of bolstering up the tottering finances of the landowners. These credits, in their application, often enough seem less like reliefs to economic units in danger than like personal services



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rendered to members of influential political groups.

Both official departments and independent economists in Germany are very reticent in their statements of the causes which have produced encumbrances to such a catastrophic extent on the large and medium-sized estates. In our own opinion, apart from sometimes unhappy economic inspirations, such as the mechanisation of agriculture, the growth of indebtedness was largely fostered by psychological impulses. We must remember that those came best out of the period of inflation who borrowed money and bought with it objects of tangible value, whether necessities or even luxuries. People who had influential acquaintances in the banks borrowed marks, bought valuable objects of luxury, and after some months returned the borrowed sum in marks already depreciated tenfold, usually taking up a new loan at the same time. And the change from full-blown inflation to a stable currency is not usually accompanied by a corresponding change in the mental attitude of the population.

There is no doubt that the failure of the German mark was brought about consciously and of set purpose by those in power at the time—and to that group the great land-

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owners belonged. After the introduction of the new currency in 1924, a section of public opinion—again the great landowners first and foremost—were still cherishing ideas and prophecies of revenge. Who could tell? Perhaps a new war, a new inflation, a new depreciation of currency? Then why not borrow—perhaps when the time for repayment came, the money would no longer have any considerable value.

Soon after that, moreover, in 1925 and 1926, it was considered positively a patriotic duty, which none might shirk, to bring from abroad the greatest possible amount of money in the form of loans. It is difficult to imagine, for example, that all the more important religious foundations simultaneously fell into financial troubles, yet they all simultaneously took up considerable loans on the Amsterdam market. They were, apparently, following instructions from the Government. At that time, articles could be frequently found in the Press, arguing that it was a duty to borrow money abroad, for “the more we borrow from foreigners the more strongly will they support our political demands.” A conflict of interests was even aroused between the new American creditors and the claimants of Reparations; and Mr. Kuczynski cites cases of deliberate obscurities

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in official definitions concerning the responsibility of the German Federal States for war debts—obscurities which went to safeguard the claims of the new creditors. Under this mental influence, the instincts which normally dictate caution in credit operations were deadened. Growing habits of luxury led to expenditure beyond income, even when that expenditure made borrowing necessary.

The encumbrance upon East Prussia is a foreign debt in so far as the Reich is an outside body. The majority of creditors are persons and institutions resident in the Reich, or having the sources of their funds in the Reich. Thus, for instance, the Society of Raiffeisen Savings Banks (into which, in Germany, most of the peasants' savings flow) regularly shows a considerable surplus of those savings, which increases towards the western frontier of the Reich, but the Raiffeisen Banks of East Prussia are forced to borrow money from the central institution. With the sum total of the balance sheets of all the savings banks in the Reich amounting to 10,700 million marks (January 1, 1931), the savings banks of East Prussia closed their books with a balance of 193 million marks. If East Prussia's capital has fallen so low, it is to be supposed that the mortgages not only on the soil but also on credit and property in the

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towns are held by persons in other parts of Germany.

The interest upon the growing debts of the farmers is also becoming an obligation which is beyond the economic possibilities of their estates. Assuming the average debt of 386 marks per hectare on January 1, 1928, to have amounted, by January 1, 1929, to some 450 marks, and assuming the average rate of interest to be 7 per cent., then the interest alone, without any reduction of capital, would come to 31 marks per hectare. If we take into account the increase in land taxes, from 7 marks in 1913 to 25·31 (at the time of the enquiry), the total burden on a hectare of land amounts to 56·81 marks. As compared with pre-war times the burden is at least double, and more than that if we add the burden of social services.

We must also remember that the true profit of the landowner before the war was not the income from working or leasing the land, but the value of the soil—the ground-rent—which, as expressed in gold units, steadily increased. This increase was built up by two factors. One was the steady rise, after 1840, in the world's production of gold, with the slow but definite decline in that metal's purchasing power ; and the other was the hunger for land awakened

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in the peasant class after its emancipation, a desire which took no heed of profits as expressed in terms of interest on money. It must also be borne in mind that in some of the German states, particularly in Prussia, although class privileges had been seemingly restricted, nevertheless the possession of a fair-sized estate opened the way to a number of honours, and to a more brilliant career in the service of the State or in the world of industry and finance. This also was not without influence upon the ground-rent.

For the first time in a hundred years we see to-day, if not a radical recovery in the value of gold, at least a sure prospect of its stabilisation for a considerable period. The hunger for land has given place in some nations, and Germany among them, to the opposite phenomenon of a flight from the land. The remains of what used to be the exceptional status enjoyed by the great land-owners in the State and in Society are gradually disappearing.

Such is the position of affairs in the world at large and in Europe. There is no hope that the situation can be saved by any internal effort. In Germany the great public burdens (increased on budget reckoning from 7 milliards of marks before the war to 20 milliards now) are further increased by that other

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burden which has a deciding and unfavourable influence upon the prosperity of agriculture : the standard of living has risen inordinately. The Great War has levelled down the distinctions between the classes or professions and between the different provinces. A standard of life which is possible in the great industrial towns and in the great industrial regions of Germany, which is conceivable also in the agricultural districts of the rich central and western provinces, with their high profits, drawn from the proximity of rich local markets, cannot be maintained without financial deficit on the poorer soil of the eastern provinces, which are further distant from their markets.

The agrarian group has realised that it cannot save the large and medium-sized estates by its own efforts. It has, therefore, concentrated upon accomplishing that end with the help of the State finances, even at the cost of those fundamental interests upon which the whole of Germany's credit at present rests—at the cost, that is to say, of the interests of industry. Four chief means have been vigorously adopted by the agrarian group. The first is a campaign of colonisation, which is not so much intended to change the structure of agriculture from one based on large estates to one of large and small peasant holdings, as to raise the valuation

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of land by artificial means. This method of relief once gave excellent results through the activities of the anti-Polish land-settlement fund created by Bismarck.

The second means is *Umschuldung* (a change of indebtedness, practically loan conversion)—that is to say, an exchange of loans on second and further mortgages, which pay a high rate of interest, for a State credit at a lower rate, and on better terms than those which the Reich obtains when taking up loans abroad.

The third means is to raise the import duties on agricultural produce, and in consequence to raise the price of that produce in the home market, though that should undermine the competitive powers of the Reich's industry and though it should involve the State in serious conflicts with consumers of German manufactured goods.

The fourth means is to set in motion a whole apparatus of subsidies for the eastern provinces, under the pretext that they are in grave financial, political and national danger, and thereby artificially to level up market conditions throughout the Reich.

Theoretically there are two ways in which the economic health of Germany's eastern provinces may be restored. One is a reduction of wages and of the cost of the State and

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of parish administration, with a consequent decrease in the cost of production. The other way is to raise by artificial means the prices of what is produced. Germany has chosen the latter method, with all its attendant consequences.



## IX COLONISATION

BOTH by tradition and by public opinion Germany is persuaded that a policy of colonisation stands first among the means whereby the crisis of finance and of depopulation in her eastern provinces is to be remedied. Some of the German economists, Sering and Aereboe among them, look as well to a remodelling of the whole present structure of landed property as the best hope of salvation for agriculture in the east. The view that the breaking-up of large landed estates is a beneficial proceeding has been held widely in recent years, particularly in Eastern Europe, where Rumania, the Baltic States, Poland and Czecho-Slovakia have introduced more or less radical agrarian reforms. The practical results of these reforms have depended, however, not only on the methods projected by the originators, but also upon the spirit in which the reforms have been carried out and upon the quality of the human material available.

The characteristic difference between the problem of the Reich and that of other countries is that elsewhere agrarian reform

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has generally been demanded by radical opponents of the great landed estates, whereas in Germany the great landowners and their professional organisations are the chief champions and organisers of colonisation. Only the representatives of those great industries and labour groups which oppose the Government occasionally protest against colonisation and its liabilities. In the present political situation of Germany these protests are ineffective except as more or less violent criticism of the bad features of colonisation, or of the way in which it is carried out.

The great landowners of Germany were the first to appreciate what an excellent financial instrument was at their disposal in the millions of marks of the Land Settling Fund. This was created during Bismarck's chancellorship for the purpose of colonising with German peasant settlers the eastern marches of Germany, which were threatened by the natural increase of the Polish element. An official campaign of colonisation out of public funds, to which the money of the Polish taxpayer also contributed, was countered, in the nineteenth and the beginning of the twentieth century, by a brilliantly organised Polish resistance, which could rely only on modest financial means but on excellent human material. As often hap-

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pens, a combination of small men triumphed over all the forces of authority and over practically unlimited capital. The practical expression of their triumph came when the Allied Powers acknowledged Poland's claim to Poznanian and to Pomeranian ; the idea of organic growth triumphant over the forces of the State acquired legal sanction.<sup>1</sup> It is less well known in England than it might be that, during the course of the struggle, the Prussian Government passed a law for the expropriation of Polish estates.

