

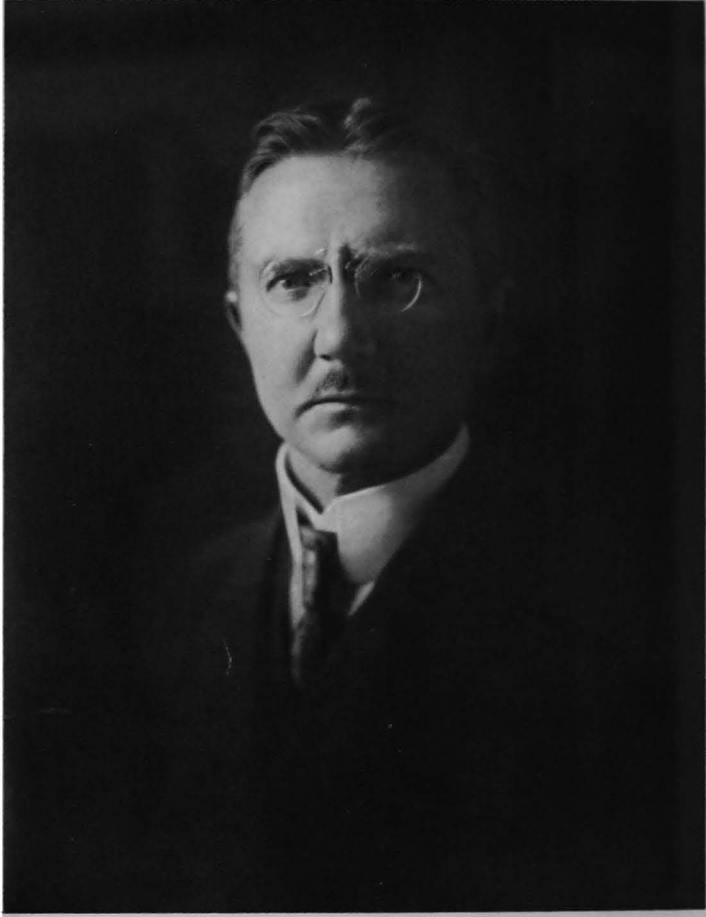
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THE STABILIZATION OF THE MARK



Abraham Schacht

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THE STABILIZATION OF THE MARK

BY

DR. HJALMAR SCHACHT

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PREFACE

THE following pages are concerned with a chapter of modern German history which has aroused the greatest interest in the whole world. Its several phases have been the subject of much controversy, political and economic. It has seemed right, accordingly, in my treatment of the subject-matter to give to it a form which at many points assumes the character of a narrative of personal experiences and an expression of personal views. It was not my intention to write a scientific work. I believe, however, that almost all the essential problems which have arisen in connection with the events are discussed or touched upon in the book. The fact that I was in a position on many points to rely on material which has not hitherto been published will help to render intelligible the mass of phenomena as a connected whole, and will make it possible to check many passing judgments which have been current up till now. May the book as a whole contribute to strengthen confidence in the will and power of the German people in all quarters, and in particular may it contribute to strengthen the growth of mutual confidence between nations, and of the determination in future to avoid political catastrophes by the establishment of a community of intellectual and economic interests and reciprocal good will.

For the collection of material and for much other help I am deeply indebted to the Director of the Statistical Department of the Reichsbank, Dr. Nordhoff, and to his collaborators.

DR. HJALMAR SCHACHT.

BERLIN,
December 1926.

FOREWORD TO THE ENGLISH EDITION

THIS is a book written by a German after a war which brought defeat to his country and a great civilized people to a condition of dependence and subordination; and it is natural, therefore, that it should contain sharp criticisms in many places where the events of the last decade are reviewed. Any reasonable foreigner will, however, understand that a German must view the events and problems of the period differently from a member of any other nation, and will at the same time realize that the book has its inspiration in the sincere desire for understanding between the nations. It was not my intention to criticize individuals, and in so far as critical remarks in regard to individuals are contained in the book, readers are asked to be good enough to bear in mind that for a German—and even perhaps for the general reader—certain happenings are inevitably bound up with the names of certain persons. In any case, the German Inflation can only be understood as part of the general history of the time. May we all learn from the past and emerge from the destructive era of reciprocal hostility into a new constructive period of international well-being.

I would like to express here my especial gratitude to Mr. Ralph Butler, who has, with his intimate knowledge of German conditions and generous sympathy, undertaken the English translation of the book.

CONTENTS

	PAGE
PREFACE	5
FOREWORD TO THE ENGLISH EDITION	7
CHAPTER	
I. THE INFLATION OF THE WAR PERIOD	11
II. FROM THE ARMISTICE TO THE INVASION OF THE RUHR	35
III. FROM THE INVASION OF THE RUHR TO THE STABILIZATION OF THE MARK	61
IV. THE STABILIZATION OF THE MARK	90
V. FROM RENTENBANK TO GOLDDISKONTBANK	121
VI. FROM CURRENCY CRISIS TO ECONOMIC CRISIS	151
VII. THE DAWES PLAN	166
VIII. THE RECONSTRUCTION OF THE GERMAN MONEY AND CAPITAL MARKETS	189
IX. FOREIGN CREDITS	215
X. INTERNATIONAL CO-OPERATION	237

THE STABILIZATION OF THE MARK

CHAPTER I

THE INFLATION OF THE WAR PERIOD

THE German Reich entered on the war with a currency which, alike in respect of its legal basis and its relation to the economic capacities of the German people, took rank with the most solid currencies of the world. The Reichsbank, which was legally responsible for this currency, commanded in and outside Germany the greatest confidence and esteem.

To meet the greatly increased demand for the circulation of media of payment, which the mobilization and the intensified economic effort of the country occasioned, the existing banking legislation was extended at the very outset of the war by a series of new measures. The obligation to redeem the notes in gold was suspended; Treasury bills and bonds of the Reich with not more than three months to run were admitted as part of the bill cover for the notes; and the Note Tax (on all notes issued above a certain limit) was abolished. At the same time the law for the establishment of the so-called Darlehnskassen or Loan Offices created, side by side with the Reichsbank and subject to the latter's administration and control, a new credit institution with the right to issue

token money in the shape of notes (Darlehnskassenscheine) against the pledge of goods, securities, and other objects of value. The Darlehnskassenscheine were admitted as part of the cash cover for the notes.

The greatest importance was attached from the first moment of the war to the increase of the gold holding. All public departments handling cash, in particular the Posts and Railways, passed on the gold coin which they received to the Reichsbank; and the post offices exchanged Reichsbank notes for gold coin on behalf of the Reichsbank. Simultaneously a vigorous propaganda for the surrender of gold was carried on in the Press, the schools, the churches, and elsewhere. The economic insight and the spirit of sacrifice of the population in the face of the war requirements were without parallel. At the same time the difficulties which were to arise later were already throwing faint shadows before them. On September 28, 1914, a decree of the Bundesrat had to be issued declaring all transactions with a provision for payment in actual gold to be invalid, and a further decree of November 23, 1914, punished all premium dealings in German gold coin with imprisonment and fines. The gold holding of the Bank, which on July 31, 1914, was 1,253 million marks, had risen by the end of the year to 2,092 million marks, by far the greater part of the increase being gold coin in private circulation. After this date the influx was naturally slower. On June 15, 1917, the gold holding touched a culminating point with 2,533 millions. This result was achieved by a number of additional measures, such as the prohibition to export gold, the restriction within the narrowest possible limits of the use of gold for industrial purposes, and the purchase (with which a beginning was made in the middle of 1916) of gold

objects of use and ornament. The memorial medal with the inscription

Gold gab ich zur Wehr,
Eisen nahm ich zur Ehr' *

dates from this period. On February 8, 1917, a maximum price was officially fixed for transactions between private persons. The additions to the gold holding of the Bank were, moreover, larger than was shown by the returns, for foreign payments were from time to time made in the precious metal. Altogether it may be taken that more than a milliard of marks in coined gold alone was withdrawn from the internal circulation.

The desire, which was voiced in many quarters under the first impression made by the outbreak of the war, for the imposition of a legal moratorium for payments did not meet with compliance. The Reichsbank, and with a few exceptions the private banks also, declared against the adoption of such a measure. On the other hand, a number of special decrees were issued, designed to come to the relief of cases where payments were delayed without the fault of the debtor. Amongst other decrees of this kind was that of August 8, 1914, providing for the nursing of businesses by a legally appointed authority (Geschäftsaufsicht) without declaration of bankruptcy, a measure which, after the end of the war, was the occasion of numerous abuses.

The record of this period as a whole reveals, as compared with other belligerent countries, an astonishing moral and psychological power of resistance on the part of the German people in the face of the grave economic menace which the World War implied. The uninterrupted continuance of the publication of the Reichsbank returns throughout the entire war is another

* Gold I gave to defend my country,
Iron I took for a badge of honour.

proof of the existence of this spirit ; and the Reichsbank must be given the credit for having displayed both energy and skill in the furtherance of this spirit and the turning of it to account in the manner best calculated to enure to the fruition of the national effort. The part played by the Bank in the issue of war loans for the financing of the war was similar in character. In the first year and a half of the war over 25 milliards of marks, and in the following years of the war an additional 73 milliards of marks, were placed through the machinery of the Reichsbank and subscribed by the German public.

The primary responsibility for the almost exclusive recourse to loans for the financing of the war rests not with the Reichsbank, but with the Finance Ministry of the Reich. It was not until very late in the war, and then only on a very partial scale, that the decision was reached to follow the example of England, where a considerable part of the war expenditure had already been financed by *taxation at the time*. Dr. Knauss, in a study of the German, English, and French war finance, has calculated that in England 20 per cent. of the entire cost of the war was met out of taxation, while in Germany only 6 per cent. was so met, the rest being met out of loans. In France the entire cost of the war was met out of loans, 43 per cent. being raised by internal borrowing, 21 per cent. by foreign loans, and the remaining 36 per cent. by increase of the floating debt.

The German war finance consisted mainly in the Reich satisfying its needs as they arose by the discount of Treasury bills and bonds at the Reichsbank, the floating debt thus incurred being funded (so far as possible) twice a year by the public issue of long-term loans. In the case of the first four War Loans (the

fourth was issued in the spring of 1916) the subscriptions of the public exceeded the debt with the Reichsbank. The amount raised by these four loans in excess of the floating debt in Treasury bills was 6.6 milliards of marks. With the fifth War Loan the subscriptions fell below the floating debt, leaving 2.1 milliards of the latter unfunded. With successive further loans this unfunded debt gradually increased to 39 milliards.

What the public at large, and all but a very few of the country's economic leaders, failed adequately to appreciate was the fact that inflation on a heavy scale was the concomitant of the whole of this form of war finance.

At the outset all that was apparent was a marked increase in the note circulation at the end of July and beginning of August 1914. In peace-time the circulation had fluctuated round about a total of 2 milliards of marks. Soon after the initial increase at the outset there was a lull, and down to November 1914 the circulation remained in the neighbourhood of 4 milliards. When it is remembered that very nearly a milliard of this increase was represented by notes put into circulation to replace the gold withdrawn from current use, these figures for the initial months of the war are seen to be still within normal limits. In December 1914 there was a rapid rise; and at the end of the year the total circulation of all media of payment, that is to say Reichsbank notes, Reichskassenscheine, Darlehnskassenscheine, notes of the private banks of issue, and small coin, amounted to 7.2 milliards of marks as against about 6.0 milliards at the beginning of the year; but the latter figure includes the gold in circulation, which the former figure (7.2 milliards) does not. In view of the large sums paid out to the troops in the field, the effect of which was inevitably to lower

the *rapidity* with which the media of payment circulated, the total of 7·2 milliards cannot be regarded as a symptom of inflation. In the following year the total had risen (on December 31st) to 9·7 milliards, and by the end of 1916 to 12·9 milliards. The rate of progression of the increase had therefore risen. In the next year (1917) the effects of the so-called Hindenburg Programme, under which industry was stimulated to maximum efforts by highly remunerative prices, were seen in the circulation figures. At the end of 1917 the total circulation was 19·5 milliards. On November 7, 1918, at the close of hostilities, it was 28·4 milliards, 17 milliards of this total being Reichsbank notes and 9·6 milliards Darlehnskassenscheine.

The figures reveal the fact that the circulation per head of the population had risen during the war from about 110 to about 430 marks. The steady decrease of the stocks of commodities in the country as the result of the blockade was accompanied by a nominally increased, but really reduced, purchasing power of the distended circulation; and this reduction of purchasing power, of which the increase in the cost of living was the expression, gathered momentum as it went. At the same time the necessity of importing as many commodities as possible through neutral countries made it necessary to give marks in payment to foreign countries, even at a discount on the exchange. The movements of the prices of commodities on the one hand and of the exchange on the other were the two essential indications by which the inflation could be detected. So long as the additional purchasing power, which the increase in the circulation represented, was devoted to the purchase of war loans or the bonds of the floating debt, the dangers of the inflation were still held more or less in check. But as the war went on the Reich

got less and less of the benefit of the additional purchasing power—which it had itself created—in the form of purchase by the public of its loans and Treasury bonds. By December 31, 1917, not less than half of the total of 28.5 milliards of Treasury bonds issued were left on the hands of the Reichsbank, and on November 7, 1918, at the end of the war, the total floating debt of the Reich, in the form of discounted Treasury bonds, was 48.5 milliards of marks. Of these 48.5 milliards, 19.2 milliards were held by the Reichsbank for its own account, and a corresponding amount of notes had, of course, been put into circulation.

The inflation, which thus originated in the war, could undoubtedly have been kept within narrower limits by heavier taxation of the population. But although the financial year 1914-15 already showed a reduced yield from taxes, customs, and publicly owned undertakings of some 300 million marks, and an increased expenditure of over a milliard marks for interest on the debt, nothing was done to increase the revenue of the Ordinary Budget. On the contrary, one-half of the current Army and Navy expenditure at the outset, and later the entire cost of the war, including the peace-time expenditure, was thrown on the Extraordinary Budget (War Costs Budget).

Down to the year 1916 the position was exactly as in France, not even the Ordinary peace-time expenditure being covered out of revenue. On August 20, 1915, Secretary of State Helfferich could still declare in the Reichstag: "We do not mean during the war to increase by taxation the gigantic burden on the shoulders of our people, so long as there is no pressing need for us to do so." Eight days later he rejected the demand for a tax on war profits with the words: "The taxation of war profits is not yet ripe for submission to the

legislature ; and I may add that we take the view that such a tax cannot be imposed until the war is over, since it will not be possible until then to survey the financial effects of the war." It was in the course of the same sitting of the Reichstag that the ominous remark was made with regard to the dead weight of the milliards which, if God gave us the victory, those who provoked the war would have to carry for decades to come.

It was not until the year 1916, when the deficit in the Ordinary Budget estimates had risen to 300 million marks, that a war profits tax and a number of taxes on consumption and business (increase of the tobacco duty and the stamp on way-bills, increase of postal and telegraphic charges, and a new tax on commercial turnover) were at length introduced. All the legislation imposing these taxes was passed in June 1916. Helfferich, in his book,¹ speaks of the opposition of the Reichstag to the taxation proposals of the Government ; but the opposition of the Reichstag was confined to the taxes on business and consumption, while in the case of the war profits tax the rates proposed by the Government were considerably increased by the Reichstag in the course of the debate. Further taxes on consumption were imposed in 1918.

The war-time taxes of Germany, unlike those of England, were principally levied on consumption and not on income or the formation of capital. In the extent to which she imposed taxation during the war, England went further than any other country. In addition to increasing important imposts on consumption, England doubled the Income Tax rates as early as the autumn of 1914, increased them by a further

¹ Helfferich, *Vom Kriegsausbruch bis zum uneingeschränkten U-Boot-Krieg*, pp. 161 ff.

40 per cent. in September 1915, and again increased them in April 1916. In France a general tax on income was, it is true, introduced—there had been no income tax at all in France up to that time—and a number of taxes on consumption were increased; but the revenue from these sources was not sufficient even to balance the normal peace-time budget. While England by the heroic taxation, of which she was with justice proud, was able to maintain order in her finances throughout, Germany has had to pay heavily for the mistaken financial attitude she took up, and France has still a bitter pill to swallow if she is to make good her fiscal sins of omission. At the beginning of the second year of the war (on September 25, 1915) the *London Economist* wrote: "But a war on this scale, which is plunging thousands of families into mourning week after week, ought not to be surrounded and accompanied by an atmosphere of general prosperity, of war bonuses for the working classes, or of huge war profits for the contractors and for those who manufacture for the Government." And still earlier in the war, in his Guildhall speech on June 29, 1915, Asquith recognized that every fraction of income expended on objects not actually essential for the livelihood of the recipient was a dead loss in the financing of the war. In Germany the rising wages of the workers who were not sent to the front, and the rising profits of the entrepreneurs, delayed the recognition of the economic wounds which the war inflicted on the community as a whole.

If Germany had not been almost entirely cut off from the natural exchange of commodities with the rest of the world, and if what exchange of commodities there was had not been subjected to artificial regulation by the system which it became necessary to introduce of governmental control, the index of commodity prices

would have been bound to show the extent of the inflation. Undoubtedly the system of governmental control of the staple commodities was a necessary consequence of the economic situation in which the war placed Germany. But the arbitrary character of the control abruptly disturbed the natural connection between commodities, rents, and wages. On August 4, 1914, the first legislation was passed for the control of prices, the Government being empowered to fix maximum prices in the case of certain commodities, notably food and fodder stuffs, raw materials and heating and lighting materials, with penalties for exceeding the limits fixed. This measure was followed by a number of others giving the Government the right to commandeer for its own purposes stocks of every kind, with the inevitable result that commodities were held back and concealed as much as possible, making new measures of compulsion necessary. The control and the penalties had continually to be made more severe. Smuggling became more and more prevalent and necessitated fresh counter-measures.

In spite of everything, increases of wages and prices could not be avoided. The statistics in view of the artificial conditions described, and the circumstances of the war, can only be used with appropriate qualifications; but some indication of the position is to be found in the recorded movements of the index number of wholesale trade. Taking the average figure for 1913 as 100, the average figure for 1914 works out at 105, and the average figures for the four following years at 142, 152, 179, and 217 respectively. In November 1918, at the close of the war, the figure was 234. The price of rye (average for the year) rose from 164 marks per 1,000 kilogrammes in 1913 to 305 marks in 1918; and raw iron from 82 to 223 marks. An egg

cost 9 pfennigs in Berlin in 1914, and 48 pfennigs on the average of the year in 1918. The index numbers of workmen's wages show analogous movements. Taking August 1914 as 100, the figure at the end of the war is 248. Had there been no system of governmental control, all these increases would no doubt have been considerably higher.

The movements of the foreign exchanges were conditioned by artificial factors no less than the prices of commodities, and are for this reason useless as a barometer of the inflation. The shackles in this case are to be found in the legislation with regard to Devisen (foreign exchange) dealing. A decree of January 20, 1916, centralized all foreign exchange dealing in Germany. Twenty-six banks in Germany, headed by the Reichsbank, were given the right to buy and sell Devisen directly ("Devisen banks"); other banks could only do so on commission. The Reichsbank was empowered to approve or disallow the delivery of Devisen to purchasers; it in part retained its powers and exercised them in individual cases, in part delegated them to the other Devisen banks. By another decree of February 8, 1917, claims and credits in foreign currency and mark payments and sales and mark credits with foreign countries were placed under the control of the Reichsbank. All these measures were necessary measures; and the more unfavourable the German balance of payments became with the restriction of export possibilities, the cessation of interest payments on German capital invested in foreign countries, and the increasing necessity to import raw materials, the more necessary they were.

Another thing which gave the Reichsbank a direct influence on the exchange was its support of the mark by the sale of Devisen on German stock exchanges

and the purchase of marks abroad. In the course of the whole war the Reichsbank sold altogether nearly 450 million gold marks in support of the mark exchange in Holland, Sweden, and Switzerland.

Another means of counteracting the depreciation of the exchange was placed in the hands of the Imperial Chancellor by the decree of March 22, 1917, under which foreign securities in private possession had to be surrendered to the Reich. The first step was a census of foreign securities by the Reichsbank and the cession of the same to the Reich—voluntarily at the outset—on loan. Eight weeks later a list of Swedish, Danish, and Swiss securities was published, the surrender of which, to serve as a basis for foreign credits, was made compulsory. With the same object of obtaining credits, German securities ceded to the Reich on loan were pledged with foreign countries on an extensive scale.

Lastly, it should be borne in mind that foreign speculation in the mark by no means always tended to depress the exchange; frequently it operated in the opposite direction. Open attacks on the mark by "bear" operators, with the support of the enemy countries, can be traced only at the beginning of 1916. The political sentiments of the foreign public were a strong contributory factor in the movements of the exchange. In the summer of 1915 it was reported that holders of German securities in Switzerland were having the interest payments as they fell due credited to their mark accounts in expectation of a subsequent rise of the mark. In December 1917 and the following months persistent peace rumours were in circulation, and the mark exchange improved appreciably, and did not lapse again until after the unsuccessful German offensive in the spring of 1918.

For a certain period the Belgian Comité National de

secours et d'alimentation, which organized the supply of food-stuffs to the occupied parts of Belgium, in conjunction with the American Commission for Relief, contributed to depress the mark in foreign countries. Where other foreign currency was not available, the Comité National employed for preference the German marks to hand in occupied Belgium for its foreign purchases. Partly with the assent of the German authorities and partly through the smugglers' hands, the agents of the Committee transferred large quantities of marks from Belgium to Holland for food purchases. A paper on *Germany's Economic Position under the Working of the Effects of the World War*,¹ published by the Statistical Office of the Reich in March 1923, gives a conspectus of the German balance of trade and balance of payments during the war. The writer calculates that Germany had an adverse balance on her foreign trade for the whole period of the war of approximately 15 milliard gold marks. He estimates that, to cover this adverse balance, about a milliard marks' worth of actual gold left the country, the great majority of which came from the Reichsbank. In addition, he estimates that about 3 milliard marks' worth of foreign securities and 1 milliard of German securities were sold to foreign countries. Of the remaining 10 milliards of gold marks, one-third (he considers) was covered temporarily by foreign currency credits, while the remaining two-thirds were financed either by the assumption of new indebtedness (in marks) or by the purchases of mark notes and mark balances by foreign speculators. In spite of all the efforts and artificial measures in support of the exchange, the mark fell during the war in foreign centres very appreciably. At the time of the entry of the United States into the

¹ *Deutschlands Wirtschaftslage unter den Nachwirkungen des Weltkrieges.*

war it stood at two-thirds only of its par value, and at the close of the year 1918 at one-half only of its par value.

Another source of inflation, which in the period after the war assumed dimensions of a positively grotesque character, also made its appearance during the war. Immediately after the outbreak of the war an acute shortage of small coin and notes was experienced, mainly in connection with the requirements of the Army. An attempt was made to remedy the position by the decree of August 31, 1914, which ordered the issue of Darlehnskassenscheine for 1 and 2 marks. Before these could be printed it was found necessary to have recourse, particularly in those parts of Germany which were near the theatre of war, to the temporary issue of what was known as Notgeld or emergency money. This emergency money, in small denominations from 5 pfennig to 3 marks, was put into circulation by a great variety of bodies (some 200 municipalities, districts, and Savings Banks, and more than 100 industrial companies and other private bodies). The total issue of this money at first was only a little over 10 million marks. But towards the middle of 1916 the rise in the cost of living, and the continual extension of the area of military operations, led to a new shortage of small notes and coin, the stringency being intensified by the withdrawal of nickel and copper coins from circulation (the metal being required for war purposes) and the hoarding of silver coin. The silver holding of the Reichsbank, which in 1915 still averaged about 40 million marks, had fallen by the last quarter of 1916 to about 17 million marks, while the holding of nickel and copper coins was reduced from $3\frac{1}{2}$ to $\frac{1}{4}$ millions. Relief was sought in the minting of 5 and 10 pfennig pieces of iron and zinc, and by authorizing further

issues of Notgeld, principally in denominations of 50 pfennig and under. The issuing bodies included, besides the public and private institutions enumerated above, a number of banks, Chambers of Commerce, and the like, in all 2,251 in number. The issues made by these bodies during this period—which continued until long after the close of the war (Law of July 17, 1922)—probably totalled something like 300 million marks: they were covered by a blocked credit for that amount at the Reichsbank. Towards the end of the war the increasing economic pressure, coupled with the periodical shortage of Reichsbank currency, led to the hoarding of bank notes; and as a remedy all revenue offices and other Government departments handling cash were ordered by decrees of October 16 and 29, 1918, to accept industrial Notgeld (Notgeld issued by industrial firms) in payment. On October 22nd, for the same reason, the interest coupons of the war loans were also made legal tender.

The enormous extension of the economic area, as a result of the carrying of military operations into the countries surrounding Germany, made it necessary to provide for an adequate supply of currency in each of the territories occupied by the German troops. The currency requirements of the troops alone in these regions were extremely large, and the circulation was, of course, extremely slow, so that large amounts of German currency had to be held permanently in these parts. The consequent increase in the note circulation was a serious source of danger to the Reichsbank. The idea of substituting other currencies for the German Reichsbank note arose out of the accident of the circumstances with which the German military authorities found themselves confronted in Belgium in the first few weeks of the war.

When I was called to Belgium in the first part of October 1914 to work in the Banking Department of the German Administration in that country, the first piece of information I received from the Commissioner of the Banking Department, Geheimrat von Lumm, was that the Belgian National Bank had removed the blocks for the notes and the rest of the note-printing machinery and placed them in safe keeping abroad before the entry of the German troops. Herr von Lumm rightly concluded that it would be necessary in the circumstances to take steps for further issues of notes to meet the increased demand for media of payment. This increased demand came, it is true, not merely from the Belgian population, but also very largely from the German occupying troops. But the occupying troops were entitled under the Hague Laws of Land War (Articles 43, 48, 49, and 52) to provide for their maintenance by requisitions in the country. Requisitions, if exacted in kind, were bound to involve heavy hardships for the population; and I accordingly urged at a very early date that, to avoid friction, it would be desirable to substitute periodical money payments by the Belgians for requisitions in kind. The leading Belgian civil personages recognized the advantages of this proposal for the Belgian population, and offered their assistance in its execution.

After long negotiations, enlivened by various minor dramatic incidents, the nine Belgian provinces (acting in the place of the Belgian State, which in the circumstances was not in a position to negotiate) declared their willingness to issue a loan of 480 million francs, from the proceeds of which a monthly sum of 40 million francs was to be paid for the costs of occupation. As the result of an agreement with the Belgian National Bank and the Société Générale de Belgique, a bank

note department was attached to the latter and given powers to issue notes in lieu of the National Bank; and the 480 million francs of provincial bonds were then transferred to the hands of the said department, and became the basis of the note issue. Later the Société Générale de Belgique placed notes in circulation which were covered by a corresponding mark balance at the Reichsbank, and the Reichsbank at the same time took steps to withdraw the Reichsbank notes in circulation in Belgium and return them to the Reichsbank. Under the terms of the Armistice the entire mark balances accumulated at the Reichsbank as cover for the Société Générale notes were handed over *en bloc* in marks to the Belgian Government: they totalled 1,600 million marks. There were naturally also a good number of Reichsbank notes in the hands of the Belgian population at the time of the Armistice as a result of the dealings of the population with the German forces. Continued negotiations took place subsequently between the Belgian and German Governments with regard to these notes, the amount of which was increased in subsequent months to something like three times the original total by smuggling on a vast scale, for which the Belgian commutation of the mark—at 1·25 Belgian francs to the mark—provided the occasion. A settlement in the matter was not reached until the all-inclusive payment clause of the Experts' Report at length put an end to all claims for reimbursement of the value of these mark notes by Germany to Belgium.

The solution reached in Belgium, that is to say the issue of bank notes by the Société Générale, involved no increase of the Reichsbank's own circulation. It is true that the inherent danger of inflation was not thereby eliminated: the danger of inflation was inseparable from the accumulation of Giro balances, which under

normal conditions could have been transformed into notes at any moment by the holders, and did in fact end on the cessation of hostilities in the transfer of 1,600 millions of notes.

In the thickly populated region of Northern France the conditions were different to the extent that here nearly all towns issued municipal emergency money of their own. Not only the larger cities, but the small and medium communes also, almost all printed notes—as a rule without cover of any kind—and put them in circulation. The contributions levied in Northern France were paid mostly in these notes, and this municipal money was used by the troops on the spot and remained in circulation throughout the course of the war, though not without a heavy discount in value.

Similarly, in the occupied territory coming under the German Supreme Command in the East, a number of cities (for example Libau, Mitau, and Bialystok) began to issue municipal notes, and others were anxious to follow their example. In view of the comparatively small density of population of these territories the rate of circulation of these notes was very much more limited than that of the notes issued in Northern France. Accordingly, on April 17, 1916, the German Ostbank für Handel und Gewerbe in Posen was empowered to establish a Darlehnskasse in the Russian Governments of Sувальки, Kovno, Vilna, Grodno, and Courland, with its central office in Kovno. This Darlehnskasse was given the right to issue notes in roubles, for which German bank notes and short-term treasury bills and credit balances with German banks were admitted as cover. On January 16, 1918, the whole of this machinery, which up to then had remained in private hands, was taken over by the purely military Darlehnskasse Ost. The cover provisions remained the same. Under a

decree of May 30, 1917, the Reich guaranteed the redemption of the notes of the Darlehnskasse Ost at the rate of 2 marks to the rouble. At the end of the war there were approximately 1 milliard of these "Ostmarks" in circulation. The Darlehnskasse continued to function under the Lithuanian State Council when the latter took over the government, and remained in being until the new Lithuanian central bank of issue began operations on October 1, 1922.

Similar machinery was set up in Poland by the establishment of the Polish Landesdarlehnskasse in Warsaw under a decree of December 9, 1916; and this body began operations with the issue of its own notes on April 26, 1917. The notes were made out in "Polish marks" equivalent in value to the marks of the Reich. The cover consisted of German money. The German Government guaranteed redemption of the notes, as and when called in, at their nominal value in German marks. The circulation of the Landesdarlehnskasse notes amounted at the end of the war to some 880 million marks. The Landesdarlehnskasse was then taken over by the Polish Republic and conducted as a provisional national bank. An agreement between Poland and Germany in the matter was reached in the Convention of December 18, 1922.

When Rumania was occupied, the Rumanian National Bank and almost all the credit institutions and revenue offices of the country removed their holdings of cash to Moldavia, with the result that the occupied territory was without any media of payment whatever. The conditions were similar to those in Belgium. The Occupying Powers accordingly, by decree of December 13, 1916, attached a note issuing department to the Banca Generala Romana, with powers to issue lei notes against a mark

balance at the Reichsbank, 80 marks being held at the Reichsbank for each 100 lei issued. The issue of these notes was under the administration of the military authorities, and was conducted on behalf of all the four Central Powers. At the close of the war, if a memorandum submitted by the Rumanian Government to the League of Nations is correct, there were something under $1\frac{1}{2}$ milliard lei of these notes in circulation. The Rumanian Government took up the same attitude in regard to these notes as the Belgian Government had done in the case of the mark notes in Belgium. In repeated negotiations it endeavoured to obtain the reimbursement of the notes by Germany, until an end was put to these efforts also by the Dawes Plan.

Similarly, in the occupied territory in Northern Italy, a new currency, the so-called "Occupation lira," was created by the Occupying Powers under a decree of March 3, 1918: it was issued by the Casa Veneta dei Prestiti in Udine. Its cover consisted, amongst other things, in deposits of Austrian crowns or German marks, 95 crowns or a corresponding amount of German marks at the current krone exchange being placed to a blocked account, the crowns with the Austro-Hungarian Bank and the marks with the Reichsbank, for each 100 lire issued. The total amount of these Occupation lire in circulation was probably over 300 million lire. They were redeemed at the end of the war by agreement between the Austrian and Italian Governments.

These various arrangements all show how the Reichsbank endeavoured by every means in its power to stave off the immoderate increase of its circulation, which the abrupt extension of the economic area of the German mark threatened to produce. As, however, nearly all these issues of substitute notes were based

(almost to their entire amount) on deposits at the Reichsbank or treasury bonds of the Reich, the burden of them rested in effect on the Reichsbank's shoulders, even if the issue of Reichsbank notes was in form avoided; and the effect on the Bank's position could not be other than adverse. To say so much is in no sense to criticize. If any development of currency policy during the war was imposed by the compulsion of events, it was this; and it is impossible to deny the unmistakable skill with which the Reichsbank faced the difficult conditions with which it found itself confronted. The justification of the measures adopted would have been apparent if the war had ended otherwise than it did, even if the result had been only a neutral peace.

In its capacity as the central source of credit for industry and trade the Reichsbank played but a slight part during the war. At the outbreak of the war the bill holding of the Bank was about 2.1 milliards of marks. By the end of the war it had sunk to about 300 millions, which sufficiently shows that practically no demands were made on the Bank by industry and commerce during this period. The bountiful flow of money from the coffers of the Treasury into the pockets of the producers made any demand for credit, practically speaking, superfluous. This was so even in the case of the Darlehnskassen, which had been created on a lavish scale to serve as credit institutions (side by side with the Reichsbank and under the control of the latter). The special impulse which was later given to their activities arose from the fact that the Darlehnskassenscheine were admitted as cover for the Note Issue; the credits which they granted to Banks, Trade, Industry, and Agriculture for purely economic purposes—excluding the so-called "Advances for subscriptions to War Loans"—amounted only to a moderate total.

At the end of the war, on November 7, 1918, these accounted altogether for only some 500 million marks, whereas the whole of the credits granted by the Darlehnskassen, including those which were taken up for the purpose of securing cover for issues of notes, had increased on November 7, 1918, to 12.9 milliards.

From what has been said of the demand for industrial credits during the war, it will be readily understood that the discount policy of the Bank during that period had little influence on the situation. It is only in the first days after the outbreak of the war that interest attaches to the discount policy of the Reichsbank. The Bank of England raised its discount rate on July 31, 1914, at a blow from 4 to 8 per cent., and increased it on the following day by a further 2 per cent. Its action at this juncture was undoubtedly a severe shock to the English economic structure. The action of the Reichsbank, on the other hand, in increasing its rate only from 5 to 6 per cent. was a demonstration to the entire German economy of calm and reasoned strength, and contributed largely to prevent the population in those early days from losing its head and giving way to panic. By December 23, 1914, the Reichsbank was able, in the absence of a demand for industrial credits, again to reduce its rate from 6 to 5 per cent., and at this figure it remained until long after the close of the war. Its policy in this respect will hardly be criticized. It was the methods adopted by the Government for the financing of the war which were responsible for a state of things in which the business community was permanently swimming in money.