Although these colonising activities before the war failed to achieve the results expected of them by Prussia, they contributed greatly to improve the financial situation of the large landowners. The price of land soared rapidly. Estates were shaped and grouped together for greater efficiency, credit became easy and rates of interest favourable. A German landowner could always get a price from the Government higher than the market rate if he produced an offer, even a fictitious one, from a Polish land allotment association. These advantages were also, of course, shared by the

<sup>1</sup> The classic account of this strange contest is to be found in *Die Polenfrage*, by Professor Bernhard of Berlin University. It has been well described in English by "Augur," *A Bulwark of Democracy*, Appleton, 1931.

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Polish landowners and served to increase their powers of resistance. But as regards the German landowners, they have not forgotten to-day the notable services rendered to themselves by the Land Settling Fund before the war ; and so, in their present financial straits, many of them look to land colonisation hopefully for relief.

No one, certainly, could give us the real financial facts of the colonising campaign more accurately than Excellenz von Batocki, the former highest official in East Prussia, and himself a great landowner. In a detailed study of the subject, *Bevölkerung und Wirtschaft in Ostpreussen* (Population and Economics in East Prussia), by von Batocki and G. Schlack, we find the following paragraphs :

“The purchase price of landed property fully stocked is at the most 1,000 marks per hectare : 15 hectares, therefore, come to 15,000 marks. This includes dead and live stock to the value of about 350 marks per hectare, 300 marks for crops taken over, 400 marks for buildings assessed at the insured value (cost of the buildings less depreciation). In all, 1,050 marks. No part of the purchase price remains for acreage, drainage, fencing, tillage, fertilising of the soil. In the shortest possible transition period after entering into

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possession most of the buildings are pulled down, the building materials giving scarcely any surplus over the cost of demolition.

“ Only part of the live stock is fit to be passed on directly to the settlers and is sold at moderate prices after the division into lots has been completed. The inventory is sold often at the price of scrap iron. The value per hectare of the buildings, in part demolished, in part given over to the settlers, is calculated at about 150 marks, the value of the dead and live stock at about 200 marks. The bulk of these values is also eaten up by the temporary administration and by the cost of transport, cost of settling, road-building, parish and school-taxes, so that the settlers are charged for land and standing crops about as much as the purchase price of the original estate, *i.e.* about 15,000 marks for 15 hectares. The simplest buildings (leaving the settler to supply the furnishings later) come on such a holding to about 12,000 to 14,000 marks.

“ The usual rate of interest for a first mortgage being at present  $8\frac{1}{2}$  per cent., this would mean exactly 2,600 marks, *i.e.* 170 marks per hectare. The holding can bring in half as much at the best, and that only after several free or semi-free years. The difference is covered by granting the settler a loan of

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6,000 marks at 1 per cent. from the funds of the house and rent tax, and 17,000 to 19,000 marks at 4 or 5 per cent., with an abatement for the first years. This contribution from public funds to the interest, if capitalised, gives almost the whole value of the soil, including tillage, so that the settler has only to earn interest on the cost of buildings, stock and supplementary investments.

“Apart from the considerable overhead cost, the creation of 1,000 peasant holdings constitutes an outlay from public funds of 6 million marks, almost without interest, from the house and rent tax fund, and about 18 million marks at 4 to 5 per cent. from other sources.”

After so clear an exposition of the settler's liabilities, we must now consider what are his prospects. Working for a landowner, he would be paid 833 marks a year for his labour, not counting the labour of his family. His 7,000 marks on mortgage at 8 per cent. would bring him 560 marks. He could make a couple of hundred by raising live-stock. But it is another question whether his holding would bring him profits of as much again, or whether its very possession would not be for him a speculative risk. One thing seems certain: the settler must be not only a competent farmer and

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manager, but first and foremost a man of character, who values working on his own more than he values passing profits. He must be ready, together with his family, to give up the most elementary necessities of life for the sake of ownership. In a word, he must be a fanatic of the soil. But how many of this type are there left in Germany to-day? The difference in social position between the farmer and the farm-hand has been much lessened, thanks to trade unions and to social services. Moreover, the cities are a temptation offering excitement and change.

In Germany, the colonisation of the land is advocated in speech and in writing with considerable wisdom, perseverance and conviction. Yet, taken all in all, the results are insignificant. In the course of ten years, from 1919 to 1928, there were 21,802 holdings created in Prussia, covering an area of 227,359 hectares. The neighbouring Republic of Poland is only larger than Prussia by 30 per cent., but in the course of the single year 1927 there were 14,552 families set up on holdings there, over a total area of 121,539 hectares. Only 25 per cent. of that land was divided into lots by the authorities of the State; the rest of the breaking-up was done by private arrangement.

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It must be admitted that colonisation has been carried out more energetically in East Prussia than elsewhere in the Prussian Republic, for in the course of those same ten years 4,225 holdings were taken up there, over an area of 52,200 hectares. But even so, some four hundred and twenty odd families settled on the land every year, as compared with the yearly figure of 20,000 emigrants from the land, leave little hope that they are the cure for that particular disease.

According to the census of 1925, the total landed property of the first class—that is, above 100 hectares—amounted in East Prussia to 911,439 hectares, or 39·3 per cent. of the whole. If we compare the returns for landed property in 1907 with those of 1925, we find that estates in the category of from 100 to 200 hectares increased by 10,545 hectares, and the category of estates above 200 hectares diminished by 68,933 hectares. In the course of 18 years all told, 148,786 hectares passed from these three higher categories to the lower classes of small holdings, either by private transfer or by the policy of colonisation. In individual districts, however, the movement was in an exactly opposite direction. For instance, according to von Batocki, the total area of large estates, of from 100 to 200 hectares, increased by



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632 hectares in the district of Labiau, and that of estates above 200 hectares by 55 hectares. In the district of Fischhausen, the category of 100–200 hectares gained 1,336 hectares, and the class of above 200 gained 1,016 hectares. Unless these figures are freakish statistical errors—which occur even among German statistics—we are faced with the fact that in these purely Prusso-German districts the medium-sized properties of from 20 to 100 hectares (for this category is the one chiefly affected by the process) have been brought into the larger estates ; and there is a radical setback to the whole campaign of colonisation.

The districts of Ermeland (formerly the Polish Warmia) are typical areas for the distribution of medium-sized properties. Thus, the categories of estates from 20 to 50 hectares is in Allenstein 26·5 per cent., in Braunsberg 39·3, in Heilsberg 35, and in Rössel 30·6 per cent. of the total landed property ; while the category of estates from 50 to 100 hectares amounts to 8·4, 27·3, 22 and 15·5 per cent. respectively. Needless to say, in those districts a policy of colonisation has nothing to achieve. It is, indeed, not beside the point to notice that the propaganda of the German agrarians—“ colonisation will build a wall of German hearts along the frontiers of imperialist Poland ”

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—is in this respect consciously misleading, unless it is based upon a gaping ignorance. For of the districts adjoining Poland only one, the district of Osterode, has a comparatively large area (39,694 hectares) covered by estates of over 200 hectares. A similar area in the other districts is much smaller : in Neidenburg 13,793 hectares, in Ortelsburg 11,183, in Johannisberg 11,183, in Sensburg 11,878, in Lyck 7,222, in Lötzen 9,486, and in Oletzko 9,883 hectares. These are the mere remnants of the large estates which have successfully withstood the Polish - Masovian peasants' hunger for land. It would be difficult enough, then, if only out of regard for the general state of agricultural development, to continue the breaking-up of the large estates when they amount to no more than 15 per cent. of the total landed property.

Outside of Ermeland and Masovia—that is, in the purely German-speaking parts of East Prussia—there is still sufficient land for settlement, but it may well be asked whether colonisation can play any considerable part in increasing the population of East Prussia. Herr von Batocki's book goes thoroughly into this problem, with due attention to local conditions.

“According to occasional enquiries,” we

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read, "in definitely organised and appropriately managed settlers' parishes, the population directly or indirectly occupied in agriculture, together with the other inhabitants belonging to the settlers' village, was by about one-fourth or one-third more numerous than the population of that same area while it was still part of a great estate. If we reckon 300 inhabitants to 1,000 hectares of cultivable land—and that should be approximately correct for the better East Prussian estates—then the allotment of half a million hectares (and the province does not possess more land which is wholly suitable for settlement) would mean an increase in population of about 5,000, *i.e.* 2 per cent. of the present number."

By doubling the present activities of the colonising campaign it would indeed be possible, in the course of 35 years, to break up those 500,000 hectares and to compensate, in the same period, for the losses which East Prussia suffers from emigration in the course of any two and a half years : truly, a race between the tortoise and the hare. According to our previous calculations, and with the present price of land, this plan would cost the exchequer of Prussia and of the Reich 800 million marks in loans, partly at 4 per cent. Yet Professor Sering, the greatest authority on

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economics in Germany, can devote his mind to the possibilities and the cost of settling 10,000 colonists a year in Prussia. Reality smiles maliciously at these poetic flights of science. The truth is that the heart of the German peasant is no longer in the soil : that is the fact which confines the efforts of colonisation within their present narrow boundaries.

It must be remembered as well that an excessively swift and far-reaching dissolution of the great estates would have very harmful repercussions on those interests in the towns which depend upon them : the better-class shops and their tradesmen, the hotels, garages, theatres, operas and concert-halls, to mention only a few. Any too rapid or too radical change in the social structure causes a general crisis which lasts until the rest of the social organism has adjusted itself to new conditions. Nor can one suppose that the German squirearchy is so anxious to disembarrass itself of all possessions and to lay them upon the sacrificial altar of the State. East Prussia without the Junkers would no longer be East Prussia as we know it ; or as it was known in the days of Wilhelm II and Wilhelm I, of Frederick the Great, of the Great Elector, and, before that, in the days of the Teutonic Order. In East Prussia, without the Junkers, the peasants

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would play a leading part, as they do, for instance, in Bavaria. But the peasants here speak two different languages, and a great part of them cannot be relied upon by Prussia.

Because the demand for holdings is small, colonisation cannot help the local farmers by improving the price of land and agricultural credits. It has, therefore, to be supplemented by a policy of debt-conversion—*Umschuldung*. This is a second mortgage loan, to the extent of 20 per cent. of the property's value, secured after the first mortgage, which may not exceed 40 per cent. Of this additional 20 per cent., 37.5 per cent. is guaranteed by the Reich, 37.5 by the Republic of Prussia, and 25 per cent. by the province of East Prussia. One hundred million marks have already been spent on debt-conversion. It does not appear a very sound system, either from the viewpoint of finance or from that of the State, or even, if we look further ahead, from the point of view of the economic and moral soundness of the great landowners.

*Das Andere Deutschland*, February 21, 1931, in an article entitled "Helping East Prussia—a Danger," asserts that "one-third of this sum (100 millions) will be lost in the next two years. Four millions have been lost already"—at public sales by auction. If these figures are

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true, they supply definite proof that the whole of the purchase price at an auction is often less than 60 per cent. of the estimated value of the property. But "in spite of these experiences the policy of debt-conversion (*Umschuldung*) will be continued. With a view to its further progress, applications have already been registered totalling more than 133 millions. Small and medium-sized estates form the bulk of the applications, while up to now 70 per cent. of the funds have gone to the conversion of debt in estates of over 100 hectares." One can only add that while there is a case for State assistance, to make up for damages caused by convulsions of nature or by any other *force majeure*, to adopt such a policy in circumstances which are not quite extraordinary, is to take away the last incentives for self-help from the proprietors of the larger estates.

Although both these measures, colonisation and debt-conversion, are sufficiently costly, they are not fraught with such great danger to the State as is the third—the policy of agrarian tariffs. After all, with the first two measures, Big Business foots the bill for the State, because no one else is in a position to do so. As the amount of the subsidies is fixed in advance, German industry is acquainted with them, and consents to its money or its

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credit being used to assist the insolvent farmers : and it is an axiom that where there is a consenting party there is no injury. But agrarian tariffs are quite a different matter. Their effect at home is to sap the competitive power of German industry. Abroad, the number of more or less acute economic conflicts with other countries which they cause is impossible to calculate, while any breakdown in the extremely complicated financial machine of German industry may endanger not only German interests but also the interests of all owners of public or private German bonds.

Now Herr Schiele's agrarian policy is very largely only a natural consequence of the theory which has been forced upon the German public, that East Prussia is menaced with annexation by Poland, and that East Prussia's economic difficulties largely result from the creation of the "Polish Corridor." The Government, by forwarding the policy of colonisation with all the assistance of State machinery, accepts responsibility for the economic success of those who settle on the land. Then with a semblance of justification they complain, in view of their liabilities, financial, fiscal, social and national, and in view of the low level of prices, that they are farming at a loss. They call upon the Government

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to raise prices for them by imposing high import duties, and by subsidising the export of agricultural produce. Having granted loans, or guaranteed second mortgages for the farmers, the Government must of necessity try to recover the money thus invested, even at the cost of much greater losses which industry must suffer. The process is clear and easily followed, but its consequences are complex in their dangers and not to be retrieved easily.

The final conclusion must be that it is immoral to deceive public opinion in a nation as German public opinion has been deceived. The people in general believe that the nation's security along its eastern frontiers has been established by the help of the State and by the money of the taxpayer ; they believe that, at the price of a few hundred million marks, Königsberg, the birthplace of the great Immanuel Kant, is being saved for the Reich. But the deception is two-fold : firstly, because no one contemplates action against East Prussia, which would be a breach of the peace of Europe, and secondly, because neither colonisation, nor debt-conversion, nor high tariffs can cure the real maladies of East Prussia, which have to do with finance and emigration.

The low price of food, dictated by the great



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agricultural interests of America on the one hand, and by Russia's need of foreign currency on the other, is a factor which may be and should be modified to a certain extent, but only to a certain extent. Protection beyond reasonable limits must have harmful consequences of its own, as does every drastic interference with the law of supply and demand. But to keep prices moderately above the world-level is possible only in countries where the standard of living is modest and where there is economical public budgetting. And only under these conditions can agriculture be carried on in the Europe of our day.

## X

### EAST PRUSSIA AND INDUSTRY

THE final conclusion drawn by von Batocki and Schack, after their enquiry into the difficulties of East Prussia, is that there exists in the province a "crisis of employment." The people, unable to find employment at home, have to seek it elsewhere, and naturally they turn first to the richer and more highly industrialised provinces of central and western Germany.

We have already seen that the agricultural population, which is 45 per cent. of the total population, labours on the whole no less productively and in some respects rather more productively than it did before the war ; while its output is well within the limits set for it by a mediocre soil and a poor climate. We have seen that the most intensive policy of colonisation can only hope at the best to add 50,000 people to the agricultural population. On the other hand, the process of rationalisation, which tends to concentrate upon mechanical processes of labour, makes for an even further decrease in the number of labourers employed. No efforts of the nation or of the Government

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can create in the agricultural industry of East Prussia more employment than is offered at this moment.

It remains for us to examine whether, and to what extent, it may be possible to increase the openings for employment in other fields of economy—in industry, commerce and transport. And first of all we may classify by occupations that 54·6 per cent. of the population (according to the census of 1907 it was then only 46·8 per cent.) which does not live by agriculture. The following figures show the changes which have occurred since 1907 in the occupational grouping of the people.

1907	1925
<b>Agriculture.</b>	
1,066,000 = 53·2 % (the Reich 27·1 %)	1,023,000 = 45·4 % (the Reich 23 %)
<b>Industry and Crafts.</b>	
409,000 = 20·4 % (the Reich 40·7 %)	442,000 = 19·6 % (the Reich 41·3 %)
<b>Commerce and Transport.</b>	
182,000 = 9·1 % (the Reich 14·9 %)	290,000 = 12·9 % (the Reich 16·9 %)
<b>Administration, Health, Services.</b>	
148,000 = 7·4 % (the Reich 9·2 %)	235,000 = 10·4 % (the Reich 9·1 %)
<b>Independent Means.</b>	
199,000 = 9·9 % (the Reich 8·1 %)	265,000 = 11·7 % (the Reich 9·1 %)

## EAST PRUSSIA AND INDUSTRY

If we knew nothing of the Reich or of East Prussia beyond the figures here given, we would have to draw from them a series of conclusions: that in 1907 East Prussia was still predominantly agricultural but that its character has changed, for by 1925 agriculture had lost its numerical majority; that the process of industrialisation has proceeded about half as far as it has in the Reich; that commerce and transport flourish, for they have shown an increase of about 40 per cent. since 1907; and that East Prussia must be rich in capital, for it contains more people of independent means than does the Reich. Yet each one of these conclusions would be quite erroneous. There is, in actual fact, a striking disproportion between the numbers engaged otherwise than in agriculture and their productive contribution to the community.