It is particularly interesting to note that even during the war attention was called from very various quarters in and outside Germany to the false methods of German war finance. The British Chancellor of the Exchequer,

Mr. McKenna, in an interview with the London correspondent of the *New York World*, as early as November 1916, contrasted the different methods of Germany and Great Britain for financing the war, and concluded with the prophecy that after the war Germany would have unparalleled difficulties with her exchange. At the beginning of August 1917 the London *Economist* wrote of the German war finance as follows :

“To meet this ‘war expenditure,’ the authorities have still, during the third year of the war, relied entirely on borrowing. New taxation has been introduced, as in the second year of the war, but, as before, this has been done nominally for no other purpose than to balance the ‘normal Budget.’” This policy the *Economist* described even then with the words “a policy of inflation.”

Particular interest attaches to some comments which appeared in an article in the *St. Galler Tageblatt* in May 1917, because of the fundamental political issues on which the writer touches. The article in question makes the point that there is no better proof of the genuine character of a democracy than its finance, and especially its finance in time of war. In all the belligerent countries the soldiers were willing to die ; but as soon as it was a question of loosening the purse-strings differences made themselves apparent. The English people was prepared for financial as well as personal sacrifice. The German people, on the other hand, was given no such call to sacrifice by its officials. The fundamental mistake of the undemocratic system, under which the rulers of the country are independent (unlike their counterparts in democratic countries) of control by the public, was here shown. Secretary of State Helfferich built up his entire system of war finance on the shifting sand of a personal belief in the rapid victory

of Germany. His failure was based on his inability to recognize the moral factors. In a democratic country the financial expert is generally spared such errors, because he is compelled continually to study the effect of his actions on popular feeling.

But even inside Germany, particularly from the year 1917 onwards, there was no lack of voices to protest against the war finance of the German Government. These criticisms did not emanate from Social-Democratic circles only. The Democratic leader, Herr Dernburg, speaking at the Conference of the Progressive Party in Baden in November 1917, took the opportunity to attack the results of the German Government's financial policy in extremely severe terms, and he, too, demanded even at that time greater publicity and more parliamentary co-operation and control.

CHAPTER II

FROM THE ARMISTICE TO THE INVASION OF THE RUHR

ON December 4, 1917, Woodrow Wilson, President of the United States, declared that the war ought not to end with an act of revenge of any kind, and that no people ought to be deprived of their possessions or penalized on the ground that the irresponsible rulers of their country had done grave wrong at some earlier period. On January 8, 1918, the Fourteen Points were put together, and were followed by a speech on February 11th, which pronounced against annexations or indemnities or any form of compensation for injuries having the character of a penalty. On October 5, 1918, the German Note with the request for peace negotiations was dispatched to the President. Exactly one month later the Allies declared themselves ready to make peace on the basis of the President's principles. On November 11, 1918, the Armistice Convention was concluded.

From this moment onwards, for a long time to come, Germany was to be the prey of arbitrary international action. But these consequences were still in the future and hardly to be foreseen when, with the outbreak of internal disorder, a situation of more immediate and direct emergency arose. On November 9, 1918, the old system of Government in Germany was forcibly overthrown; the Emperor and the Federal Sovereigns were compelled to abdicate and a revolutionary Council of Commissioners of the People assumed the reins of power. I imagine that the majority of German business

men were taken, as I was, by surprise—in spite of the growing pessimism of the later months of the war—by the extraordinarily rapid march of events. The old regime had maintained itself in Germany for so long only because it coincided with a period of unprecedented economic expansion. The majority of Germans, and especially the economic leaders of the country, had troubled themselves extremely little with politics, and least of all with foreign politics. Now all at once the German citizen was faced with the necessity of taking his fate into his own hands, in the political no less than in other spheres. The spectre of Bolshevism, more menacing even than the external situation, suddenly raised its head. The bourgeois element was entirely excluded by the revolutionary Government from power; and the only question was whether the extremist form of Socialism in more or less Bolshevist shape, or the moderate form of Socialism, which clung to democratic forms of Government, was to prevail.

I had, it is true, on occasion been concerned before this with the public treatment of general political questions. From my earliest youth I had thrown in my lot with the democratic system of ideas, which in terms of the party politics of that date went by the name of "Liberal." In matters economic I was a firm advocate of a capitalistic individualism balanced by a strong sense of social responsibility. When at mid-day on Saturday, November 9, 1918, I went out on the street and saw the "Reds" careering, unchecked, along the streets in motor lorries, wildly brandishing their rifles and tossing their arms in the air, men and women shouting at one another the while, the firm conviction was borne in upon me of the need for immediate action to establish internal order in the country. The very next day (Sunday, November 10th) a group of persons

of like mind with myself met together for an initial discussion, and on the same day we decided on the formation of a Democratic Party. On November 16th there appeared an appeal for the formation of the Party, the greater part of which was drafted by Theodor Wolf. The object of our efforts was in the first instance to replace the revolutionary regime by a form of Government based on general popular election. Accordingly we demanded immediately the holding of general elections for a national assembly; and in the election campaign which followed every effort was made to save the country from lapsing into a purely Socialist-Bolshevist phase by the concentration and affirmation on the widest possible scale of all democratically minded elements.

In a first appeal to the electors, which was approved by the Party management, I formulated the essential demands of the Party as follows: restoration of law and order, announcement of the earliest possible date for elections to the national assembly, establishment on a constitutional basis of a German Republic, heavy direct taxation, and maintenance of private property and the individualist economic system. In the field of foreign politics the appeal said: "The policy of militarism and force here, there, and everywhere has brought us into this war. The rule of justice amongst the peoples must begin. We demand a foreign policy which is based on the spirit of lasting peace and at the same time assures the place of Germany in the world. The world must be shown that the strength of the German people cannot be left out of account in perpetuity. We desire our delegates, who are to negotiate peace, to speak as befits the representatives of a people which has succumbed to enormously superior force but is to-day a free and independent nation."

It may be said at once that it was primarily the vigorous efforts of the German Democratic Party which gave the non-Socialist elements (and especially the parties standing farther to the Right, whose leaders completely disappeared from view in the first moments of the collapse) the courage once more to assert themselves, and in the elections to the National Assembly left the Social Democrats and other elements still farther to the Left in a minority. If the attitude of the Democratic elements in the field of foreign policy had received only a modicum of support from the enemy Governments, the European world would not have been called upon to pass through the economic chaos of the next five years. Germany, no doubt, was the greatest sufferer in that chaotic period; but is there a single reasonable statesman who will be prepared to say that the other countries derived any benefit therefrom?

A great part of the moral and economic strength still remaining to the German people was absorbed in the coming months by internal struggles. On December 7, 1918, the first organized Communist disturbance was engineered by the group which operated under the name of "Spartacists." The disturbance was repeated in the second week of January 1919, and the trouble subsequently spread to other parts of the Reich. In the first half of March 1919 the Socialist Government engaged in desperate and bloody struggles with the Communists in Berlin. In April the so-called Soviet Republic established itself in Munich and maintained its position for a whole month. General strikes in Berlin and in the Ruhr—a railway strike and numerous similar upheavals—immeasurably increased the difficulties of the Government. Those of us who have known and felt the terrible convulsions of the German body politic during this time must marvel, when they look back

on it, at two things: (1) The lack of political insight on the part of our enemies, who by the prolongation for months on end of the hunger-blockade incurred a heavy share of the blame for the Bolshevistic happenings in Germany; and (2) the amazing inner moral strength of the German people as a whole, which never lost its sense of law and order and in the end, in spite of all obstacles, re-established both. Abandoned by the entire world at one of the worst moments in the world's history, the German people, thanks to this inner moral strength, performed a service to civilization, and thereby to the other peoples of the world, which it is left to later generations fully to appreciate.

With the conclusion of the Armistice began the imposition of new and extraordinary economic charges on a country already weakened by war and revolution beyond all bearable limits. Within a more than brief interval a huge number of locomotives, railway wagons, motor-cars, and ships had to be handed over; the costs for the maintenance of the occupation troops had to be met by the German Government; and the economic blockade of the German frontiers was still maintained. To prevent the effects of the revolution on the internal money and capital markets from assuming the dimensions of a catastrophe, the People's Commissioners announced at the outset that there was no intention to confiscate bank and savings bank balances or to cancel the war loan debt. Measures were taken at the same time to prevent capital leaving the country.

The situation of the German population at this time is shown by the fact that at the beginning of February 1919 the weekly ration of potatoes had to be reduced to 5 pounds per head. The provision of food-stuffs had become an imperious necessity. It will always be a blot on the record of our opponents that not only

full payment in gold or foreign securities was demanded for the most essential food-stuffs, but the quality of what was delivered was unspeakably bad and dangerous to health. The Reichsbank, during the first half of 1919, handed over more than a milliard marks of gold in all to the Allies for food-stuffs. The exactions in this connection can only be described as petty and huckstering exploitation of the severest military pressure to which a people has ever been subjected. At the end of March the Food Ministry was forced to announce that the rationing of the most important food-stuffs would have to continue for the whole of 1919. The dictated peace of Versailles was signed by the German delegates on June 28, 1919; but it was not until fourteen days later that the blockade was raised by the Allies.

So far as the exchange of the mark was concerned, the fact of the cessation of hostilities produced at first a rather calmer attitude in foreign countries. But, as the intention of the Allies to extort the highest possible payments from Germany without troubling themselves about President Wilson's promises became clearer, the mark exchange declined. A table can easily be compiled for the years that followed to show how each new application of political pressure by foreign countries was followed by a depreciation of the mark. A particularly unfavourable influence throughout was the complete uncertainty which for long prevailed, not only as to what Germany would be in a position to pay, but even as to what the Allies would demand. The dictated peace itself proposed that the total indebtedness of Germany should be announced on May 1, 1921, that is to say, nearly two years later. Until that date complete uncertainty prevailed as to the ultimate amount of Germany's obligations.

Nevertheless, the German Government proceeded with the greatest energy immediately after the signing of the dictated peace to set about putting the internal finances in order. On July 21, 1919, it introduced the collection of the Customs in gold. On September 10th the law for the imposition of a war tax on increment was promulgated, under which war profits were taxed with extreme severity, the entire capital being confiscated in the case of very large profits. At the same time an extraordinary war tax for the year 1919 only was imposed on legal persons (corporations), and a heavy system of succession duties was created, under which even close degrees of relationship were subjected to taxation. The taxes on matches, playing-cards, and tobacco were heavily increased. On October 12, 1919, a new Reich tax on the conveyance of landed property was introduced, and on December 24th the law establishing the tax on turnover, including the so-called "luxury tax," was passed. On December 31, 1919, a non-recurrent levy on capital was ordered in the shape of the Reichsnotopfer or "Sacrifice in the Hour of the Country's Need." In March 1920 the entire system of taxation was remodelled, the principal change being the transference to the Reich of the income tax, hitherto collected by the Federal States and Communes, and the rearrangement of the same. At the same time laws were promulgated imposing a tax on the yield of capital and a tax on corporations. In June 1920 came the law for the deduction of income tax from wages and salaries.

Frequent changes were later made in these taxes by provisions for more rapid collection and the introduction of anticipatory payments, in the hope of making the revenue keep pace with the depreciation of the mark. On April 8, 1922, a comprehensive revision of

the existing taxes took place. A compulsory loan was announced, and a recurrent tax on real and personal property and another on increment were imposed, while the corporation tax and the turnover tax were heavily increased, the various taxes on the movement of capital were remodelled, and a number of new or increased minor taxes were proposed.

The upshot of all these efforts could not be other than inadequate. The perpetual menaces, political, economic, and financial, which were suspended over Germany's head, would not allow of any real productive effort on her part. All these fiscal measures, desperate as they were, could not arrest the depreciation of the mark; and with the progressive depreciation the revenue of the country remained continually below the expenditure.

The economic weakness of Germany, as a result of her extraordinary efforts during the war, was such as to make it essential that her resources should be carefully nursed directly after the Armistice, if the country was to pay war indemnities and the inevitable resumption of economic relations with other countries was to take place. But in the other countries immediately after the war the atmosphere was so filled with hate, and the falsehoods with regard to the German "Hunnishness" and the alleged German atrocities and crimes had become with the lapse of years so deeply embedded in the popular consciousness, that the way back to truth and reason was not to be found in a moment. Those who behaved worst were often those who had least occasion to do so. In March 1919 I arrived as Chairman of a Commission for the delivery of commodities to negotiate with a similar Allied Commission in Rotterdam. I shall never forget the ridiculous impression I received when I called at the American Legation at the Hague

to inquire as to the address of an American member of the Commission. An attaché came out to me with my visiting card in his hand and asked me: "Are you a German subject?" I replied that I was. Upon which I received the laconic answer: "Then I cannot speak to you." As I opened my lips to ask for an explanation, he again said: "I cannot speak to you." Upon which I turned on my heel, exclaiming in good Berlin accents, "*Na denn nich!*" and left that house of diplomacy. Such was the mentality three months after the Armistice, and it was years and years before it showed even slight signs of improvement.

The Treaty of Versailles is a model of ingenious measures for the economic destruction of Germany. Even the demand for disarmament implied the infliction of economic injury. The conversion of munition producing plant to purposes of peaceful production was in almost every case prevented by the insistence on the destruction or rendering unuseable of the machinery. The annihilation of the German arms and munitions industry, even where it was producing for export, dealt a severe blow to our trade and thereby to our balance of payments. The restrictions on our manufacture of aircraft crippled an exporting industry which was rich in prospects for the future even under peace conditions. On the top of these measures came all the limitations on the sovereignty of Germany in the handling of her Customs tariffs and the curtailment of her independence in respect of the conclusion of commercial treaties. One-sided most-favoured-nation treatment in favour of the Allied and associated States was imposed for a period of five years on import, export, and transit trade. For the first six months—and in the case of some commodities for an even longer period—the German Customs rates were

compulsorily fixed at the old level of July 31, 1914, for the benefit of the Allied and associated Powers. For raw materials and manufactured products exported from Alsace-Lorraine to Germany complete exemption from Customs of any kind had to be accorded for five years. A similar concession for three years was in force for all imports from the former German parts of Poland. The Saar was included in the French Customs area. It is only necessary to read the books of Keynes and Nitti to realize that the whole of the economic provisions of the Versailles Treaty, with regard to commercial intercourse and trade, were designed systematically to destroy the economic strength of Germany.

A foretaste of these tendencies of the Versailles Treaty had unfortunately been afforded during the war by the measures directed against enemy private property, measures which, from the standpoint of humanity as a whole, must to-day be described as perhaps the greatest crime, and—what is worse—the greatest folly, of the war. It is altogether intelligible that for the duration of military operations steps should be taken to prevent the private property of an enemy country from being used in support of that enemy in his conduct of the war; and any measures to prevent such use are allowable in virtue of the natural right of every country to defend its existence. But to take away such enemy property altogether, to squander it and destroy it, instead of handing it back at the end of the war after as careful nursing of its value as possible, does away with the whole conception of private property, on which all human civilization is ultimately based. There is no people the educated classes of which did not regret and disapprove the cruelties committed during the war. The German people went so far as to declare of its own free will its readiness to judge and condemn the so-called

war criminals, and gave practical proof of its readiness to do so by actual sentences which it passed. Such crimes occurred in all the armies, but only during the war and under its influence. Those, on the other hand, who signed the Versailles Treaty were acting *after* the war and in cold blood when they deliberately approved the confiscation of enemy private property and continued under peace conditions the policy of prejudice and menace of its rights. Such a policy, which arbitrarily destroys the only firm basis on which mankind can live in orderly fashion side by side, is bound to revenge itself on those who are responsible for it. It is the very basis of Bolshevism.

From the first moment after the war I took my stand with those—they were but few at that time—who emphasized the senselessness of a policy dictated by such short-sighted and chauvinistic hatred and unreason. In an article in the *Berliner Tageblatt* of April 2, 1919, headed "Bolshevist Dissolution or International Co-operation," I pressed for an economic *rapprochement* between the various civilized nations by a policy of interweaving of their respective economic interests so as to mitigate the keenness of competition. "The circumstance," I wrote, "that Germany has done manual and intellectual work of the highest value in the economic field must be admitted even by her opponents to be a valuable factor for the future development of international production. On the other hand, the possession by England and America of a great quantity of raw materials, which Germany greatly desires or cannot do without, cannot but suggest the possibility of peaceful economic co-operation between either side and its opponents." And I continued: "It is only by energetic work in the common economic field that it is possible to create the wealth which is the

pre-requisite of all social progress. Only in this way will the grievous wounds, which the war has dealt, be healed; and only in this way can the unparalleled charges of the war be made good."