In 1907 the social superstructure, resting on the productive activities of agriculture and industry, represented 26·4 per cent. of the total population in East Prussia and 32·2 per cent. of the total population in the Reich; but by 1925 it was already 35 per cent. in East Prussia, while in the Reich it was only 35·7. In the Reich the superstructure is supported not only by an agriculture which is of a higher level than that of East Prussia, but also by a

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powerful system of industry which has an income at its disposal several times larger than has the agriculture of the Reich. Even a superficial knowledge of East Prussia's industrial production is enough to show that it cannot adequately support such a burden, while the turnover of its foreign trade has decreased considerably since pre-war days. Thus, in East Prussia, the whole burden of the non-productive 35 per cent. must be borne by agriculture and by the State. In 1907 this class numbered 529,000 persons. In 1925 it amounted already to 790,000.

Despite a wealth of statistics, it is difficult to draw a clear line between industries and handicrafts, between those industries which work for agriculture, refining its products, and those which are concerned with other raw materials, between those industries which supply only their own province and those which also look to outside markets.

We have, in the first place, the foodstuffs group. Milling employed 4,211 persons<sup>1</sup> (and counting their families 9,888 persons). The total output amounted, in the years 1927-8, to 586,000 tons a year, as against 12,358,000 tons in the Reich. The quantity of grain brought to the East Prussian mills from other

<sup>1</sup> These figures are according to the census of 1925.

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areas was extremely small, as the miller's trade tends to concentrate more and more in north-western Germany, where all the most favourable conditions are to be found, such as proximity to coalfields and seaports, and to enormous markets ; 51 per cent. of the total amount of grain and 84 per cent. of the imported grain was ground in north-western Germany. The baking and pastry-making industries of East Prussia also work almost entirely for the home market of the province—in the same years they employed 7,484 persons (or 12,441 inclusive of families).

The meat industry, with butchers and canning factories, is of greater interest. It employed 8,243 persons (or 15,430 inclusive of families) during the same period, and the development of the industry, with sausage-making, bacon-curing, canning, and so on, is one of the most vital interests of the province. A factory recently erected at Königsberg received a credit of 4 million marks, at reduced interest, from the Government. The dairy industry employed 3,658 persons, or 6,339 inclusive of families. Because it caters for distant markets, 90 per cent. of the milk has to be made into butter or cheese within the province. For instance, in June 1930, 141 East Prussian dairies used 807,000 litres of milk a

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day, turning out 15,874 kilogrammes of butter and 37,518 kilogrammes of cheese. During the same period, the dairies of the entire Reich were producing 268,122 kilogrammes of butter and 91,400 kilogrammes of cheese daily.

Lastly, the malt-mills and breweries gave employment to 2,144 persons (5,337), the tobacco industry to 3,513. The whole food-stuffs group employed 32,607 people, and the total inclusive number of those who found their living by it was 60,494. The food industry is for the most part a necessary complement to agriculture. It has a sound and lasting basis in the province's home production, but no one can expect it to afford increased employment in the near future, having regard to the increased mechanisation and to the rationalisation of labour which prevails in East Prussia no less than in the rest of Germany.

The timber industry has a considerable importance in East Prussia, employing 27,161 persons, or 60,236 inclusive. If we leave out journeyman lumberers and their assistants, there remain some 15,000 employed by the larger concerns. As the forest areas of the province are small, the timber industry is dependent on the import of wood from Poland, and this always meets with difficulties from Germany. It is, of course, best to float

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the timber down the Niemen to its mouth, but the middle course of the river runs through Lithuania, and Germany's consistent policy has been to aggravate relations between Poland and Lithuania. Consequently, rafting is impossible on the Niemen, and the timber industry of East Prussia has to shoulder that loss.

In the year 1925 the paper mills employed 5,495 people (or 15,339) and the provincial printing trade 2,814 (or 5,020). The iron and metal industries had 13,356 workers (25,210 with dependents), small workshops being in the majority. The machine-building industry, however, with 8,856 employed (or 18,345), boasts a few larger establishments. After the bankruptcy of one of these, the Komnick works, a bankruptcy which involved for the Prussian Government the loss of a 2 million mark loan which it had granted, the Communist Becker, in the course of a parliamentary debate, insisted that the Government should try to save the firm "because it manufactured heavy tractors, of a type suitable for military purposes."

Here we have one of the typical blind alleys up which German policy so often leads. For military purposes the Government needs to have, let us say, a number of heavy tractors



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ready to call upon. The Staff of the Reichswehr settles upon the type and asks a private firm to construct them, preferably in East Prussia, as being further removed from western eyes. The firm agrees, and, naturally enough, the type indicated proves to be unsuitable for agricultural purposes, or else too expensive. The firm must suffer a loss. But if one must lose a certain sum—call it  $x$ —why not lose  $2x$  or  $3x$  while you are about it? Salaries are raised, the fees of directors are increased, and a number of measures, well known to the financial world, are adopted with the object of indemnifying the owners for losses sustained by the firm. Then the firm approaches the Staff once more with evidence of the difficulties in which they have been placed by the manufacture of the tractors. The Staff, all the world over, is loyal and grateful to those who support it. A masterly plan is elaborated whereby the firm which is in difficulties will amalgamate with a second firm; and the second firm will receive an order for, say, a cruiser or some submarines, at a price that will cover the loss incurred by amalgamating with the firm in default. But the ship-building concern is already in difficulties itself, from a number of geographical causes, and owing to the high cost of technical

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expert assistance—the Head Manager receives a salary of 200,000 to 300,000 marks a year. As both firms are in East Prussia, where agriculture has already received a present of several hundred million marks, why should not the two of them, now amalgamated, receive together a loan of, say, 15,800,000 marks from State funds? More than that is not necessary at the moment, and should the need for more arise, then Parliament will again be asked for it. Parliament will never refuse a request from the Staff, more especially if it has to do with that unhappy province of East Prussia, separated from the mother country, oppressed and menaced by Poland.

It was more or less in accordance with such a process that the Schichau-Werft at Elbing took over the Komnick works. It stands to reason that ships, railway engines, iron constructions, and so on, cannot be turned out at a lower cost from Elbing than from the factories of the Rhine, with their ironworks close at hand, but every effort is made, even by artificial methods, to keep the workmen in East Prussia. The great German iron firms, Henschel & Sohn, Krupp, Hanomag, Borsig, loudly complain that Schichau undercuts their tenders and carries on an unfair competition with the aid of subsidies received from the

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Government. But no complaints alter the trend of the policy of subsidies.

The German argument has been summed up by Professor Volz with the statement that "unless we succeed in giving the East a flourishing life, it will be lost to us in the course of a few score years." But is there anyone in Germany who will put the question whether it is not precisely that artificial, hothouse nature of East Prussia's "flourishing life" which is the chief cause of crisis in the province and the source of its moral weakness ; and for how long will the Reich, drawing upon the labour of the central and western provinces, have sufficient means to satisfy the increasing demands of that "flourishing life" in East Prussia ?

Besides ship-building yards, which in the census year (1925) employed 2,605 workmen, and which now employ some 5,000, East Prussia has factories for the construction of railway carriages, motor cars and aeroplanes, which employ 3,688 persons in all. The local ready-made clothes trade employed 19,379 (or 31,527 inclusive).

The most important figure, however, is that shown by the building trade, which gave employment to 46,419 (or 122,357 inclusive). This large quota is interesting. We have

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already seen that in East Prussia there has been no increase of population ; it would be useful to know how many of those employed by the building trade worked on the construction or renovation of private houses, and how many on the erection of the magnificent public buildings which are the last word in comfort and luxury. In order to cover East Prussia's trade deficit, investments are made which are beyond the dreams of the world's richest communities.

For instance, in Königsberg alone two magnificent railway stations have been built since the war : a central station and a northern one which is used only during the bathing season. The cost of building the two of them, including the necessary excavations, amounted to 110 million marks, not much less than the entire amount spent upon the construction of the port at Gdynia, which caused Professor Mühlentfels to accuse Poland of extravagance. If we bear in mind that Königsberg is really the terminus of the German railway systems, we can find nothing, save a necessity to spend money lavishly in East Prussia, which will justify such an investment in stations which might be envied by the wealthy capital of a rich and busy country. Again, the magnificent " Haus der Technik " is used for an exhibition during

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three days of the year, and for the remainder it serves for covered tennis-courts. New gardens, with artificial waterfalls running over travertin constructions, were laid out in Königsberg at a cost of 400,000 marks. When a new industrial school for girls was constructed, the municipality contributed 300,000 marks, and it even gave a guarantee of 950,000 marks for the Park Hotel, a private enterprise. A list of such buildings as these erected in post-war times in a single town of the "impoverished" province of East Prussia gives a better clue to the understanding of the Reich's financial difficulties than the reading of many learned works.

Königsberg's budget for 1930, amounting to 49 million marks, showed a deficit of 7 million marks, but in 1931 the subsidy of 550,000 marks to the Königsberg Opera was increased by a grant of 600,000 marks for that year. At a meeting of the budget committee on January 2, 1931, one of the municipal councillors who was speaking in favour of this expenditure, remarked: "If we close down the Opera we may be regarded as having capitulated to the Poles." In that remark was summed up the obsession which has spread from East Prussia to the whole of Germany.

So the financial policy continues. Money

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from the Reich, entering the economic system of East Prussia by way of building investments, quickens its pulse, makes possible the continuance of its high standard of life, and raises the prices of prime necessities to the level of the rest of Germany. A similar policy of building investment has been pursued by Austria, another German country, though here it was not the Nationalists but the Socialists who gave it their whole-hearted support. And it is now a matter of history that this extravagant policy brought about the collapse of a laboriously balanced financial system : with first the insolvency of a number of smaller banking institutions, then of corporations with the pre-war traditions and financial strength of the *Bodenkredit-Anstalt*, and at last of the *Kreditanstalt für Handel und Industrie*, which was founded and financed by the Rothschilds. The Austrian Government had to come to the rescue at the cost of an additional debt of some 50 million dollars. Nevertheless, Austria's unnatural policy is justified in some sort by the unnatural structure of the country itself. That small State has to support the burden of historical traditions inherited from the House of Hapsburg and the overgrowth of its capital, Vienna, which once ruled an Empire. But East Prussia is a small

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country like any other, like Lithuania, Latvia or Esthonia, and it could live its own natural healthy life, even though it were a modest or an impoverished life, instead of the artificial existence which is imposed upon it by a particular system of government.

Von Batocki's thesis that salvation will come from the discovery of new sources of income is correct in theory but not in practice. So long as East Prussia is united with the Reich in its present relations it would be difficult to find any sources beyond the construction of magnificent railway stations, schools and sanatoria, or building vessels ; and these are already being exploited. This von Batocki knows, and he also knows, though he will never admit it, that a wealth of employment could be found in East Prussia if it were not inside the German tariff wall, but allowed an economic unity with its southern neighbours. Then, instead of being the cripple among German countries, it would become powerful as the most westerly seaboard of a large economic group.

So long as its union with the Reich preserves its present form East Prussia has no chance to develop. When the great German industries grew up, they were allowed to concentrate either in Saxony, near the brown coal areas and the great waterway of the Elbe, or else

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in Westphalia and the Rhineland, near coal areas and smelting-plants, as well as the most important seaports and the great markets. We know that after the war these industries were modernised and rationalised at great cost. What advantage, then, can East Prussia offer to a capitalist or industrialist, so as to draw him into competition there with the established houses of Western or Central Germany, far from sources of power and of raw materials, with only a small local market? And how much less an advantage at a time when even well-established German industries are passing through a severe crisis of consumption. It is hardly to be expected, therefore, that new industrial establishments can be profitably formed within the next few years in the most favoured parts of Germany, let alone in the province of East Prussia.



## XI

### THE RESOURCES OF THE POPULATION

IT is commonly understood that East Prussia's economic difficulties may be directly traced to the territorial separation from Germany, but in fact nearly every aspect of those difficulties is to be seen in Germany's other eastern provinces to a greater or less degree. We have noticed already that westward emigration has attained to the proportions of a political problem in the three districts of eastern Bavaria which adjoin Czecho-Slovakia. Similarly, bankruptcies are increasing in Pomerania even more rapidly than in East Prussia, and there is now not much difference between the figures of the two areas. According to a memorandum drawn up by the governors of the eastern provinces, the encumbrance on the soil on January 1, 1928, amounted to 678 marks per hectare in East Prussia, 630 marks in the border province Posen-Westpreussen, and 575 marks in the province of Pomerania.

A second important point is that these difficulties are by no means recent, or to be ascribed to geographical changes which have

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taken place since 1914. The resources of the population of East Prussia and the financial development of the province are most minutely investigated by Dr. Goedel in his conscientious book, *Wohlstandverhältnisse in Ostpreussen* (The Distribution of Wealth in East Prussia), where he proves that already before the war East Prussia was less wealthy than any other part of the German State.

The figures for income tax are a very accurate measure of prosperity. Those whose yearly income was less than 900 marks, or those whose incomes were greater but who could show by petition that they had heavy burdens to bear, were not subject to this tax at all. In 1914 the percentage of exemptions in the State of Prussia was 44·58, and in East Prussia it was 72·15. In the agricultural districts, considered separately, 54·13 per cent. were exempted in Prussia and 79·70 in the province of East Prussia. In the Kingdom of Prussia, 48·51 per cent. paid tax on an income between 900 and 3,000 marks, but in East Prussia only 23·35 per cent. of the population paid on this sum. In the agricultural districts the proportion was 41·79 to 18·02, so that East Prussia had only half the percentage of even moderately prosperous peasants shown by the entire State. Dr.

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Goedel calculates the total income of individuals in East Prussia for 1914 at 648,368,119 marks, which was 319 marks per head of the population. In the regency of Allenstein it was so low as 243 marks per head. The average yearly income for the whole Kingdom of Prussia was at that time 526 marks per head.

To show the differences between the various districts of Prussia in the numbers of prosperous people and of rich people, we may cite the various percentages for 1914. There were :

	Taxed on an income of 900 to 3,000 marks	Above 3,000 marks
<i>Regencies :</i>	Per cent.	Per cent.
Alenstein . . .	. 26·0	3·65
Gumbinnen . . .	. 26·7	3·99
Konigsberg . . .	. 30·1	5·34
<i>Provinces :</i>		
West Prussia . . .	. 31·33	4·71
Poznanian . . .	. 32·22	4·82
Pomerania . . .	. 41·34	5·71
Brandenburg . . .	. 61·31	9·88
City of Berlin . . .	. 71·21	8·19
Province of Westphalia . . .	. 71·50	6·14

These figures show in the first place that already before the war there was a very great difference in the degree of prosperity between the eastern and the western districts—including Berlin and Brandenburg—and in the second place that West Prussia, Poznanian and

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Pomerania all had larger figures of individual incomes than had East Prussia. After the war, most of the Poznanian and West Prussian districts with lower taxable incomes became parts of the Polish Republic ; as a result the general average in the Republic of Prussia must have risen. According to the latest tables of the Chamber of Finance for 1929, the average taxable capacity throughout the State was calculated at 57 marks per head for the three chief taxes. For Stettin (Pomerania) it was calculated at 32 marks, for East Prussia at 20 marks.

The statistics for savings banks are a signal proof of the fact that already before the war the economic development of West Prussia and Poznanian surpassed that of East Prussia. In 1888 the average per head of savings deposits in the Kingdom of Prussia was 102·03 marks. The lowest averages were in the following provinces : Poznanian 21·34 marks, East Prussia 24·13 marks, West Prussia 30·85 marks, and Silesia 57·74 marks. By 1913 the average for the whole kingdom was 311·38 marks per head, and East Prussia had fallen to the lowest place with an average of 113·79 marks. Poznanian came next in ascending order with 126·92, then West Prussia with 150·66, and Silesia with 191·06.

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The trend of that development was similar after the war. In 1926, inflation having destroyed all savings and capitalisation having begun anew, East Prussia had an average of 26·66 marks per head, the Prussian average being 52·88. In 1931 (March), when the total of saving deposits in the Reich was 11 milliard marks, East Prussia had only 206 millions and was poorer in that respect than any province save the small *Grenzmark Posen-Westpreussen*.

Some of the more far-sighted observers are becoming definitely convinced that wages and the cost of public administration in East Prussia must be adjusted to the province's income. The present deficit in East Prussia's balance of trade is estimated at about 200 million marks a year. If German statisticians are right in gauging the present national income of East Prussia at 586 marks per head, and if we are right in our assumption that the expenditure is 676 marks per head, then the problem is one of reducing the general standard of life and public expense by nearly 15 per cent.

Theoretically, that can be done. The average wage of a farm labourer in East Prussia is less than in the west or centre of the Reich, but it still comes to 885 marks a year. We will not compare this with the Polish

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figure, but we may note that in 1929 (the year taken for East Prussia) the average yearly wage of a farm labourer in Esthonia was 375 marks, while in Finland it was some 400 marks. Those are both countries with a similar position on the Baltic coast, and countries besides where there is a sincere attempt to preserve national cultures on a broad democratic basis. Theoretically we see no reason why East Prussia should not try to restore its economic balance by reducing its standard of living to the level of Finland, Esthonia, and other Baltic countries. In practice, however, East Prussia follows the exactly opposite policy of raising its wages to the level obtaining in the rest of the Reich. The latest tables based on the yield of the wages-tax for 1928 show the average income from taxed wages in Königsberg to be 2,041 marks a year, equal to the yield in Stettin, higher than the yield in Lübeck (1,843 marks) or in Bremen (2,023 marks) and closely approximating to that of Hamburg (2,172 marks), which is Germany's chief port.