Again, in a letter which I sent at Christmas 1919 to the *Manchester Guardian* at the latter's request, I wrote: "Before the war the production of the entire world was not large enough to make possible, even in the chief civilized countries, a moderate standard of well-being for all classes of the population. During the war a great part of the apparatus of production was devoted to unproductive purposes, and the economic requirements of mankind were greatly neglected. The consequences are to be found in the restrictions, privations, starvation, and distress of many millions of people, which even to-day are still apparent and conspicuous. To put an end to these conditions there is only one way, and that is to restore at least the same volume of production as existed before the war, and if possible to carry the pre-war production still farther, since only adequate satisfaction of the material requirements of mankind can afford the basis for higher intellectual development. The principal source of production is human labour. Money plays on the whole only a small rôle, and the land only yields its treasures if made to fructify by human toil. But this prime factor of production, human labour, has suffered immeasurably owing to the war, morally no less than physically. The output of labour has declined in almost every country. It must be our object all the more to make available once again all possible labour resources. I speak not only as a German, who naturally desires to see his land and people engaged on creative work, but also as a man engaged in international business, when I say that after the enormous decline of

production which the war occasioned the world cannot afford the luxury of leaving any resources of labour to lie fallow, even enemy labour such as in your eyes German labour is to-day. We shall only come through the international unrest if we endeavour to put each human being once again to work to help increase the production of the world."

Again and again I have endeavoured to obtain a hearing for economic arguments. I may cite in evidence of my efforts yet another letter, which I wrote on April 9, 1919, in connection with the transactions of a certain Commission to Mr. Bernard M. Baruch at the suggestion of Mr. MacDonald Riley, an American member of the Commission in question. In my letter I said: "Mr. Riley and I were at one in thinking that the methods adopted up till now in the economic negotiations lead to no results. We have now been negotiating for five months over vital economic questions with military and political officials, and in the meantime the German population is slowly dying of starvation, and our economic existence is being brought so low by hunger, riots, and Bolshevist infection that, as Mr. Riley rightly said, in the end it will be the devil who will have to pay."

It was years and years before the "conquerors" slowly got it into their intoxicated heads that the world war had involved enormous injury to all concerned, and that it was a sheer impossibility to make a single people pay for the cost of it.

The cost of the war represents approximately three times the entire national capital of Germany. It was left to the Dawes Committee to bring home to the masses in all countries the connections of cause and effect. The dubious fame of having closed his ears longest and most obstinately to the recognition of the

facts belongs to Poincaré. His post-war period of office and his policy in the treatment of Germany coincides in time, and is in direct causal connection, with the complete collapse of the German currency.

The first faint perception by Germany's adversaries of the significance of the economic problem in relation to the possibility of execution of the dictated peace of Versailles was shown in August 1920, when Germany was invited with the other nations to a conference called by the League of Nations in Brussels. The result of this conference of experts was a programme which is of permanent value. It urged, on the one hand, the necessity of balancing budgets and exercising economy in national finance, especially by the reduction of expenditure on armaments, and, on the other hand, the necessity for increase of production in all countries, consolidation of floating debt, and the arrest of inflation by a return to the gold standard. All measures, it was said, which conceal from the peoples the true economic position, particularly governmental systems of control and artificial restrictions of the circulation, should be abandoned. The conference further evinced a desire for the international organization of credit with a view to the supply of the industrial countries with the necessary raw materials, in order to set production going once more. This first Brussels conference of September 24th to October 8th was followed on December 16, 1920, by a further conference, also at Brussels, between the experts of the Allies and of Germany. The second conference brought no new view-points of importance to light.

On the failure of the London Conference of March 1-7, 1921, a further step was taken which was indicative of what was to be the line of development in the future, when Germany, in a Note addressed to the United

States, declared her willingness to pay reparations up to the limits of her capacity to do so, and to entrust the examination of her financial capacity to the verdict of impartial experts.

On April 15, 1921, as a result of the sanctions decided on in London, the Customs barrier between Germany and the Rhineland came into force. Under pressure of the sanctions and the threat of further occupations Germany, on May 11, 1921, accepted the so-called London Ultimatum. The first milliard of gold marks, which under the provisions of the Ultimatum fell due at the end of May, were handed over in the form of three-month treasury bills of the Reich endorsed by the four German "D" banks.¹ In the meantime the exchange of the dollar had risen to over 60 marks; and on June 1, 1921, the Reichsbank began for the first time to purchase gold coin in the hands of the population at a premium, that is to say, it for the first time officially recognized the inflation. On October 1, 1921, the Customs barrier on the Rhine and a part of the other sanctions were suspended.

The inability of Germany to raise the cash payments as they became due led, on December 14, 1921, to a request for a moratorium. At the conference which followed in Cannes at the beginning of January 1922, the perception of Germany's inability to pay made headway. The currency question forced itself to the front, finally taking shape in the demand of the experts for a revision of the relations between the Reichsbank and the Reich. On January 11, 1922, a German Delegation arrived at Cannes. But on the following day the Briand Cabinet was replaced by that of Poincaré, and the Cannes Conference had to be broken off, though

¹ The four biggest Berlin banks all have names of which the first letter is a "D" (Deutsche Bank, Discontogesellschaft, Dresdner Bank, and Darmstädter und Nationalbank).

not before Germany had declared her readiness to establish the independence of the Reichsbank.

The reappearance of Poincaré on the political scene in France represented a reaction against the slightly improved economic perceptions which were beginning to make headway. The Poincaré policy of the so-called "productive pledges" began. On April 10, 1922, a conference met at Genoa, Russia and Germany both taking part; and a sub-committee on currency questions developed the bases for the restoration of sound financial and economic conditions. On May 26, 1922, the Law establishing the independence of the Reichsbank, and withdrawing from the Chancellor of the Reich any influence on the conduct of the bank's business, was promulgated. The ensuing months were filled with continually repeated negotiations between the Allies and Germany with regard to payments and payment possibilities. At the beginning of November the Reparation Commission paid a visit to Berlin with a view to collecting information as to the German economic position, and simultaneously a conference of international currency experts took place at Germany's invitation in Berlin. The dollar exchange at this time was already 9,000 marks. On November 13th the German Government presented to the Reparation Commission a plan of stabilization drawn up in connection with the conference of the economic experts, in which a reparation moratorium of several years and foreign assistance were proposed. At the same time the establishment of a normal scale for the reparation liabilities in some proportion to the German budget was urged. The endeavours of the Allies to come to an agreement amongst themselves as to the handling of the reparation problem having meanwhile come to nothing, the Franco-Belgian occupation of the Ruhr

began on January 11, 1923, and by the end of the month (January 1923) the dollar was quoted at 49,000 marks.

Given the utter unreasonableness of the French handling of the complex German economic organism, it is not to be wondered at that the German Government proved unable to master its internal, social, and economic difficulties. Every natural economic advance, every step towards the restoration of economic confidence, was made impossible by the influence of the foreign political factor. Once again it was necessary to have recourse to the machinery of governmental control, to save the social fabric of a nation of more than sixty million people from entire collapse. The war-time legislation on prices and profiteering was not only maintained but, where possible, made more severe. The retail trades, in particular, were compelled in case after case to sell their goods, not at prices which would enable them to replace their stocks, but at the cost prices of an earlier period, with the natural result that the retail stocks of commodities were squandered. The most severe blow to normal conditions was to be found in the operation of the laws with regard to housing. In October 1922, when the mark had already fallen to one four-hundredth part of its value, it was permitted only to collect a bare ten times the pre-war rent.

The system of governmental control was made particularly severe in the case of dealings in foreign exchange. On September 8, 1919, the law against the flight of capital prescribed that payments to foreign countries should only be made through banks, and should be notified to the revenue authorities. In October 1921 control of the proceeds of export trade was introduced. Special permits to export had to be

obtained, and were only accorded if the proceeds of the transaction were handed over in part to the Reichsbank. Documentary evidence had to be supplied to the revenue authorities, and also to a special office of scrutiny, with regard to all dealings in foreign exchange of any kind. On October 12, 1922, it was provided that, except in the case of the Reichsbank and of certain other banks specially authorized for the purpose, foreign currency should only be delivered to persons applying for it *after* approval by the revenue authorities. Payment in foreign currency in internal transactions was forbidden, and the quotation of retail prices on the basis of a relation to foreign currencies was prohibited.

The German Government also endeavoured to improve the balance of payments, and thereby the mark exchange, by a number of measures in regard to foreign trade. The prohibitions issued in the war on the import of luxury articles and less important objects of consumption were maintained in being until the end of 1923, and permanent control of imports with a system of import-permits also lasted down to the same date. Unfortunately, these attempts to control imports were continuously evaded, not only by the provisions of the Versailles Treaty, but also through illicit imports, which were effected across the western frontier under the silent protection or defective control of the occupying Powers. Throughout a long period very large imports of by no means necessary articles continued to find their way through the "Hole in the West," and gravely affected the German balance of payments and thereby the currency. The Government also introduced regulations in connection with the control of export permits designed (*a*) to establish reasonable prices in foreign sale transactions, and (*b*) to generalize the practice of quoting in foreign currencies.

After the ineffectual issue of the Conference of Genoa and the murder of Rathenau, the Reichsbank made a further attempt to support the mark exchange artificially by sales of foreign currencies. That was in the summer of 1922. On the subject of this campaign for the support of the mark, which absorbed very considerable amounts of gold and Devisen, the then President of the Reichsbank, Dr. Havenstein, expressed himself in the following terms before the Reichswirtschaftsrat on August 29, 1922: "When the dollar began to rise heavily at the beginning of July, after being quoted at the beginning of June in the neighbourhood of 300, the Reichsbank decided, in spite of grave doubts and objections, to comply with the pressing request of the Government of the Reich that it would attempt, in view of the menacing character of the situation, to arrest the depreciation of the mark by intervention. We intervened as desired, and continued our intervention over a considerable period, and on a very considerable scale. I think it probable that we were successful in arresting the further rise of the dollar, perhaps by 50 or 100 points; but the collapse of the mark we were not able to prevent."

A fact which is especially worthy of recognition is that throughout this period of economic chaos German private credit remained intact. During the war credits had been opened on an extremely large scale with neutral countries by the various organizations for the purchase of food-stuffs and raw materials. In the case of a very considerable part of these credits, which were all of course in foreign currency, the Reichsbank had guaranteed repayment. In spite of the enormously difficult conditions these credits were one and all repaid in the initial years after the war. The magnitude of the

sums involved may be seen by the following list of credits :

APPROXIMATE TOTAL OF CURRENT CREDITS
CARRYING A REICHSBANK GUARANTEE

(in millions of Gold Marks).

At the end of the year 1918	..	..	..	1,500
" " " 1919	..	..	..	1,200
" " " 1920	..	..	..	600
" " " 1921	..	..	..	200
" " " 1922	..	..	..	70
" " " 1923	..	..	..	40

Foreign countries which speculated in the mark have no doubt lost money to Germany ; one can never save a speculator from his folly. But of all the credits which Germany has received from foreign countries, no part has ever been lost. I have a lively remembrance of how, in the first months after the Armistice, a number of Americans came over to Germany with offers of credits. It was only against endorsements by our big banks that money in any quantity was offered ; and great was the surprise of those who came to offer the credits when they discovered that their offers were for the most part declined, because the German banks were not prepared to incur obligations which they were not perfectly sure of being able to meet. Greatly as the working capital and the whole national capital of the German people had been reduced, the foreign capitalist could never fail to observe that the German business community was the first to appreciate the position and to take it into account in the consideration of foreign offers of credit. Foreign countries have the best reason to know that in relation to them the German banks and the principal German business leaders have always been animated by the endeavour to conduct their affairs on the most solid and exact lines, and never knowingly

or carelessly to disappoint anyone who had come to their aid with credit offers. The German business community knows well that for the foreign capitalist there is no greater security than a sense of responsibility on the part of the debtor.

This is, perhaps, the place to touch briefly on the assertion, which was for a long time current in foreign countries, that Germany indulged consciously in inflation in order to escape the reparation payments. The senselessness of such an assertion should really be clear from the fact that even among the countries of the conquerors there are more than a few to-day who have not avoided inflation, including some who have put their foreign debt in order. Are these countries also to be accused of conscious inflation? The universal misery which inflation creates became apparent everywhere soon enough to induce every statesman to do his utmost to avoid it. No! The true cause of the inflation after the war was the perpetual pressure exercised by the Reparation Commission on Germany in the attempt to extort payments to foreign countries which in the nature of things could not be made. Germany was indeed entitled to look to foreign countries for credit assistance once the question of the reparation debt was definitely regulated; but not only the German State, but a great part also of the private enterprise of the country was not in a position to take up credits. The London Ultimatum of May 5, 1921, was accepted by Germany only for political reasons, although it was clear enough that the payments demanded could not be made. It could only be hoped that our adversaries would develop clearer perceptions when once it became clear that all the earnest efforts of Germany to make the payments imposed were doomed to be shattered on the hard fact of economic impossibility.

The slight improvement of the mark exchange, which followed the acceptance of the Ultimatum, had to be used at once to buy Devisen with which to make the payment to the Reparation Commission of 150 million gold marks. Later the Reichsbank had to draw on the stocks which it still held of the precious metals. A loan of 58 million gold marks was taken up against silver collateral, and a further 68 million gold marks were taken from the gold reserve. To provide the rest of the first milliard due by August 31st, 270 million gold marks of short-term credits were taken up, the repayment of which, in the following autumn, again drove down the mark exchange heavily.

It is true that the attempt was made to bring order into the internal finances. Dr. Wirth's programme of taxation of June 6, 1921, held out the prospect of raising 80 milliards of marks. It was followed by a lively discussion of proposals—which varied in form but were all similar in substance—for raising the reparation moneys by a real charge on the entire German economy, that is to say, on the so-called material values (land, plant, factories, etc.). But all these projects could at best only balance the internal budget and provide a margin of funds *inside the country*. Under no circumstances could they produce the foreign currencies in which the Reparation Commission had to be paid. And so the demands of the Reparation Commission steadily drove the mark into the abyss. At the Conference of Genoa in April 1922, recognition of the fact was openly expressed. "Before the problem of international debts," it was then laid down, "has been boldly taken in hand, there is no hope of ultimate success in the task of restoration of the European currencies."

On December 14, 1921, the German Government

applied to the Reparation Commission for a reduction of the payments imposed, and was permitted to make payments for the time being of 31 million gold marks in foreign currency every ten days. The effect on the foreign exchange market of the knowledge that every ten days Germany would be compelled to purchase 31 million gold marks of Devisen may be imagined! It placed a literal premium on "bear" speculation in the mark. The German Government accordingly, on April 7th, informed the Reparation Commission that cash payments could only be continued if Germany were granted a loan. The efforts of the Reparation Commission to take soundings as to the possibility of such a loan led, in continuance of the Conference of Genoa, to the summoning of a small conference of international bankers to Paris at the end of May 1922. The Committee of Bankers, in reply to the inquiry of the Commission, declared that there could be no question of a loan unless the reparation problem were solved in a manner tolerable for Germany. In the report which the bankers made to the Reparation Commission it was said: "The Committee believes that the resumption of normal conditions of trade between countries and the stabilization of the exchanges are impossible without the definite settlement of the reparation payments as of other external public debts."

This declaration by the first experts of the world was a blow in the face for the policy hitherto pursued. Its rejection by Poincaré led to a further collapse of the mark, which the campaign of the Reichsbank in support (to which reference has already been made), in spite of heavy sacrifices, could only for a moment arrest. From first to last it was the perpetual compulsion to make foreign payments which was the origin of the mark's collapse. If the reparation screw had only been left

for a while in peace, Germany could undoubtedly have arrested the mark in its downward course. Efforts had not been lacking on the part of more than one German Government to balance the internal budget, and they had every promise of success. It was the collapse of the currency under foreign political pressure which again and again frustrated the attempts at budgetary reform.

In common with many other personalities of the business world, I endeavoured throughout the period leading up to the catastrophe of the Ruhr to awaken understanding for our position in France by personal relations with French economic circles. As the head of a big Berlin bank I had ample opportunity for the accomplishment of the task. For a long period all such negotiations turned on the question of how German labour and German deliveries could be utilized for reconstruction in Northern France. The Rathenau-Loucheur and the Stinnes-Lubersac Agreements will be recalled in this connection. Neither of them ever assumed any tangible reality. As soon as the question of deliveries in kind ever passed beyond the stage of deliveries of certain big staple commodities, such as coal, nitrates, dyes, etc., the practical difficulties arose in the shape of (*a*) the reluctance of French industrialists to see contracts executed by German firms, and (*b*) the impossibility of financing such contracts. This form of negotiation was nevertheless continually renewed from the German side in the hope chiefly of obtaining in this way a hearing for the economic view of the problem in preference to the purely military and political view. In a conversation with the French Finance Minister, de Lasteyrie, in February 1922, I defined the position as follows: "Our two countries each need foreign help for the work of reconstruction. France

alone is as little likely to obtain such help as Germany is likely to be able to undertake the work unaided. On the other hand, if an understanding on these questions can be established between France and Germany, the whole world will be ready to help us both."

Again, in the question of the raising of the sums required for the reparation payments, I endeavoured, as many others did, to find practicable ways and means. As Germany for the time being was not in a position to make cash payments out of her own resources, the only question was whether she should obtain a foreign credit for the purpose and what security she could offer for such a credit. On December 23, 1921, I discussed the question in the *Berliner Tageblatt*, in a long article headed "Bases of Credit." "If," I wrote, "it is possible to find a form which will make a credit of a certain amount possible, which can be used for direct payments to the Entente, and in the first instance to France, the breathing-space which the German Government is at the present moment endeavouring to obtain in London will be accorded us the more readily and on the more generous scale."

I accordingly proposed in the case of certain staple articles of export from Germany, such as sugar, beer, potash, and so on, to create central organizations to control all exports of these commodities; and out of the sums passing through their hands to provide the basis for the guarantee of a loan. The more severe and the more oppressive the policy towards Germany became, the more desirable it appeared to me to create in one form or another the possibility of making some definite cash payment to France. When, in November 1922, the Reparation Commission was in Berlin, and the spectre of the Ruhr occupation was looming ever clearer on the horizon, I had the oppor-

tunity of speaking to the then President of the Commission, Louis Barthou, on the subject. I found a certain understanding on his part for my proposals for a reparation moratorium of some length for Germany in return for an immediate cash payment to be raised by Germany by loan. Whether Barthou supported my proposals in Paris, and to what extent, I have never known. But they must have played a certain part in Paris in French internal political discussions, where the latter impinged on reparation policy, for in December 1922 a French politician with information in regard to foreign policy called on me in order to make a last-hour attempt at an agreement on this or on a similar basis to avoid the invasion of the Ruhr. The idea in the mind of this politician was the very reasonable one that a small but certain payment in the hand was preferable to the uncertain promises of Poincaré in the bush. All that we could offer, of course, was a sum which might reasonably have been raised by loan on the security of a part of the German exports. The sum in question was not comparable with the fantastic figures which Poincaré held out to his countrymen as the result to be anticipated from his "productive pledges." Consequently this effort also failed. Only a man completely without intuition in regard to economic facts could have trusted to the treacherous expectation that an economic area under forcible occupation could in the long run yield surpluses to the occupier.

CHAPTER III

FROM THE INVASION OF THE RUHR TO THE STABILIZATION OF THE MARK

THE occupation of the Ruhr, strange as it may seem, marks the turning-point in the whole reparation question, and that for two reasons. Morally and politically its effect was to create a more favourable legal position for Germany, while at the same time it afforded, as it proceeded, a practical demonstration to the world, the significance of which could not be mistaken, of the essential economic senselessness of the Ruhr policy.

The German Government could claim that the occupation of the Ruhr was a breach of the Versailles Treaty, and it had the satisfaction of knowing that even the law officers of the British Crown had expressed the same opinion. It gave the German Government the legal possibility of suspending all cash payments, and every form of delivery in kind to France. It is true that as against this formal relief there had to be set the economic chaos in the Ruhr, with all its unparalleled injuries to the national economy, and thereby to the German currency. The Ruhr invasion not only involved the sacrifice of numbers of human lives, it completely crippled the plant and machinery of the most highly industrialized part of Germany. Against this region French militarism deployed every measure of extreme violence and force, and at the end of all was compelled to admit that, though it could destroy, it could neither maintain nor a fortiori create.

In speaking of the Ruhr occupation it is necessary

to place on record, because of their bearing on the currency problem, certain cases in which French militarism surpassed itself. For example, a fine of 100 million marks imposed on the city of Gelsenkirchen was collected by the method of allowing the French troops to take private property by force on the public streets. 12·8 milliards of money belonging to the Reichsbank, which were intended for the British zone, were confiscated by the French offhand on February 24, 1923, and the British authorities had to make diplomatic representations for their return. On March 17th the Rhineland High Commission ordered the confiscation of German property—not merely Government property, but private property also—suitable for reparation deliveries. On April 13th a conference of French and Belgian Ministers in Paris decided to sell the goods and products which had been confiscated in the occupied area by the two Governments *or their nationals*! On April 6th the French troops entered a printing office commissioned by the Reichsbank to print bank-notes in Mülheim on the Ruhr, and took possession of the printing blocks and of a quantity of notes, the printing or cutting of which was not yet complete, inserted forged letters and numbers, and put them into circulation. In May 17, 1923, French police officials, accompanied by locksmiths, forced their way into the branch of the Reichsbank in Coblenz, broke through the window of the vault, which had been walled up, cut through the iron railings behind the masonry with oxygen apparatus, and removed from the vault 6 milliards of marks. On the morning of May 26th, French gendarmes and police suddenly appeared in the Reichsbank branch in Essen; at the same moment five Frenchmen in civilian dress, who had made their way in with the general public, leapt

over the counters in the cash department and, with revolvers in their hands, forced their way to the vault. Ninety-two milliards of marks were removed. On June 11th French soldiers broke into the head branch office of the Reichsbank in Dortmund, and removed 52 milliards of marks from the vault. The same proceedings were repeated by French criminal police on June 23rd at the branch of the Reichsbank in Mülheim, where they secured 6 milliards. In the two last cases unfinished notes were again removed and finished and issued by the French. These examples of theft, burglary, and forgery deserve to be placed on record for the event of there ever being question in the future of drawing up a programme for international co-operation between central banks of issue.

In view of the bearing of the German resistance to the Ruhr occupation on the entire future treatment of the reparation question, the Reichsbank determined once again on a vigorous campaign in support of the mark exchange. That much success would attend the effort was not indeed expected; but the Ruhr invasion had been followed by heavy "bear" speculation in the mark with no cover behind it, and there was a certain possibility that vigorous intervention would hold the exchange up for a while and deprive the speculators of a part of their profits. Another powerful motive behind the action of the Bank was the desire to counteract excessive increase in the cost of living. In the first fortnight of February 1923 the purchases of the Bank were successful in bringing the dollar quotation down from 50,000 to 23,500. The salutary effects of the lesson thus taught to the "bear" operators was shown by the fact that a day or two later, without any intervention on the part of the Bank, the dollar fell to within the neighbourhood of

20,000, and at the end of February and beginning of March there were many days on which the amount of Devisen coming on the market and passing into the hands of the Reichsbank exceeded the amount of the applications to the Bank.

The campaign of the Bank on this occasion was accompanied by measures to restrict credits, the provincial branches of the Bank in particular receiving strict instructions to refuse, as far as possible, all credits intended for the purchase of Devisen. But the necessity of continual new assistance to the industries of the Ruhr made it impossible to continue the policy of credit restriction as part of the campaign of the Bank, and on April 18th the entire campaign broke down on the volume of applications for Devisen from industrial quarters. On this day alone the dollar exchange, which had remained for weeks at about 21,000, leapt up to 25,000. In all it is probable that the campaign of the Bank cost it more than 300 million gold marks.

A further effort on a diminished scale was made again in July 1923. It was supported by a prohibition to deal in Devisen at any but the uniform rate fixed by the Reichsbank, and by instructions issued to the private banks not to purchase Devisen except for customers holding an equivalent cash deposit with them. This effort, too, was doomed to fail after a few weeks.

Meanwhile the exchange of diplomatic notes proceeded between the Governments concerned. Successive German offers were declined by the Allies, and successive claims by the Allies were declined by Germany. The German Government continually pressed for examination by impartial experts of the German capacity to pay, while in economic circles in all the countries con-

cerned it was coming to be realized that the Ruhr invasion had brought the whole reparation question to a deadlock.

In May 1923 I received, through the intermediary of English and German friends, an invitation to go to London and give an account of the position in Germany to a group of English industrialists headed by Sir Allan Smith, some of whom were also members of Parliament. The Englishmen told me that they were anxious to find a solution to the reparation question in which economic considerations would be given the first place, and that they believed in the possibility of an understanding if Germany would make a fair offer. I replied that a fair offer could not possibly mean the offer of a figure which at the moment would satisfy our opponents. A fair offer, I said, could only mean an offer which was genuinely possible of fulfilment. To make a higher offer than had been done by the German Government in its Note of May 1, 1923, would mean the adoption by Germany of a policy of swindle, and no German Cabinet or German economic circles would ever be prepared to do that. I added that it was regrettable that the English answer to the German Note of May 1, 1923, not only described the German offer as inadequate in itself, but also ignored the German wish for a determination of the extent of Germany's capacity to pay by impartial experts.

Further conversation with the English members of this conference revealed the fact that the need for a definitive determination of the amount of the reparation liabilities was recognized on all hands, as also the necessity under any circumstances of a moratory period of some years for Germany and the inevitability of recourse to expert examination of the question. The conversation had shown once again that, once business

men get together round a table, there is not only a desire for an understanding but also the possibility of arriving at an understanding as to methods. But the work of months was still required to convince the military politicians of the inefficacy of their order of ideas, and to clear the road for the economic view.

Meanwhile, in Germany itself, the intolerable character of the economic conditions was bringing to the front a continually increasing number of people who were anxious, apart from any question of foreign policy, to find some way of relief from the terrors of the inflation. The system of governmental control of prices and of foreign exchange dealings was bound to fail in proportion to the rigour with which it was enforced, since it was in conflict with the natural impulses of self-interest and the struggle for existence. Self-help by the individual was the first step. Dealers in commodities endeavoured by every means they could think of to protect themselves against the continually increasing depreciation. Sliding, in lieu of fixed, prices for commodities became the rule before the year 1922 was out. They were arrived at either by the addition of "supplements" calculated on the basis of the exchange quotations of foreign currencies, or by multiplication by some coefficient based on index numbers, or by any other method calculated to ensure something like stability of value. Towards the end of 1922, however, a large number of manufacturers began to ask for payment in actual foreign currency. Where prices were still quoted in marks, they were revised at ever shorter intervals. Side by side with the sliding prices of commodities, sliding scales made their appearance in the course of 1922 for wages and salaries. Wages and salaries nevertheless lagged considerably behind the actual prices of commodities, being calculated mainly

on the Reich's index of the cost of living: and for a long time a struggle raged around this index, which was calculated on a very misleading system. The chief sufferers by this margin between wages and prices were the employees who had been best paid before the war, especially the middle grade and higher officials. Whereas at the end of 1913 the difference between the income of an unskilled manual labourer and a middle grade official was as 100:347, in September 1922 it was as 100:147. This widespread levelling down of wages and salaries, reducing an ever-increasing number of families to a bare minimum level of subsistence, was a specially conspicuous feature of the inflation.

At the beginning of 1923 wage negotiations between employers and employees began to bulk more and more largely on the industrial horizon and to absorb a continually increasing amount of time. Wages were now fixed by new wage agreements from week to week. The demand for an automatically stable wage system was perpetually being put forward. In the second half of 1923 many employers began to pay their workers in stable currencies, or to supply them with food-stuffs in lieu of a money wage. In view of the increasing impoverishment, which these conditions betokened, it did not greatly help the Government when in August 1923 it proceeded to place taxation on a gold value basis. It was at this period that the so-called Brotversorgungsabgabe,¹ the "Rhine and Ruhr tax," and the "tax on agricultural land and wage totals" were collected, all at their full gold value: the Cuno Cabinet was responsible for the introduction of these imposts. On October 11th the Stresemann-Luther Cabinet then introduced the calculation of all tax payments at their

¹ The Brotversorgungsabgabe (Bread Supply Tax) was a special tax imposed to finance the continuance of the system of supplying cereals to certain classes of the victims of the Inflation below cost price.

full gold value on the basis of the exchange of the day on which the liability to the tax arose.

A typical consequence of the inflation, which very soon made its appearance and rapidly assumed the character of a permanent phenomenon, was the so-called "refuge in material values." No one wished to hold cash, and all flung themselves into the acquisition of goods, shares, foreign currencies or any other stable values on which they could lay hands. This development contributed, of course, largely to the rise in the prices of commodities and shares and the quotations of the foreign exchanges. The speculation in stocks and shares and foreign currencies spread to the smallest circles of the population. The indiscriminate hoarding of commodities created an artificial increase of the demand. An enormous increase in the number of businesses, especially purely trading businesses, was the consequence. In 1924 almost twice as many firms were registered in the Berlin Commercial Register as in 1913.

The rush to get rid of cash as soon as possible further led to an extraordinary increase in the rapidity of the circulation of money. Everyone who had payments to make, endeavoured to make them as quickly as possible, before he could be caught by the depreciation. As a result, clearing (Giro) transactions were immensely extended at the expense of cash transactions, which were too slow. The number of clearing entries at the Reichsbank, which in 1921 had been 45 millions, was 58 millions in 1922 and 79 millions in 1923. On the other hand, in proportion as the clearing entries increased, the amount of the clearing balances declined. No one wished to hold large balances, which depreciated in exactly the same way as cash. The one idea was to dispose of them as

speedily as possible. Thus the State, the entrepreneur, and the private individual were all engaged in the struggle, each for himself, to escape the terrors of the inflation; and it was naturally those who were the weakest economically and the least well informed who were the hardest hit.

Side by side with these efforts of individual self-help, proposals were put forward at an early stage for organic treatment of the malady. If I refer to some of these proposals, I do so without claiming to give a complete account of all that was proposed. I am concerned rather to indicate the various lines along which ideas on the subject moved at the time than to give a comprehensive historical account.

In October 1919 the financial writer, Alfred Lansburgh, submitted a scheme to the Government for the stamping of the money at its then value—that is to say, a scheme of devaluation and for simultaneous transition to a gold standard. He argued that, while it was not necessary to coin gold freely, the import and export of bar gold against notes must again be made possible. He was against any further association of the credit demands of the Reich with the bank of issue.

It is interesting to note that at the outset there was vigorous opposition in Germany, as there has been in other countries in the initial stages of inflation, to the suggestion of devaluation—that is to say, to the legal recognition of the depreciation which has occurred. Max Warburg, speaking in October 1920 at the Fifth General Conference of German Bankers, rejected the devaluation, and urged that Germany should again endeavour to rehabilitate the mark, if not to the full level of its former gold parity. If Warburg at this time still contemplated the possibility of permanent appreciation of the mark, he also took into account the

possibility of subsequent further depreciation. His opposition to devaluation on the ground of the latter contingency was altogether intelligible. He said: "To put new parities in place of the old is impossible—we have only to think what their purchasing power at the moment would be—and will remain impossible so long as the economic conditions throughout the world are so unstable as at present. Given the present political and economic conditions, one devaluation would soon have to be followed by a second and a third."

In many quarters the establishment of a conversion office on South American lines was proposed. As, however, the establishment of such an office would involve the collection of stocks of gold or credit balances in foreign currencies, Max Warburg argued with much reason (also at the Bankers' Conference in October 1920) that a converting bank was merely a form of machinery for winding up the paper mark regime on orderly lines, and could not therefore usefully function until some relief of the economic conditions had set in.

Another scheme of reform had been evolved by Erzberger when Finance Minister of the Reich on October 30, 1919. Erzberger's idea was to reduce the note circulation by converting the German banknotes held abroad and the mark balances held by foreign countries in Germany, which latter he reckoned at 16 to 17 milliards. He said: "If the various countries would decide to convert into a firm loan the holdings of German marks which are to-day so much depreciated, the subjects of those countries would benefit no less than the German people itself." This proposal, which eventually broke down on the impossibility of negotiating with the mark creditors as a joint body, shows, nevertheless, that the will was present on the

German side to satisfy foreign countries in full, and belies the assertion that there was intention on the part of Germany arbitrarily to injure foreign holders of the mark. The attempt to convert the internal floating debt was made once only by the issue of the Savings Premium Loan in 1919. The results were not encouraging. As for the proposal of a forced loan, it was bound in advance to fail, coming as it did on the top of the heavy taxation at the time.

From the year 1921 onwards attempts were made from various quarters to induce the business world to abandon paper mark accounting and to go over bodily to accounting on a gold basis. In particular the introduction of gold mark balance sheets was advocated by Professor Eugen Schmalenbach, of Cologne University. Banking circles, and with them the Reichsbank, were strongly opposed to these efforts, on the intelligible ground that the transition to gold mark accounting would involve as a necessary corollary the opening of gold mark accounts at the banks. The opening of gold mark accounts, in other words of credit balances in a currency existing only for accountancy purposes and not in actual fact, would have at once compelled the banks to consider how to provide themselves with gold cover for these gold balances. Apart from anything else, therefore, the introduction of gold accounting would only have been possible, if it had been made obligatory for the whole business community. But even so new difficulties would have arisen in the event of what was still always a possibility, that is to say, an appreciation of the paper mark. There would have had to be some central institution to take over the losses resulting from such an appreciation; and in the nature of things such central institution could only be the Reichsbank, and the Reichsbank was not prepared

to accept the position. In any event the Reichsbank, as the issuer of the paper marks, could always have prevented their appreciation by selling the necessary quantity on the market, unless, of course, it had been prepared to come to an agreement with the State in the public interest to take upon itself the loss involved by their appreciation.

In May 1923 the movement for the introduction of gold accounting and the opening of gold accounts and gold credits against paper marks (converted at the exchange on the day of the opening of the account or granting of the credit) had gone so far that the Ministry of Economic Affairs, the Finance Ministry and the Prussian Ministry of Commerce, approached the Reichsbank with the request to consider the question. The Reichsbank up till then had steadily refused to introduce accounts in stable currency; but at the meeting of the Central Committee on August 25, 1923, the President of the Bank, Dr. Havenstein, announced that the Bank was prepared to take this step. For the present, however, the opening of such accounts would be confined to the case of loans against collateral. To extend them to the case of bill credits would involve alteration in the text of the Wechselordnung (Fundamental Law on Bills) and of the Bank Law. It was quite clear that these stable currency loans could not be applied for, so long as the applicant was in a position to obtain depreciating paper mark credits from the Bank by discounting bills. Herr Havenstein's statement, which had received the explicit approval of all the Directors, was governed from first to last by his anxiety not to take any step without careful and deliberate preliminary scrutiny of the ground. It was but ill calculated to rise to the situation with which the German currency was now confronted, a situation which was rapidly becoming acute.