An impartial student of these conditions must come to the conclusion that, since the chances of employment are less in East Prussia than in the rest of the country, and must remain so, there should naturally be a reduc-

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tion of wages ; more particularly because East Prussia being that agricultural province of the Reich farthest from its centre, the cost of food should be lower there by at least the cost of railway freightage to Berlin. Yet here again we meet with a reversal of the natural process. Official statistics, for instance, quote the price of beef at Königsberg (January 1931) at 180 pfennig per kilogramme, while in Cologne the price is 175 pfennig, in Essen 170. Pork at Königsberg stands at 150, at Berlin at 136, at Breslau 117. White flour at Königsberg stands at 56 pfennig per kilogramme, while at Breslau it is 52 pfennig ; potatoes, which stand at 12 pfennig per kilogramme, at Breslau stand at 10 pfennig. So there is a logical dilemma ; either it is true that distance from markets makes for a reduction in the price of food in East Prussia, in which case the quotations for agricultural produce in Königsberg should be lower ; or else prices in East Prussia are naturally on the same level as in the Reich, in which case the complaints and arguments directed against the " Polish Corridor " have no economic justification. Here should be proof that East Prussia's unusual situation as regards the Reich has no adverse influence upon the prices of food in the East Prussian cities.

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Undoubtedly the situation of East Prussia is an anomaly which cannot continue indefinitely, and already there is some response to sensible proposals for altering the political and legal relations between the province and the Reich. One of the most striking declarations on this point came from no less a personage than the *Generallandschaftsdirektor* von Hippel—the director of the provincial land credit institute—in an article entitled *Ostpreussen-Reichsland*, in the *Deutsche Allgemeine Zeitung* of December 4, 1929. Moved by an anonymous article in the *Berliner Börsenzeitung*, which put forward a proposal to grant East Prussia a special status within the Reich similar to that of Alsace-Lorraine before the war, Herr von Hippel gave very clear expression to his views on the situation of the province :

“ East Prussia is faced with the sheer impossibility of sharing the scale of expenditure of the rest of Germany. Wilful blindness to this impossibility, after having ruined agriculture, is now bringing about the breakdown of commerce and industry. Human stupidity can be active in politics as long as it finds followers, but economic laws are, on the contrary, as strict as the laws of nature, and those laws will solve the East Prussian problem.

“ Theoretically two solutions exist : Either



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Germany will provide its eastern fortress with a standard of life which East Prussia by itself cannot afford—which means yearly subsidies (gifts) for all ranks of at least 200 millions. Or else the burdens in East Prussia must be suited to its economic situation. . . . East Prussia, fit yourself to your lesser lucrativeness, that is, to your poverty, and fix your public expenditure in accordance with it.”

Von Hippel justly remarks that a policy of State subsidies, on a constantly increasing scale, is similar to an inflation of paper currency, which leads in the end to *Selbstvernichtung*—self-destruction. Yet of the two alternatives which he defines, the policy of State subsidies is the only one being adopted at the moment. We may do well to follow that process step by step to its fatal conclusion.

Strictly speaking, East Prussia is not an inseparable portion of Germany but a colony—the *Kolonialland* of German historians themselves—and it is all but a rule that a mother-country has to contribute for the necessities of its colonists. Great Britain, for instance, as a privilege of Empire, assumed the whole burden of external representation and defence on behalf of her dependencies, so that for centuries the Royal Navy was the most costly instrument for power and security in

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the world. Under its protection the colonies were able to develop into prosperity, without assuming any external obligation whatever. That was, undoubtedly, a form of subsidy, but subsidy in its noblest form, demoralising nobody and leaving the young communities free to develop their own strength. Moreover, whenever it was necessary, the City of London never failed to grant credits to communities in the colonies at rates of interest almost as low as those conceded to the British Government or to municipal bodies in the British Isles.

But the system of State subsidies followed by the rulers of Prussia has often admitted very dangerous principles. For example, there was the subsidy granted to German shipping lines in the form of extra allowances for carrying mails. These placed other countries in a very difficult position, for they had either to look on helplessly while freights and passengers were attracted to German vessels by reduced fares, or else they were forced themselves to grant subsidies from public funds to private companies—a proceeding which, in the opinion of some of them, was contrary not only to law but also to the principle that the citizen must not be dependent upon financial favours from the State.

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Or there was the anti-Polish colonising fund in the days when Poznania was subject to the Reich. It was without doubt an illegal act to force the Poles off their inherited lands by means of the taxes imposed to support the fund, which the Poles had to pay in part. But it was something more than unlawful. It was detrimental to the Germans themselves. The German community in the eastern provinces grew so used to financial assistance from the Government—which came in the form of *Ostmarkenzulagen*—increases of salary for serving in the Eastern Marches—that when it failed them they showed an extraordinary lack of resistance. That whole German community had become convinced that they were entitled to subsidies from the rest of the German people, through the Government, because they were in the outpost most menaced by the Poles. But the very conviction weakened the Germans in their struggle for supremacy with the Poles. The policy of subsidies recoils on the nation which employs it.

Poland at that time also had its “Eastern Marches” in the provinces of Russia, where the Poles found no protection in the law. Inscriptions were to be seen on all the public buildings and schools of Wilno: “It is forbidden to speak Polish.” Every active

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assertion of Polish national feeling, though it were only to teach the Polish language secretly to children, or to encourage a spirit of resistance among the Catholics of White Ruthenia, who had been forced into the Greek Church, or to possess proscribed books—all these crimes were visited with imprisonment or with exile to Siberia. Membership of organisations actively fighting for the rights of the working man was an offence punishable by hard labour in the coal mines of Siberia ; and that without pretence of a trial but simply “ by administrative order.” These were all the subsidies which the Poles could expect to receive for national services in their own Eastern Marches ; and they fared little better in Poznania, although the Germans gave all their repressive measures a full semblance of legality. Yet to-day Poznan (Posen) is a large city with the highest percentage of purely Polish population in all Poland. It is no wonder that the Poles, after such an experience within the last generation, doubt the sincerity of a patriotism which requires any form of material reward.

It is a characteristic of the system of subsidies that, like cancer, it spreads from one part of the organism to another. To-day funds are given to help the great landowners : to-morrow it becomes impossible to refuse

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assistance to the small farmers. After 12 millions have been spent to save from bankruptcy a factory which is vital, say, for military defence, it becomes impossible to close the purse-strings to some factory which is turning out, not tanks or poison-gas, but bars of chocolate. If the great industries can draw upon public funds, then the small workshops may have access to them. If Government officials receive increments of salary for service in the eastern provinces, then schoolmasters and clergymen should also be favoured, and so down through all grades of employment. Jealousies and quarrels over the distribution of State funds—which are not inexhaustible after all—are bound to cause scandal and demoralisation. Political corruption comes in the train of subsidies ; the leaders of political groups and the heads of official departments are never without their protégés or their favoured constituencies.

The system of subsidies surely does lead to self-destruction, but in spite of warning voices like von Hippel's it would be as difficult now for Germany to stop the system as it would be for America to repeal the Eighteenth Amendment. The German Nationalists very rightly assert that if, under present conditions, the Governments of Prussia and of the Reich were

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to cut short the flow of subsidies to East Prussia, then 100,000 inhabitants of East Prussia—not the mere 20,000 of the present process—would migrate yearly to the central and western provinces of the Reich. Half of the landed estates would be put up for auction, but without finding purchasers, and the falling value of the land would entail such losses that institutions of public credit, and agrarian institutions with all their second mortgages, would inevitably collapse. Once the habit has been contracted of relying upon outside assistance rather than upon one's own strength, it can only gradually be broken off.

But one historical process has been seen in our own day. The Germans who were settled before the war in Poznania and Pomerania have left in waves as soon as it was clear that they could obtain no more subsidies from the Prussian Government. This emigration will continue without any pressure from the Polish Government, for no pressure is necessary; nor will it be arrested by subsidies paid from Prussian funds to Polish citizens of German race, for measures of that kind are artificial, demoralising, and of only passing benefit. The German Government is hard enough pressed to restrain the westward movement within its own frontiers, but it continues never-

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theless. What will happen is that some of the Germans will remain in Poland for good—those who prefer the soil of their birth to the prospects of wealth elsewhere—and they will become as good Polish citizens as the many thousands of old Polish families of German extraction who still bear purely German-sounding names. Was not the greatest Polish hero in the struggle for independence in 1863 called Traugutt, and the heroine of 1831 Emilia Plater? That is the only natural solution to the problem of German national minorities in Poland; it cannot be solved, nor can any German problem in the East be solved, by subsidies.