To put up the discount rate, as the Bank was recommended by many to do, would not in the circumstances have helped it to master the inflation. For the rapid day to day depreciation of the mark, putting up the discount rate was far too slow a remedy. It would have been necessary ultimately to put it up to a figure which, when applied to the whole complex of business transactions of the country—many long term interest charges were based on the Reichsbank discount rate—would have involved as much injury to large classes as the inflation itself. Moreover the demands on the Reichsbank from private quarters were minimal in comparison with the demands of the Reich, and to the Reich the level of the discount rate was ultimately a matter of complete indifference, since in the last resort it was only living on the note printing press. I shall have occasion in describing the period of stabilization to return to the point, and to show that the screw of the discount rate can only be applied effectively under relatively normal conditions.

The continual repetition of the demand that the Reichsbank should give credits only on a stable currency basis was due to the impression made on the public mind by the spectacle continually paraded before their eyes of particular undertakings and firms expanding their concerns, acquiring new works or erecting new buildings, amid the general monetary collapse, all with the aid of paper mark credits which they were able to obtain at will and repay in currency which every day was worth less and less. The private banks, in giving such paper mark credits, did so at the expense of their depositors or at the expense of the Reichsbank, which discounted their paper mark bills as it did those of any other customers.

The question came up before the Reichstag Committee

of Inquiry, which in May and June 1923 investigated the events in connection with the collapse of the campaign in support of the mark. The fact of the inflation profiteering was so patent and conspicuous that the acute dialectic which Helfferich brought to bear on it in his evidence before the Committee is only to be explained on the ground of his political views. As against the assertion of profiteering he argued that the Reichsbank held larger sums in the form of private balances of the business community than it made available for the business community in the form of discounts. He endeavoured, by a question in this sense, which he addressed to the President of the Reichsbank, Dr. Havenstein, to associate the latter with himself in support of his contention. Havenstein could not do otherwise than confirm the accuracy of Helfferich's figures. It was a fact that for some years past and down to the end of November 1922 the figures of the private clearing (Giro) balances at the Reichsbank had always exceeded the figures of the bill discounts and loan advances of the Bank. From the end of 1922, on the other hand, down to the collapse of the campaign in support of the mark in April 1923, the discounts and loans were invariably (except on two occasions) higher than the Giro balances. From April 1923 onwards the relation of the two was again reversed. But it must not be overlooked in this connection that, as Helfferich must have very well known, credits were being granted to the business community by the Darlehnskassen in addition to the Reichsbank, and the amount of these (except in so far as they were paid over in cash) was credited to Giro accounts at the Reichsbank, and consequently figured in the total of the Bank's clearing balances, whereas in the total of the Bank's discounts and loans the credits of the Darlehnskassen,

of course, did not figure. Helfferich's citation of these purely superficial figures to refute the assertion that certain circles had enriched themselves out of the inflation can hardly be described as anything more than fencing before a mirror.

Again, on September 7, 1923, at the meeting of the Currency Committee of the Reichswirtschaftsrat, Helfferich once more maintained, on the strength of the above figures, that generally speaking there had been no inflation profits as a result of the granting of paper mark credits. I argued strongly against his contentions at this meeting, pointing out that the holders of Giro accounts and the discounters of bills were not the same persons. When (I said) a man, having taken up a credit at the Reichsbank and paid in the amount to his Giro account, transfers the balance thus acquired to another Giro account holder in return for a material value, he participates in the fall of the mark only during the period between his receipt of the credit and his transference of it to the second party: the same is the case with the second party if he transfers it to a third party; and the only question is how long the money remains in each case in the particular Giro account holder's possession. I later had a tabular statement prepared at the Reichsbank, from which it appeared that at the end of 1922, taking forty days (about) as the average rate to run of a bill discounted by the Reichsbank, its proceeds were employed during that period on an average for seventy-five payments, and they never remained credited to one Giro account for so much as three-fifths of one day. Consequently the profit on the depreciation of the mark value of the credit during the forty days for which it ran went only into the pockets of the original discounter of the bill, whereas the loss on the other hand was shared by seventy-five Giro account holders.

In the course of July 1923 the dollar rose from 160,000 to 1,100,000 marks. From this stage began the so-called repudiation of the mark. Sellers refused to accept marks, first in the occupied territories, later in South Germany, and subsequently throughout the entire country. Retail traders began to close their businesses at particular hours of the day, and even on particular days of the week; and the catastrophe of the currency developed into a catastrophe of the food and other supplies, which was worse than in the worst periods of the war. The formation of queues or (as they were called in Germany) "serpents" in front of the food shops became once more, as in the war, a regular phenomenon. Plunderings and riots were of daily occurrence; and in the end the Reich, to cope with the social dangers which the collapse of the mark had evoked, declared, on September 27, 1923, a state of siege. Not since the spring of 1919 had Germany been so close to the peril of Bolshevization as in these weeks. It is hard for foreigners to form a conception of the excitement within the country at this time, for Germany was then completely isolated. All who held any leading position in the business or public life of the country tortured their brains day in, day out, to find a remedy for the position. Meetings and discussions great and small took place daily, and schemes of reform and appeals for action accumulated one on top of the other.

In a speech on August 8, 1923, the Chancellor of the Reich, Herr Cuno, announced the issue of a stable currency loan side by side with the introduction of stable currency taxation. The issue of the loan fell to the first Stresemann Cabinet, which was formed a week later and was based on the so-called "Grand Coalition" of parties, and included therefore the Social Democrats :

it owed its origin to the general sense of the need for something more than passive resistance to cope with the foreign political situation. The stable currency loan, which was for 500 million gold marks, was issued partly to cover the deficit in the State budget, partly to give the public a means of protecting the value of their money. Subscriptions were accepted either in foreign currency or in paper marks. The small denominations of the loan, which were calculated on the equivalent value of the dollar, were issued for 4.20 marks, 8.40 marks, and 21 marks, being the equivalents of 1, 2, and 5 dollars respectively, without interest coupons. The total subscribed was only 168 million gold marks. With the issue of this loan the Reich may be said officially to have abandoned the paper mark; and the need was now clamant for a reform of the currency which should be based on the country's own inherent strength, unfettered by internal economic or foreign political considerations.

The numerous proposals, which were put forward from the most various quarters, sometimes only in sketches, sometimes in the form of legislative drafts, may be said to have been based as a whole on two principal conceptions. One category desired immediate return to the gold standard: the other replied that there was not enough gold available for the purpose, and was anxious to base the currency on the so-called material values in the country. For some time past, in taking up long-term credits, public bodies and industrial undertakings alike had adopted the practice of expressing their liabilities, neither in paper marks nor in gold, but in terms of material commodities. Even in everyday business prices in commodity quantities had come to be quoted in many cases. In agricultural transactions in particular, lease agreements and prices of agricultural

products were being based on the value of the pound of rye. The States of Oldenburg and of Mecklenburg-Schwerin issued loans denominated in values of rye at the end of 1922. The rye bonds of the Oldenburg State Credit Institution, for example, were for 250 pounds of rye apiece; they carried no interest but were payable at the end of five years with the value of 300 pounds of rye. In 1922 a rye *rentes* bank (Roggenrentenbank) was founded, which issued its first Rentenbriefe (*lettres de rente*) in pounds of rye in December 1922. In the period which followed numerous other rye loans were issued by the most various bodies, and the idea of loans in material values was extended to other commodities. There were coke loans, coal loans, potash loans, lignite loans, and even kilowatt loans. The principle of basing values on prices of commodities was extended to mortgage transactions, and mortgages in rye, potash, etc., were admitted to register in addition to mortgages in fine gold. So long as the depreciation of the mark continued, these material value loans enjoyed great popularity, unaffected by the fluctuations in the prices of the commodities concerned; and the practice of expressing values in terms of commodities had a long vogue.

The practice, thus spontaneously evolved by the natural course of events, became the starting-point for all the currency reform proposals which were based on material values other than gold. The proposal had been made in various quarters at a very early date to base the German currency on the soil. Max Warburg, at the Banker's Conference in October 1920, attacked these proposals, with the general assent of those present, in the following words which, in view of the later creation of the Rentenmark, are of particular

interest. He said: "Our currency would, in this way, it is true, be given a cover; but the cover would in practice be of no use, as may be seen amongst other things from the case of the *assignats* which (as you are aware) were issued on the security of the landed possessions of the French State. The proposed mortgage does not fulfil the principal requirement of a currency reserve, which is that the note cover should be an internationally negotiable object, and so to say a currency regulator. Herein lies the significance of gold as cover for the notes, so long as other countries are ready at any time to accept gold in payment. The proposed mortgage cover has not this character. The money issued against the value of the soil is not a liquid, transferable instrument, convertible at any moment, but depends at best on the registration of rights whose value is itself dependent on the maintenance of law and order in the country, on the real property market and similar factors. The proposal does not, therefore, appear to be practicable in any way, quite apart from the fact that it would involve the transformation of our entire mortgage system."

The issue of money on the security of the soil is, in fact, a phenomenon which recurs at intervals in the economic history of the world. The paper money of John Law based on the soil, the *mandats territoriaux* of the French Revolution, and the attempt to underpin the Danish Reichsbank by the handing over of a 6 per cent. charge on the value of all immovable property in the year 1813, constitute the three principal—all more or less unsuccessful—forerunners of the Rentenmark.

In the last days of the Cuno Cabinet, Karl Helfferich submitted a plan to the Government of the Reich for the creation of a new form of money. The bases of the plan were as follows:

1. The various economic units of Germany (agriculture, industry, trade, transportation, and banking) were to establish a currency bank, the statutes of which were to be drawn up by the central organizations of the economic units but confirmed by the Chancellor of the Reich. The bank was to be independent in its administration and in the conduct of its business.
2. The original capital was to be raised by a 5 per cent. first charge in the form of mortgages or bonds on the economic units described, one-half of the total (which was put at 4 milliards of marks) being raised by agriculture and the other half by the other units. Against these mortgages or bonds interest-bearing Rentenbriefe (*lettres de rente*) were to be issued.
3. These Rentenbriefe were to serve as cover for the notes which were to be issued by the bank, denominated in "rye marks."
4. The rye mark notes were to be exchangeable on demand at any time for interest-bearing Rentenbriefe.
5. The rye note was to become legal tender on a date to be fixed by the Government, and a fixed legal ratio of conversion was to be laid down as between rye notes and paper marks.
6. The discount of Government bills at the Reichsbank was to cease. The existing debt of the Reich was to be amortized by the new bank placing 300 million rye marks at the disposal of the Reich in return for remission of the taxation (Tax on Occupations) imposed on business in August 1923. With this 300 million rye marks the Reichsbank was to redeem its own notes and thereby stabilize the paper mark.

7. The new bank was to be empowered to give credit to the Reich up to the extent of half its original capital and original reserve.

A sharp division of opinion immediately arose around this project. It was attacked in particular by those who, like myself, desired an immediate return to the gold standard. Amongst those who took the latter view were Friedrich Minoux, for long years a fellow-worker of Hugo Stinnes, who was prepared to make agricultural and industrial real property and other material values the security for the currency, but was anxious to base the currency on gold, and not to create a new bank but to leave the Reichsbank as custodian of the currency. The Federation of German Industry¹ was also for a gold currency, for which it proposed to mobilize the gold and Devisen holdings in Germany with help from outside sources, and to create a new private gold note bank. The Reichswirtschaftsrat,² led by Georg Bernhard and Artur Feiler, took the same view as the Federation of German Industry, but wished to leave the Reichsbank as custodian of the new currency. Proposals on similar lines, though with certain variants in detail, were put forward by Walter Funk, the principal economic writer of the *Berliner Börsenzeitung*, Hans Krämer, member of the Reichswirtschaftsrat and of the Presidency of the Federation of German Industry, and by the Democratic Party.

My own proposal was put forward on October 10, 1923, in the *Berliner Tageblatt*; its main contentions

¹ The Federation of German Industry (Reichsverband der deutschen Industrie) is the central organization set up by the German industrialists to represent their interests.

² The Reichswirtschaftsrat (Economic Council of the Reich) is a body created by the post-war (republican) constitution of Germany, consisting of economists, industrialists (including representatives of labour), etc., to which economic legislation is submitted for its opinion before being introduced in the Reichstag.

had already been argued by me continually in private conversations. My proposal was based on the idea that it is possible at any period during an inflation to create a banknote with gold cover which, though it may not be able in all circumstances to fulfil the functions of a currency, has at least the great advantage of affording a means of measuring the value of the inflated currency, and thus eliminates the worst feature of every inflation, namely, the misleading of the economically weakest and the least well informed. In proof of this contention one need only refer to the early history of modern money, e.g. to the money created by the *Amsterdamsche Wisselbank* or the *Hamburger Bank*, which was not currency but, being backed by stable cover, provided an irreproachable standard by which the various fluctuating currencies in circulation could be tested. A second contention, for which I argued throughout, was that while a bank of issue should not be administered by the State or be dependent on the State, at the same time it should not be removed altogether from connection with the State from which it receives its note-issuing rights. To speak more plainly, a bank of issue should be run only on lines of the economic interest of the community and not in accordance with private economic interests. For this reason I wished to have close co-operation between the gold bank which I proposed and the *Reichsbank*, and fusion of the two institutions as soon as possible.

The whole trend of these conceptions brought me inevitably into opposition to the *Helfferrich* proposal. Opposition to the *Helfferrich* proposal came also from the business community in the shape of protests by the *Central Association of German Wholesale Trade* and (on October 10th, a few days before the Government gave the *Rentenmark* proposal the form of law)

by the Central Association of German Banks and Bankers. Strong criticism of the proposal came also from members of the Reichswirtschaftsrat and the Federation of German Industry.

In deference to this weighty opposition the Helfferich draft was amended on very essential points. The mortgage charge on industry and agriculture and the redeemability of the notes in Rentenbriefe were retained. The suspension of the discount of Government bills at the Reichsbank, and the use of the new money to provide cover for the Treasury bills in the hands of the Reichsbank at the time, were also naturally retained. The proposed extension of credit by the bank to the Reich was also retained. On the other hand the following changes were made. (1) The independence of the bank in the conduct of its business was reduced within purely formal limits, and the extension of credit to private enterprise was handed over to the Reichsbank, which was empowered to take over from the Rentenbank a corresponding amount of Rentenbank notes for the purpose. (2) The notes issued were denominated not in rye values but in gold. (3) The money was not declared legal tender, and there was no fixing of a firm rate of conversion of the new money against paper marks.

These amendments removed the principal blemishes from the Helfferich proposals. But the motives of the Government in deciding for the (amended) Helfferich programme and rejecting all other proposals in the direction of immediate return to the gold standard, were due to considerations of internal politics rather than convictions of monetary theory. From the standpoint of monetary theory the rye mark was an utter impossibility. Had it been introduced in the form originally proposed, it would have gone the way of all

flesh in a very short time indeed. Even in the amended form accepted by the Government the Rentenmark was impossible as currency, and even Helfferich himself could not invariably deny the force of the objections against it. He was compelled to admit that the new money was of no use for purposes of international payment, and that it did no more than provide an emergency bridge over which to pass to the eventual gold currency. He admitted also that in addition to the Rentenmark there was need for a Devisen or gold bank to finance payments to foreign countries. In a speech delivered in the Reichstag on October 9, 1923, he stated that the Government proposals were based, indeed, in their essentials on his programme, but that they had been so stripped of their original character that he had the gravest doubts as to whether the results at which he had aimed would be reached. He continued, following up a favourite political idea which underlies his whole proposal, to argue that the State was not, under present circumstances, strong enough to create money which would command public confidence, and that only the business elements of the country acting of their own free will were competent to accomplish the task.

Again, on October 13th, in the course of a discussion between the central organizations of the various economic units and the Finance Minister, two days before the issue of the Rentenbank decree, Helfferich once more formulated his views on the amendments to his original plan. He said that he had been opposed to the denomination of the new notes in gold because Germany had not sufficient gold. The character of the bank as a private enterprise, and its independence as such, had been weakened. On the other hand he no longer regarded it as so essential that the notes should

be given the character of legal tender. It is true that he took a different view five months later in a speech in the Reichstag on March 12, 1924, when the direction which the coming definitive currency reform was to take was clearly shown. This time he was again strongly in favour of making the Rentenmark legal tender. He attacked my proposal for the Golddiskontbank on March 13, 1924.

It should be remembered, in explanation of the entire situation, that on the one hand the Government was compelled to make its policy, in particular its foreign policy, dependent on the support of the Left and Centre of the Reichstag in opposition to the parties of the Right; while on the other hand the supporters of the parties of the Right, the greater number of whom were to be found in agricultural circles, had the key of the national food supply in their hands. Faced with the necessity of supplying the industrial population, and in particular the population of the large towns, with food-stuffs, the Government would have been foolish indeed to put forward a currency programme emanating purely from the Centre and Left and so provoke the political opposition of the Right, if it could avoid doing so by adopting Helfferich's suggestions. By adopting his suggestions the Government secured the assent of the agriculturists, on whose willingness to deliver the food-stuffs everything depended. Accordingly the Government was content to eliminate the blemishes in the Helfferich proposal as much as possible while adopting at the same time his draft.

The political situation will be still clearer if the particular conceptions underlying his proposal are kept in mind. By him, and by all of his political colleagues for a long time after this, the creation of the Rentenbank was always represented as a voluntary action on the

part of the German business community. The agriculturists in particular, who were (it is true) the first to whom the mortgage charge was applied, invariably maintained that their foundation of the Rentenbank had been responsible for the economic salvation of the country. In fact the Rentenbank was founded by a decree based on the Special Powers Law passed by the Middle and Left parties against the votes of the Right. Again Helfferich had proposed, as a condition for the credit by the Rentenbank to the Government, that certain taxation of agriculture and industry should be dropped (the Tax on Occupations). The success of such a claim would have brought the Nationalist Party much support in business circles. But the claim was not successful. Again Helfferich had wished to place the credit policy of the Rentenbank in the hands of "an independent board of leading business men." It may readily be imagined what such power in the hands of a board with strong Right views would have meant for the Stresemann Government! This proposal, too, was rejected by the Government, and the granting of credits to private enterprise was placed in the hands of the wholly non-party management of the Reichsbank.

But, if the party motives of the Helfferich proposals are not to be approved, and if the theoretical basis of the Rentenmark must be regarded as altogether inadequate, there was nevertheless something in the Helfferich proposals from which the touch of genius was not lacking. The money which he proposed commanded from the outset the enthusiastic approval of those circles who were the enemies of the Government, and who, at the same time, had the control of the food supply in their hands. It was not only that his proposals were in accordance with the party views of these circles. The basing of the new money on

rye, and *pro tanto* on the value of the soil, was calculated in masterly manner to appeal to the psychology of the agricultural community. To this extent the Rentenmark was a creation well fitted to the circumstances of its birth. But in extolling the ingenious psychology of the Helfferich proposals, an equal tribute must be paid to the fine tactics of the Government of the Reich, in deciding, in all probability against their better financial judgment, to adopt the basis proposed by a politician of the Right in order to eliminate the internal political obstacles which other proposals supported by the Left would in all probability have created in circles of the Right.

On October 15th the decree for the establishment of the Rentenbank was issued. The opening of the Bank was proposed for November 15th, since a suitable interval was necessary to print the Rentenbank notes. At the last meeting of the Government with the interested parties on October 15th, Geheimrat Bücher was successful in securing the acceptance of a proposal under which, pending the issue of the Rentenmark, an increased issue of small gold loan bonds would be put into circulation (partly in the form of so-called interim notes) with provision for their commutation for Rentenmark notes so soon as the latter should be issued. For this short interim period, therefore, the lines, which the adherents of the purely gold basis instead of the Rentenmark had preferred, were after all to be followed.

The extent to which the Rentenmark proposal was a link in the chain of the Government's policy is shown by the political events of the ensuing days and weeks. On October 6th the second Stresemann Cabinet was formed, and the abandonment of the passive resistance in the Ruhr was announced. On October 13th the

Government was given special powers under the Special Powers Law ; on October 15th it was decided to issue the Rentenbank decree ; and on October 16th the negotiations between the Committee of the Mines Association of the Rhineland and Westphalia and the French Commander-in-Chief, General Degoutte, with regard to the resumption of coal deliveries, were begun. On October 24th a German Note to the Reparation Commission declared the willingness of Germany in principle to resume payments under the Versailles Treaty to the Allied Powers, and at the same time asked for examination of the German capacity to pay, as affected by the successive events of the Ruhr Occupation, under Article 234 of the Versailles Treaty. On October 26th the French Government of Poincaré declared its agreement to the convocation of a committee of experts to consider the German capacity to pay. On October 8th the Phönix Works, and on November 2nd the Krupp works, concluded agreements for coal deliveries with the Inter-Allied Control Commission ; and on November 23rd a general Convention for the organization of deliveries was concluded between the Mines Union and the organization set up by the Allies (the so-called " Micum ").

The whole policy of the German Government was, by vigorous efforts in the field of foreign policy, to hasten by every possible means the resumption of the national economic activities. The psychological moment for such a policy was well chosen ; for England and also Italy had let it be clearly known that they regarded the French experiment in the Ruhr as having failed. The Separatist movement in the Rhineland, which was set on foot, with the open support of the French, by criminal elements of the lowest order and led to bloody conflicts on more than one occasion between suborned

INVASION OF RUHR TO STABILIZATION OF MARK 89

bands of Separatists and the German population, and the simultaneous attempts at disturbance by the Right—in Küstrin on October 2nd and in Munich on November 8th and 9th—had brought the country face to face with grave internal problems. The concurrent political and economic difficulties of the Reich threatened rapidly to culminate in a catastrophe, when the Government at length braced itself to the resolve to take into its hands once more the control of the destinies of the German people. In this policy the principal item was the endeavour to stabilize the mark.

CHAPTER IV

THE STABILIZATION OF THE MARK

At midday on November 12th, 1923, the Finance Minister, Dr. Luther, summoned me and informed me of the intention of the Government of the Reich to appoint a special Currency Commissioner to be entrusted with the task of stabilization and in particular with the introduction of the Rentenmark. The Government, he said, and the Finance Minister in particular, were so overburdened with their other administrative duties that they were not in a position to undertake the stabilization of the currency as a side line. The task was one of such importance, and called for such careful handling and attention, that it was essential that someone should devote himself with his entire energy to it and nothing else. He accordingly asked me in the name of the Government whether I was prepared to undertake the duty.

I was not taken altogether by surprise, for I had known for some time past that political circles had been considering on more than one occasion whether I could not be brought in to play an active part in the administration. At the same time the particular duty, with which it was proposed to entrust me, was not only in itself one of the most difficult that could be conceived, but was also, perhaps, the most responsible of all the political tasks of the moment. I knew that certain other personages, to whom I suspected that similar applications had been made, had declined the offer. There was the further consideration that it would devolve on me to put into execution a law, the

monetary bases of which I regarded as mistaken and had publicly attacked. Had Helfferich not been a member of the Nationalist Party, which was not represented in the Government, it would have been natural to ask why he had not been entrusted with the work of stabilization. There was further every reason to anticipate difficulties, personal and material, from the fact that the Government had not been able to induce the President of the Reichsbank to resign. The natural thing would have been to entrust the work of the proposed Currency Commissioner to the President of the Reichsbank. This natural solution was made impossible by the fundamental difference of views on currency questions which had for long prevailed between the President of the Bank and the Government of the Reich : the effect could only be to enhance the difficulties of the Currency Commissioner's task.

Again, in the last few weeks, the social and economic conditions had become notably worse, and the doubts which had been expressed as to whether the creation of the Rentenmark would be able to effect the stabilization desired had been rather strengthened than weakened in the interval. While it was to be supposed that the Government must urgently desire to have expert support behind them in their attempt at stabilization, it was impossible to dismiss the apprehension that it was also desired to have someone who could be saddled with the responsibility in the event of failure and cast out into the wilderness without involving the Cabinet as a whole.

I had, however, been resolved for some time past whatever happened not to be found wanting in the hour of general need, if application should be made to me ; and I accordingly began by asking what powers it was proposed to give to the Currency Commissioner.

Dr. Luther replied, indicating the powers it was proposed to grant in the following terms :

1. A Commissioner of the Reich, for questions of Currency, will be attached to the Finance Minister of the Reich.
2. The Currency Commissioner of the Reich is empowered to take part in all meetings of the Cabinet with a consultative voice. He is directly responsible, to the Government of the Reich in particular, for the issue of the necessary measures as required.
3. All measures of Ministries of the Reich, which may affect the currency, require the signature in addition of the Currency Commissioner, save in so far as they are measures in application of principles already approved by the Currency Commissioner. The competence of the Ministers is not affected thereby.
4. Any measure, to which the Currency Commissioner does not give his assent, and any rejection by the competent officials of a suggestion of the Currency Commissioner, is to be submitted to the competent Minister for decision. In the event of agreement not being reached between the Minister and the Currency Commissioner the Government of the Reich is to decide.

These, it is true, were no ordinary powers. They gave the Currency Commissioner the possibility of intervening in any question affecting the currency and of obtaining a decision of the Cabinet in any single case. No doubt they were not the powers of a Dictator; but under a Parliamentary regime dictatorial powers would have been impossible. But it is not always freedom of action which is required in the case

of decisive problems, but the power before action is taken to bring the responsibility home to the legally competent authorities. I was clear in my mind that it would be quite sufficient for my purposes if I were in a position to express my opinions in any particular case in the Cabinet, and, in the event of my views and decisions not being approved, to have the responsibility placed on record by a Cabinet decision. I accordingly replied to the Minister that I was ready to consider his proposal and would give him an answer shortly.

It was then that I learnt for the first time the astonishing energy and suggestive power of Dr. Luther. No! he told me; there could be no question of time to consider his proposal. The Rentenmark must be got into circulation in three days from that date. The whole world was waiting with passionate longing for this relief. Were there extraordinary technical difficulties in the way? If so, they must be overcome, not only the difficulties of the next three days, but also those which would attend the actual issue of the Rentenmark. Other pressing tasks awaited the Government, and it was not in a position to take over the details of stabilization. I must give him my answer "Yes," there and then, or the world (I gathered) would come to an end.

We argued. But all I could do was to insist on my answer being put off till the afternoon, since it was impossible for me to say "Yes" without first consulting my colleagues of the Darmstädter und National Bank, of which I was a partner. My consultation with them took place immediately after my interview with the Minister, and in the space of a few hours I had burnt the bridges behind me and broken with the career which I had up till then followed. For twenty-three years I had been engaged in private business:

I was now suddenly become an official. I must admit that the change was only on the surface. I had already received the testimony of Imperial Germany during the war, after the time of my activities in Brussels, that I was lacking in certain of the qualities that go to make an official; and I must add that down to the present time I have never acquired them. On the other hand, in all my private business career, I had always had a very strong feeling for State necessities, and I have always maintained the principle that private interests have to take second place where necessities of State are concerned.

In the afternoon of November 12th I gave my assent to the Minister, and was at once handed my appointment by the Government. On the same day I informed the Chancellor, Herr Stresemann, by letter that I had resigned my position as General Manager of the Darmstädter und National Bank, and that in the course of the next few weeks, as the necessities of winding up current business would allow, I would also resign all my Directorships. My letter gave effect to my well-considered intention of cutting myself free from all private business considerations. I knew that as Currency Commissioner I should be called upon to take steps which would powerfully affect the credit system and the currency circulation, and I was anxious not to lay myself open to the slightest temptation or suspicion of acting from any considerations other than those of the public welfare and the interests of the country.

In the Finance Ministry of the Reich in the Wilhelmstrasse there had been reserved for me a half-dark room jutting out over a narrow court, which for this reason, presumably, had hitherto remained untenanted. A bare writing table with writing materials and a telephone were the only furniture placed at my disposal. All

that I could obtain for my secretary, the only supporter I had brought over to my new office from my former surroundings, was a narrow room adjoining with one window; it had hitherto apparently served for the office caretakers to keep their things in. As to what the work of the Currency Commissioner would mean, no one in the office had the slightest real idea; nor had the general public either.

The official announcement of my appointment by the Government stated: "The post has been created because currency questions at the present time take up such a place in the work of the Government of the Reich that the Departments concerned, and in particular the Finance Minister, are no longer in a position to assume the responsibility for these questions unaided without their other equally pressing work suffering. As, however, the Departmental work must be kept going to its full extent, the Currency Commissioner has been attached to the Administration in a form which makes his assent necessary, subject to the rights of the Cabinet, in the case of all measures affecting currency policy, and establishes his responsibility to the Government of the Reich for the issue of all necessary measures as required. The Currency Commissioner has a consultative voice in the Cabinet." The newspapers went beyond these limits and attributed to the Currency Commissioner almost every task, of which the treatment of the currency crisis might be expected to bring a solution. Stabilization was treated as the panacea which was to better all the intolerable conditions of the moment. The Socialist papers, whose readers needed calming more than anyone, wrote: "The restoration of something like normal conditions in the field of the exchanges and prices is the most important, and perhaps also the most difficult, task of the new Currency Commissioner."

In a section of the Press regret was expressed—as well it might be—that a new office had been created side by side with the President of the Reichsbank, who was really indicated as the party to determine currency policy. The example of the appointment not long before (on September 8th) of a Commissioner for Devisen, which had led to the establishment of an extensive machinery of officials, was instantly cited: the same thing, it was feared, would happen in my case. It was not, however, new offices or new organizations which were required, but action. I for my part had never for a moment thought of setting up a big machinery of officials. I meant from the first to regard my task as consisting only in the exertion of personal influence on the authorities and instances already in existence. Nor did I, in fact, during my tenure of office as Currency Commissioner, appoint a single official, although from my first day of office applications poured in from all parts of Germany, and “In” files—this was the Office term—applications, requests, and recommendations accumulated on my table. Almost all of them I swept with a movement of the hand into the waste-paper basket, and my correspondence during my term of office as Currency Commissioner was probably not enough to fill two filing boxes. When I was asked later how I had managed to keep it within these bounds I answered that almost all the letters in could be dealt with by one of three formulæ. My first formula was in something like the following terms: “I regret that I am not in a position to avail myself of your kind offer.” My second formula consisted merely in writing on the letter the words “Go by,” the effect of which was that the letter left my office and found a place amongst the papers of the Finance Ministry. The third formula was something as follows: “I have been much

interested in your illuminating suggestions on the solution of the Currency question," though I must confess that I read hardly a single one of these suggestions. In this manner I kept my head free for watching events in the money and foreign exchange markets, and also found the time to put through what I thought right wherever necessary.

In the first days of my term of office I was also much overrun by callers ; but these too I was soon able to keep at arm's length. I was also indignant at the number of committee meetings and conferences for which my presence was desired, as almost every Ministry had something to do in one way or another with money and currency questions, and great was the number of Departments concerned. In addition to these departmental meetings there was every kind of commission and committee in the various branches of trade, industry, and banking, all of which were concerned with currency questions and were anxious to express themselves to one another and in conference with the official departments at great length. In handling the question of these meetings meticulous care had to be exercised to prevent anyone being overlooked, and to enable every instance to be consulted in due course and everybody heard. In view of the highly complicated nature of currency questions and of the extraordinary divergence between private and departmental interests, these meetings hardly ever led to anything like harmony in views or decisions. And, as none of these numerous advisers would or could assume any responsibility, I decided after a few days to make an end of all such meetings and discussions outright.

Although the preparation of the Rentenmark notes had been greatly delayed by a strike of the Berlin printers, the Government resolved on psychological

grounds to adhere to the date originally contemplated for the first issue of the new notes, namely, November 15th. The Rentenmarks were put into circulation in three ways. The first and most obvious way was when the Reich was given Rentenmark credits by the Rentenbank, and used the Rentenmark notes which it drew on these credits for payment of salaries and wages, and to finance material expenditure. Secondly, the Reichsbank offered Rentenmarks to the public, if desired, in exchange for paper marks. Thirdly, the Reichsbank began to meet customers' drafts on credits in Rentenmarks. The distribution of the Rentenbank notes as they became ready was placed exclusively in the hands of the Reichsbank. At first only the most crying requirements could be met, as in view of the delay in the printing there were not enough notes to go round. In consequence, at the outset, payment of wages and salaries by the Reich and other public bodies could only be made in part in Rentenmarks: the rest had to be made in paper marks or gold loan.

As the Rentenmark was theoretically equivalent to the gold mark, the payments in Rentenmarks were calculated at the current exchange of the gold mark or dollar on the Berlin Bourse. This exchange naturally fluctuated, and this circumstance, coupled with the general desire to acquire Rentenmarks, made the distribution of the limited supply available extraordinarily difficult. For example, it was found necessary to put notices in the *Reichsbesoldungsblatt*¹ as to what percentage of the salary on each occasion could be paid out in Rentenmarks. The prior consideration shown to certain circles in the distribution of the Rentenmarks naturally

¹ German official organ for questions of salary and wage payments of civil servants.

gave rise to lively disgust on the part of the others. Further depreciation of the paper mark was, moreover, generally expected, and everyone was anxious to exchange his paper marks into Rentenmarks as quickly as possible while the exchange was still favourable. In the first few days of the Rentenmark issue long queues, stretching out into the street, were formed at the counters of the Reichsbank where the notes were being issued; and there was naturally indignation each time a section of the waiting public had to be sent away unsatisfied at the close of office hours or on exhaustion of the supply.

After the public Departments the Reichsbank gave first consideration in its issue of the notes to the requirements of agriculture and the provision trade. Firms and individuals engaged in these occupations received certificates to that effect from the Food and Finance Ministries. The Krankenkassen¹ also received prior consideration. Rentenmarks were also given on a specially generous scale where Devisen were offered in exchange; but there were not many offers of Devisen. The generality of private enterprises (as opposed to the special cases indicated)—in so far as they could be considered at all—were given for preference advances with which to pay wages and salaries, the object being partly to allay social unrest, partly to prevent the hoarding of the new notes for speculative purposes, and to ensure the introduction of the new currency into general circulation. All told there were not more than about 80 million Rentenmarks ready printed on November 15th, and at the end of November the total was not as much as 700 millions.

Under these circumstances the most pressing question on November 15th was the rate at which the Renten-

¹ Offices in connection with the system of State insurance against sickness.

marks were to be exchanged for paper marks. The Press was full of the public rush for the new currency. It was stimulated by the fact that the dollar in Berlin was being quoted at 2.52 billion (million million) * paper marks—or 600 milliard marks for a gold mark or Rentenmark—which in the opinion of the public was very much below the dollar's real value, with the result that the fortunate recipient of Rentenmarks against paper marks at this rate could be sure of a profit on the exchange.