## XII THE TWO TRADE ROUTES

THE greatest natural advantage possessed by East Prussia is its position along the sea-coast, between the mouths of two great rivers, the Niemen and the Vistula, and at the crossing of two trade routes : the one running from west to east and the other from south to north. In controversy with Poland, Germany justifies her ambition to annex Danzig and Polish Pomerania by an appeal to the importance of the avenue from west to east, while Poland equally insists upon retaining control of the avenue from south to north. And that controversy runs through history.

The Teutonic Order, when it accepted the invitation of the Polish Duke, Conrad of Masovia, to settle near the mouth of the Vistula, was aware of the importance of trade development towards the east, along the shores of the Baltic. In that recognition lay the economic reason for accepting the invitation and for the Teutonic Order's obstinate attempts thereafter to secure undivided possession of East Prussia. Parallel, too, with the expansion of the Knights, lay the line of



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conquest of the powerful Hanseatic League, the North-German federation of cities.

During that period the two great republics of Russia, Novgorod and Pskov, grew and flourished ; and their destruction by Ivan the Terrible in the sixteenth century was a disaster for Russia, for they were the only powerful centres of the idea of municipal self-government, the only sanctuaries of civic liberty. So the Hanseatic route was an important one. Its trade was founded on a few articles particularly valued in the Middle Ages : cloth and armour and furs. In northern Europe, cloth and furs had an importance similar to that of silk, precious stones and spices, which passed along the route from India into the world of the Mediterranean. But the discovery of America led to the abandonment of many of the old trade routes ; and the centre of importance in trade moved from a few valuable and compact commodities to heavy staple articles, such as timber, corn, wax, wool and hides. With those changes the route from west to east became less valuable, and the route from south to north, along the Vistula, gained more and more traffic. At the mouth of the Vistula was Danzig, which became splendid with riches under the White Eagle of the Polish Republic.

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The foundation of Russia's new capital, Petersburg, at the mouth of the Neva, was an effort to restore the importance of the old route, west to east, along the sea. Peter the Great was decidedly under German influences, and the idea of the Petersburg capital must have been more than acceptable to his German friends, if indeed it was not suggested by them. The Hanseatic route came into favour once more ; though Petersburg imported its staple articles, particularly coal, by sea, yet in time the old overland route from Germany to the capital of Russia along the sea-coast, by way of Königsberg, also regained something of its old importance. The political complement and consequence was the alliance between Prussia and Russia. Their efforts in common for the destruction of Poland were crowned by the Partitions of the eighteenth and nineteenth centuries.

The Great War, however, brought about radical changes in the eastern Baltic. Finland, Latvia and Esthonia regained their independence. Poland also regained her liberty, and Lithuania became a separate State. The new Bolshevik rulers of Russia, international on principle but extremely nationalistic by instinct, the enemies of Capitalism, of the civilisation of Western Europe and of all

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its works, transferred their Government to Moscow, thereby placing the centre of gravity for the exchange of goods in the interior of their enormous territory.

The most direct route from Moscow to Europe now passes through Warsaw. Lwów and Cracow lie along the shortest route leading overland from Kiev and Kharkov to the centres of European trade. And under these circumstances the Baltic overland route through Königsberg must lose its last remaining chance of revival.

We are in a period, however, when a great development in the route from south to north is beginning, the route from the distant centre in the interior of Europe to the ports of Danzig and Gdynia. In 1913 the sea-borne goods traffic of the port of Danzig was 2,100,000 tons; in 1929 it was 8,560,000 tons. If we add the 2,822,000 tons of the traffic of Gdynia—which did not exist as a port in 1913—we have a total of 11,382,000 tons of traffic in these two Polish harbours. The ratio of import to export is still very low—2,117 to 9,265—so that many ships are coming in with ballast, and the statistics of shipping tonnage are much greater than might be expected from the figures of goods traffic.

The opinion that Danzig and Gdynia are

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bound to flourish through the increased flow of trade from south to north is based upon a number of considerations. The fourfold increase of traffic at those ports in the course of four years—in 1925 the total figure was 2,700,000 tons—is in itself a striking symptom. It will appear all the more extraordinary if we consider the influences which have hitherto worked against such a development.

Danzig lies at the mouth of the Vistula and Gdynia near it. The river Vistula is the main artery of Poland. It dominates the country, and to such a degree that with the exception of the Danube in its passage through Rumania or Hungary there is no comparable example in Europe. But during the period of the Partitions the upper waters of the river were in the hands of Austria, while Russia held its middle course and Germany the lower reaches to the sea. The Vistula, barred in two places by frontier stations with customs and passport offices, ceased to be a channel of communication; as a result it was left unregulated, or else, as in the German portion, it was only partially conserved. The whole network of railways was planned from its first beginnings as though the Vistula did not exist, as though it could not be utilised to carry either goods or passengers.

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This state of affairs still continues, despite thirteen years of Polish independence. German propagandists take advantage of it to reproach Poland (with every semblance of justice) for not having regulated the course of the river. Nevertheless that accusation is unjust. Poland has no capital of her own to put into conservancy work at a low rate of interest, with no return upon it for twelve years or more. Foreign capital, on the other hand, has not yet become interested in the problem of the Vistula, largely because German propaganda and policy are inimical to Poland's interests. But if so far the Vistula has not been regulated, undoubtedly it will be in good time. Up-to-date waterways will be constructed, linking the Vistula system with the Dnieper through the Prypet, and with the Black Sea through the Dniester or the Pruth. The completion of these works will increase the volume of traffic through Poland's ports on the Baltic.

Giving first heed to the factor of time, the Polish Government has wisely begun the construction of a direct railway line from Upper Silesia to Gdynia. It will be completed within two years and it will shorten the carriage of Silesian coal to the Baltic coast by 150 kilometres. The Silesian-Gdynia railway will also have the important effect of opening the Polish

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ports to the use of central European countries, Czecho-Slovakia and Hungary in particular, both for export and for import trade. With the present system of railways Gdynia can hardly compete against Stettin, and the lack of a direct route from south to north does much to restrict the traffic at Danzig and Gdynia.

There has, however, been a greater hindrance than that upon the general growth of Poland's trade. The country has had to devote, and still has to devote, disproportionate energies to the task of making up deficiencies of capital and currency. All this has been detrimental to production and consumption, to export and to import trade. Few people in Europe are fully aware that, after two-thirds of her territory had been already devastated, Poland had to carry on single-handed an exhausting war against the Soviets. She had to improvise her war material in a country where most of the machines and all removable metal had been seized upon in the course of the Great War. She found herself at that time absolutely without a reserve of gold. The people possessed only worthless notes issued by the Powers in occupation ; even most of their wedding rings and engagement rings had gone to form the nucleus of a national exchequer.

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The task which followed, of welding together harmoniously the three parts of the country which had lain for so long under different laws and customs, could not be accomplished without losses of wealth and energy. Yet, despite it all, Poland built the great modern port of Gdynia almost unaided, from budget savings; despite every obstacle the joint traffic of Danzig and Gdynia is now five times as large as Danzig's traffic before the war. Could there be plainer proof that there is latent wealth and a sure future in the trade route from south to north?

An idea of the emigrant traffic through Danzig and Gdynia may be formed from comparative figures. In 1927 the number of emigrants leaving Europe from Hamburg was 39,324, from Bremen 42,665, from Danzig 34,873, and from Gdynia about 8,000. In 1928, 35,283 emigrants left from Danzig and 18,500 from Gdynia. As for goods, the Polish traffic for 1929, which amounted to 11,382,000 tons, compares more than well with the goods traffic from the Reich to East Prussia and from East Prussia to the Reich, which amounted altogether in 1927 to 1,318,000 tons and in 1928 to 1,530,000 tons. If the German-Polish commercial treaty is ratified, the proportion will alter still further to the detriment

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of the route from west to east. The German figure for 1928, of 1,530,000 tons, included one item of 461,000 tons for coal imported by rail from the Reich into East Prussia. Under the commercial treaty East Prussia would be open to deliveries of coal from Poland.

Modern commerce demands speed in transit, and for that reason the sea route is sometimes only relatively cheaper. There are examples known of Viennese firms importing tea from Danzig by aeroplane. For a whole group of costly articles coming in from the south, it may be found that the rapid overland route from Trieste, Salonika or Galatz, through Poland to Denmark, Sweden, Finland, Esthonia or Latvia, will pay better than the long sea route by Gibraltar. Trains carrying 1,200 tons of coal, iron ore or scrap iron, provided with automatic brakes and requiring only small crews, can compete successfully nowadays against shipping freights. Technical progress in the construction of cranes and goods conveyors has reduced the costs of unloading to a small fraction of the freight. All these improvements in rolling-stock and in transhipping make possible a number of short cuts across Europe; new lines, for instance, will run from Fiume, Salonika and Galatz to Gdynia and Danzig, splendidly situated on



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the centre of the Baltic seaboard. For her part, Poland has already proved that with her thrifty administration and her cheap supplies of coal she can transport goods more cheaply than any other European country.

It is pertinent to this discussion that German policy is especially devoted to the development of economic relations with the Soviets. Here a main consideration is undoubtedly for East Prussia, for the development of her trade, and for the transit traffic from west to east. Perhaps it is not so pertinent to debate whether it is a policy consonant with the best interests of Germany herself, of Europe and of world trade, that Germany should support the artificial industrialisation of Russia, with all her untouched sources of timber and minerals, at a time of general economic crisis and at a time when Germany herself has the record figure of six million unemployed. However that may be, there is no possibility of restoring the Russian trade route along the Baltic shore, now that the artificial capital of Peter the Great has again yielded pride of place to Moscow. The poverty-stricken and sparsely populated countries of northern Russia will export their timber from Murmansk; their Baltic trade will go through Riga and Libau. The direction of commerce for the rich and

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populous central Russia will shift considerably to the south, towards the Black Sea, and along the shortest routes between Western Europe and Moscow, Kharkov or Kiev.

The goods traffic from south to north is both various in kind and increasing in volume, but one could hardly expect to say that of the trade between East Prussia and the Reich. We have seen that under present circumstances it is all but impossible to foster new branches of industry in East Prussia. Its agricultural output is steadily decreasing. Its powers of consumption are already too much for its powers of production, so that there is a deficit in the balance of trade which has to be covered by subsidies from the Government of the Reich. In the article previously quoted, Herr von Hippel assumes that these necessary subsidies amount to a round sum of 200 million marks a year.

That assumption tallies with an analysis made by Dr. Wakar of East Prussia's balance of trade. According to Dr. Wakar,<sup>1</sup> the deficit in tonnage in the turnover of goods amounted to 2,850,000 tons in 1925, to 3,395,000 tons in 1926, to 4,656,000 tons in 1927, and to 4,082,000 tons in 1928. The tonnage deficit therefore shows a steady

<sup>1</sup> *Prusy Wschodnie*, Poznan, 1932, pp. 255 *et seq.*

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increase, and if we examine the trade balance for value the conclusions drawn from those figures are confirmed. Despite East Prussia's valuable exports of animals, the proportion of 5,306,355 tons of import to 1,224,210 tons of export results in a deficit approaching the sum of 200 millions which is assumed by German scholars acquainted with local prices and with the nature of the traffic. A cursory examination of the sums which enter East Prussia from the Reich, in the form of credits, subsidies or State investments, will reveal a figure closely approximating to the same amount.

The relations of East Prussia with the Reich are an interesting example of the risk incurred by both sides in a tariff union of two countries, when there is too great a difference in the economic level between them. The danger lies among the psychological factors of the situation, and therefore cannot be controlled. A poor country, united into one politico-economic organism with a richer one, aims first of all at raising its standard of living to the level of the wealthier community, without any regard to its own powers of production ; and production cannot be increased by founding new industries unless under particularly favourable circumstances. In this instance

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a temporary expedient has been used to help East Prussia because there are, between East Prussia and the Reich, strong historical and racial ties. But what would happen to the province if the majority of its people belonged to another race ?

As the opinion has gained ground that the main cause of the East Prussian crisis is too close a union with the whole Reich, proposals have been put forward for making East Prussia a separate unit within the Reich, like Alsace-Lorraine before the war. The author of one brilliant book on German-Polish relations<sup>1</sup> goes so far as to suggest that East Prussia should come within the Polish customs area while remaining politically within the Reich. The Constitution of Weimar expressly provides for such cases, and there is no doubt that the commerce and industry of East Prussia would benefit by the connection with Poland. Nevertheless the solution is morally out of the question. It is out of the question for Germany, for she regards the very suggestion as an insult to her national dignity. It is out of the question for Poland : unlike the Reich, she cannot afford to pay 200 million marks a year for the honour of sustaining the economic development of East Prussia. It is out of the question

<sup>1</sup> "Augur," in *Eagles Black and White*, Appleton, 1931.

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for the people of East Prussia, who have become so used to the system of subsidies that any attempt to curtail it would lead to panic and to financial collapse.

The fact remains, however, that the present state of affairs cannot last for very long. East Prussia must sooner or later adapt its standard of living and its administrative expenses to its real powers of production. If East Prussia were made an autonomous political unit within the Reich, managing its own budget without participation in all of the Reich's general expenditure, then it would be possible to reduce the public burdens of the province, and to reduce its social burdens also by special legislation. The State subsidies could be progressively reduced year by year. Equally important, East Prussia would need a greater freedom than the other German countries, with the approval of the Reich, but apart from the general German-Polish commercial treaty, to regulate its own economic relations with its nearest neighbours, Poland and Lithuania. Though Danzig and Gdynia are well able to handle all of Poland's present exports, it might yet be more convenient and cheaper, under given conditions, for the exports from Poland's eastern provinces to pass through Königsberg.

But if there is to be a real change in the trade

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relations between Germany and Poland, that change must rest upon a basis of German moral disarmament, both in politics and in economics. Normal commercial relations are impossible when one community regards the other as "inferior" (*minderwertig*). They are impossible without an acknowledgment of the principle of reciprocity and a strict balance of loss and profit on both sides. Poland cannot be told to buy German goods if at the same time an import tariff is raised against all the agricultural produce that Poland might send into Germany.

After a thousand years of close relationship with Germany, no one in Poland expects that she will ever surrender her ambition for world power. Indeed, she is one of the greatest of nations. She has created the world's finest music, her philosophers and poets have risen to the loftiest heights attainable by the human mind, her achievements in science and in industry have been remarkable. It is recognised that a nation hitherto the most populous in Western Europe will not surrender the position which is hers by right. What Poland cannot understand in Germany is a blindness to obvious fact, an obstinacy in the pursuit of aims no longer attainable or contrary to her own best interests, a continued employment of

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methods which are out of keeping with the spirit of the age.

How can she imagine that new plans for the annexation of territory are feasible at a time when her birth-rate is falling, when her people are fleeing from the land into the industrial towns? Even while the expansion of Germany's population was most marked, she dominated Poznanian for a hundred and fifty years and Silesia for six hundred years, yet despite every effort she could not affect the Polish national spirit of the people in those provinces. Does not even a superficial acquaintance with her own trade balances and statistics of production show that Germany must stand or fall by the prosperity or by the ruin of her industry? Yet there seems to be no restraint upon the madness of the German Government's agrarian policies. Is there no one besides Haushofer to recognise the vital necessity of uniting Germany's economic interests with those of the hundred millions who form the greater and lesser agricultural nations of Europe? and can that unity become a living fact otherwise than by peaceful and reciprocal co-operation? Yet all we find is a policy of surprises, like the Customs Union with Austria, which suddenly confront other nations with a *fait accompli*.

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The only possible explanation for these paradoxes of German policy is that the new Germany of the Republic has not yet found her governing *élite*. It must be that, despite all appearance to the contrary, the old rulers of Imperial Germany control the nation in their traditional spirit, for their traditional policies. The Prussian governing class springs from the culture created by the Teutonic Knights. They are hard men, born of the crossing of German blood with the blood of the conquered Elbe Slavs and of the aboriginal Prussians. Mentally and spiritually they are identified with the history of their native soil of East Prussia and Pomeranian Brandenburg. That history is the history of the German sword, of the will to victory reinforced after every defeat, of religion and law serving the dictates of force and cunning. It is the triumph of the mechanical and artificial ideal over the organic, the exaltation of military discipline over civil liberty.

The same history still exerts its great influence upon Germany, despite defeat in the Great War, despite the example presented by Russia of an all-mighty State machine which is complete and yet inhuman. So the question of the future stands posed. Will the truly Republican and peaceful elements of Germany



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be able to resist with success the combined influence of the Prussian *élite* and the Prussian ideal? Will they be able to form, out of the potentially powerful elements and interests of the New Germany, a constructive policy for the restoration of her greatness, not on the basis of conquest and violence but on the basis of peace and co-operation? The answer to that question will decide, in great measure, the future of the Reich and the future of Europe.

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