It was a fact that the official Berlin quotation of the dollar was considerably behind the dollar quotation of foreign Stock Exchanges or the price obtainable in private dealing. When I took office on November 12th the dollar was quoted officially on the Berlin Bourse at 630 milliard marks, whereas on the Cologne Bourse, which under the protection of the Allied Occupation was exempt from the German legislation on Devisen dealings, it was as much as about 4 billions (million

* The word "billion," etc., is used throughout this translation in the English (which is also the German) sense of "million millions." A "trillion" in English and German is a million of such billions, and a "quadrillion" is a million of such trillions. In the American usage, on the other hand (which is also the French usage), a "billion" is the same as a "milliard," i.e., a thousand millions, a "trillion" is a thousand of such billions, a "quadrillion" is a thousand of such trillions, a "quintillion" is a thousand of such quadrillions, and so on. The following table will be convenient for reference:

	German Term.	English Term.	American (and French) Term.
1,000,000	Million	Million	Million
1,000,000,000	Milliarde	Milliard	Billion or Milliard
1,000,000,000,000	Billion	Billion	Trillion
1,000,000,000,000,000	Billiarde	Thousand billions	Quadrillion
1,000,000,000,000,000,000	Trillion	Trillion	Quintillion
1,000,000,000,000,000,000,000	Trilliarde	Thousand trillions	Sextillion
1,000,000,000,000,000,000,000,000	Quadrillion	Quadrillion	Septillion

millions) ¹ on the same day. There was no doubt in my mind that with such a margin the maintenance of the Berlin official rate could not permanently be attempted. All consideration of the question how such a rate could be maintained ended in the conclusion that nothing but contraction of the amount of the circulation could be attended with success. This was the decisive reason why the Rentenmark could not be declared legal tender. I was obliged, therefore, to make an estimate as to the amount of the paper mark circulation, reckoned in gold marks or in Rentenmarks by way of the current dollar exchange. The identity of the gold mark and Rentenmark in this calculation was at the outset a pure assumption, based on the desire to maintain the theoretically gold-based Rentenmark in practice at its gold value. As on November 12th the dollar exchange was 630 milliards, and the gold mark accordingly equivalent to 150 milliards, if the total circulation of the Reichsbank were taken to be 60 trillions (million million millions) ² of paper marks, one arrived at a total circulation (converting as above) of some 407 million gold marks. As the discount of Treasury Bills by the Reichsbank was not to come to an end until November 15th, and as it was not yet clear what amount of Treasury Bills the Finance Ministry would bring to the Bank in the last few days, there was every reason to reckon with a considerable increase in the paper mark circulation. I was therefore faced with the necessity of pressing for an increase of the official dollar quotation, sufficient to make the compulsory Berlin quotation of the mark approximate to the free rate of the mark on the markets of the world. It was clear that the same amount of trillions ² of paper marks would give an appreciably higher circulation with a

¹ See footnotes on page 100.

dollar divisor of 630 milliards than with a divisor of 4.2 billions.¹ Whereas, therefore, the dollar exchange on November 12th was 630, on November 13th it was raised to 840, on November 14th to 1,260, on November 15th to 2,520 and on November 20th to 4,200 milliards.

This rapid rise in the dollar rate inevitably gave rise to lively comments on the part of the public. It was with reason objected that those who could have exchanged the Rentenmark on the four previous days at the lower rates, had made a profit without any effort on their part as a result of the increase on November 20th. On the other hand the approximation of the Berlin rate to the world rate was welcomed, though the Reichsbank was criticized for not parting with Devisen at the new rate. The Reichsbank from November 13th onwards had allotted only one per cent. of the applications for Devisen. But it was a case of Hobson's choice: the exhausted Devisen stocks of the Reichsbank permitted of no better allotment. As a result a highly pessimistic attitude on the part of the public again gained ground, and the Government and the Reichsbank found themselves faced with the necessity of stabilizing the dollar rate as soon as possible. At what rate this should be done, that is to say at what rate the maintenance of the dollar rate—in other words stabilization—would be possible, was the great riddle to which the answer had to be found. There was no mathematical formula which could provide the solution. It was a question of instinct, and ultimately of experiment; but the form of the experiment remained one and the same—namely, the contraction of the legal currency, the paper mark.

The obscurity, which surrounded the position even

¹ See footnote on page 100.

in those quarters which were most closely concerned, is shown by the fact that complaints were continually being made to me by circles in touch with the Rentenbank that the Rentenmark was being issued too cheaply and in fact being given away. I was continually being urged by members of the Rentenbank management to put the dollar rate still higher and to exchange the Rentenmark accordingly at a higher paper mark rate. At the same time the Reichsbank, in agreement with my own standpoint, was holding the official dollar rate of 4.2 billion paper marks firm from November 20th onwards, although the value of the mark in the world markets continued rapidly to sink.

This divergence of view between the Rentenbank on the one hand and my own view and that of the Reichsbank on the other hand put me in an anything but simple position. The Press of the Right and, in particular, the agrarian elements, who regarded the Rentenbank as their own handiwork, had seen my appointment as Currency Commissioner with acute uneasiness. Although my loyalty in putting through the Rentenmark scheme once I was appointed was not called in question, there was nevertheless a marked political antipathy between the agrarians and myself which found expression in a lack of confidence that was only imperfectly concealed. I accordingly conceived a project for shifting on to other shoulders a part of the responsibility for the maintenance of the exchange at 4.2 billions, to which the Rentenbank circles were opposed, by inducing the other responsible instances concerned to give it their approval.

With this object I summoned the Directors of the Reichsbank and the influential members of the Rentenbank management to a discussion at the end of November. In the course of this discussion I put

the question in purely objective form whether the dollar exchange should be maintained at 4.2 billions or should be put up. In the course of the discussion the representative of the Rentenbank was at first for putting up the dollar exchange, whereas the representative of the Reichsbank, Geheimrat Kauffmann, speaking after him, was strongly in favour of maintaining the existing figure. I thereupon raised the problem of stabilization in the sense already indicated, arguing that stabilization was only possible by contraction of the paper mark circulation; and I had the satisfaction of seeing that Herr Urbig, of the Board of the Rentenbank, who was present, adopted my view and in the end summed up his opinion somewhat as follows: "If you think that you can stabilize by curtailing the amount of paper money, I am not prepared to advocate increase of the dollar rate, and I am for making the experiment." The other representatives of the Rentenbank thereupon did not venture to object, and the road was thus left free for the further struggle with the higher dollar rate of the free market, the prospect of which struggle, however, I contemplated without great qualms.

A further factor in the campaign for the restriction of the paper mark circulation, besides the increase in the dollar divisor, was the struggle over the Notgeld, or "emergency money," in circulation. The entire history of this so-called emergency money during the war and after the war, and in particular during the Ruhr conflict, reads like a satyric play following on the tragic trilogy of the rest of the story. It was the sheer technical impossibility of supplying the business world with a sufficient quantity of printed pieces of coloured paper which induced the Reichsbank, on occasion after occasion, itself to suggest to the Federal

States, Provinces, communes, and even private undertakings that they should print and circulate their own money. The departmental reports of the Reichsbank on the technical side of the attempt to produce sufficient notes read like a farce. The printing office of the Reich, which before the war had printed the notes of the Reichsbank unaided, was unable to produce the required number of the new notes, and private printing offices had to be brought in for the purpose. The perpetually increasing depreciation made continual new printing necessary. At the end something like two thousand officials and employees of the Reichsbank were engaged on the work of supervision of the printing offices and paper factories, and as escorts in the transportation of the paper and notes. In 1923 there were engaged on the production of notes for the Reichsbank, or for the printing office of the Reich, 133 printing offices and 1,783 machines. Over thirty paper factories were working full time exclusively for the Reichsbank.

These figures may appear grotesque ; but recognition is due to the Bank for the purely technical effort which such a work involved ; and it is almost a miracle that, when the whole of this monstrous apparatus was wound up, it was found that there had been no notable losses to the Bank on the working of the whole scheme through forgeries or the like. I have cited the figures in order to show that even with assistance on so vast a scale the Bank was not in a position to supply the business world with a sufficiency of notes. Consequently the printing of communal and private emergency money (Notgeld), as occasion required, became commoner and commoner. A law of the Reich of July 17, 1922, regulated the issue of this emergency money, making the assent of the Finance Minister and the deposit of

cover in the shape of cash or treasury bonds of the Reich at the Reichsbank a requisite condition.

At the end of 1922 some 20 milliards of marks of emergency money were probably in circulation, side by side with a simultaneous circulation of 1,280 milliards of Reichsbank notes. In the course of 1923 the amount of this emergency money, issued by innumerable bodies, was increased on a quite extraordinary scale, and its proportions in relation to the circulation of the Reichsbank notes became larger and larger. The cover provisions were more and more widely ignored. At the end of 1923 the total amount of all the paper mark emergency money, most of which was backed by no cover at all, was probably between 400 and 500 trillions,¹ that is to say, nearly half a milliard of gold marks or the gold equivalent of the whole Reichsbank note circulation at the same period. At the same time an equal amount of stable emergency money was in circulation. Altogether, therefore, the emergency money in circulation was twice the amount of the Reichsbank notes. There is no doubt that in the wild depreciation of the year 1923 the emergency money played a big part in supplementing the inadequate supply of notes by the Reichsbank, and provided a very welcome source of credit supply and currency. The issue of non-stable Notgeld was one of the easiest methods of making profits on the inflation, and was eagerly and lavishly practised by communes and still more by large private concerns.

In the occupied districts especially, the regular supply of which with money from the Reichsbank was made very difficult by the attitude of the Occupation troops during the Ruhr invasion, the issue of emergency money

¹ I.e. between 400,000,000,000,000,000,000 and 500,000,000,000,000,000,000 ; see footnote on page 100.

took place on a very large scale, patriotic necessities in this case contributing to dissipate monetary or moral objections to the excessive manufacture of money. Down to the date of the stabilization the Reichsbank accepted this emergency money over its counters and treated it as of equal value to its own money. The consequence was that large masses of emergency money had accumulated in the offices of the Reichsbank, all attempts to put it back into circulation as rapidly as it came into the Bank proving unsuccessful. Indeed it may be supposed that, as the Reichsbank money naturally had a wider radius of circulation than the emergency money, a very large number of the bodies issuing the latter were at pains to get rid of it as quickly as possible at the Reichsbank and to get Reichsbank notes in exchange. This was easily done through the Giro clearing system. Sums were paid into one branch of the Reichsbank in emergency money and were transferred by the clearing machinery to another branch, where they were drawn out in Reichsbank notes. The system of emergency money thus meant that the Reichsbank was no longer master of its own note issue, and the bodies issuing emergency money were in a position at any time to force the Reichsbank to make additional issues of its own notes.

On November 17, 1923, the Reichsbank issued circular instructions to all its branches that as from November 22nd no more emergency money of any kind was to be accepted in payment by branch offices, and that the bodies issuing emergency money were to be requested by November 26th, at latest, to redeem such of their money as was in the hands of the Reichsbank. These instructions, as soon as they became known, created immense excitement amongst the numerous elements which were deriving advantage from the

emergency money system. The loudest outcry against the Reichsbank and the Currency Commissioner came from the Rhineland. The demand was insistent that the instructions should be withdrawn, and the political and economic distress on the Rhine and Ruhr were naturally exploited to the utmost possible extent. If we had given way to this pressure, the whole work of stabilization would, of course, have been wrecked, for the programme of restricting the volume of the circulation would have ceased to be practicable if any and every issuer of emergency money had had it in his power to force the Reichsbank to issue more notes.

On the other hand, the political position of the Government in relation to the Rhineland was extraordinarily difficult. The Separatist movement was in full swing, and was quite openly supported by the French military authorities. The introduction of the Rentenmark into the occupied territory was in danger, because the Occupying Powers threatened to put difficulties in the way of its circulation. The idea, moreover, of creating a separate bank of issue for the Rhineland and Westphalia had already begun to assume definite outlines: had it actually taken shape, it might well have meant the beginning of separation of the Rhine and the Ruhr from the Reich. The Government in Berlin was quite powerless in face of the violent interference by the French military authorities in the Rhenish and Westphalian industries.

The decision in the case of the emergency money, therefore, was not an easy one; but for me there was no moment of hesitation. I had the firmest confidence in my belief that the restoration of ordered monetary conditions in Germany would constitute one of the

most powerful influences in our favour, not merely in the economic; but even more in the political sphere. The sooner it was possible definitively to stabilize the mark, the more powerful would be the effect on the many dark projects which were being engineered and supported by the French in the Rhineland.

In the afternoon of Sunday, November 25th, I was present, at the request of the parties concerned, in the municipal council chamber of Cologne, where a number of the principal leaders of the economic and municipal organizations of the occupied territory were assembled. So strong was the feeling of the meeting that it led at the outset to a personal conflict, after which I was made the object for two hours on end of the liveliest drum-fire of economic and political argument and persuasion from all sides. All the Chief Burgomasters present, the heads of the communal banks, and chairmen of Chambers of Commerce were at pains to convince me that the Rhineland would be ruined economically, and exposed to the gravest dangers politically, if the Notgeld Circular of the Reichsbank were not withdrawn. Without making any detailed statement of my intentions in regard to currency policy, I told the meeting with unruffled calm that the Reichsbank must once again be master of the circulation, and that the stabilization must be put through, however painful the operation involved. The meeting must realize, I said, that the turning-point in the currency question had come, and I urged them to make up their minds accordingly with a good or bad grace. The discussion ended with the assertion on my part that the Notgeld Circular would be maintained under all circumstances.

From this moment on I was for many leading circles in the Rhineland a red rag, a man to be fought. Hugo

Stinnes, a few weeks later, went so far as to tell the Government of the Reich that the Rhineland industries must decline to have any further dealings with Herr Schacht. It was impossible after all to take it ill of these circles if after this first trial of strength they were not exactly friendly towards me, particularly as the Government of the Reich could do little for them in view of the helplessness to which it was condemned by the action of the French occupying troops. The Government of the Reich was compelled always to display a certain deference to the wishes of the industrialists in the occupied territory. Now for the first time the latter had encountered a man who was not afraid of the risk of a painful operation, and was resolved to enforce his wishes on the parties affected.

Some six months later I had the great satisfaction of hearing one of the leaders of that Cologne meeting admit to me in the friendliest language that the meeting had misjudged me. They could now see, he said, much which they had not sufficiently appreciated in the Rhineland at the time, under the unparalleled pressure to which they were subjected and in the economic isolation from the rest of the Reich to which they were condemned. I had had the courage, he said, not to abandon my aims, which were more far-reaching than theirs were, or could be, at the first sign of opposition, and had continued undeviatingly on my way. I may add that many of those who were then opposed to me are to-day my friends and some of them my closest collaborators.

In those early days it must be remembered that no one in the Rhineland believed in the possibility of stabilization. That this was so is best shown by the following table. The dollar was quoted on the Cologne Bourse—

THE STABILIZATION OF THE MARK 111

On November 13, 1923, at up to	3.90	billion	marks	to the	\$1.
„ 14, „ „	6.85	„	„	„	„
„ 15, „ „	5.80	„	„	„	„
„ 16, „ „	6.50	„	„	„	„
„ 17, „ „	6.70	„	„	„	„
„ 19, „ „	9.85	„	„	„	„
„ 20, „ „	11.70	„	„	„	„
„ 22, „ „	10.20	„	„	„	„
„ 23, „ „	10.50	„	„	„	„
„ 24, „ „	10.25	„	„	„	„
„ 26, „ „	11.00	„	„	„	„

and all the while in Berlin the dollar had been held officially since November 20th at 4.20 billion marks! A veritable fever of speculation developed. But to carry through a speculation on the difference between these two sets of quotations it was not sufficient to buy the dollars at the "free" rate: they had to be paid for, and paid for in the course of the next few days. But payment could only be made in Reichsbank notes; and the Reichsbank had now the control of its own notes once more in its hands. Emergency money was not accepted and the Rentenmark could not be used for the purpose, particularly since under instructions issued on November 16th the transfer of Rentenmarks to foreigners was expressly forbidden, and for the present the Reichsbank was giving no more paper mark credits.

The collapse of the speculation was thus inevitable. The dollars had to be sold again almost as fast as they were bought; and, if they were bought when the exchange was rising, they might now have to be sold on a falling exchange. The dollar was quoted on the Cologne Bourse—

On November 27, 1923, at up to	10.20	billion	marks	to the	\$1.
„ 28, „ „	9.40	„	„	„	„
„ 29, „ „	8.50	„	„	„	„
„ 30, „ „	7.80	„	„	„	„
„ December 6, „ „	4.90	„	„	„	„
„ 10, „ „	4.20	„	„	„	„

* Million millions; see footnote on page 100.

The Reichsbank noted with satisfaction how the Devisen came into its hands, for the reason that it was the only party in a position to take up dollars offered it in any quantity against its own notes. I have given full particulars here of the case of the Rhineland, because the struggle in this case was particularly significant, and was played out in the open. But the same spectacle of speculators compelled to surrender the Devisen they had bought for want of paper marks was to be seen, of course, in many other parts of the country. Between December 10th and December 31st the Reichsbank received altogether 200 million gold marks' worth of Devisen. The campaign to hoist the purchasers of Devisen with their own petard¹ by restriction of the circulation, and to hold the dollar parity of 4.20 billion marks, had succeeded. For the first time for a long while past the speculators had received a severe check, a check which was not due to the chances of the market but had been systematically designed and prepared for their benefit. For a while it was probable that they would not repeat their manœuvres in this particular form, though the Reichsbank was a long way from being in a position to deliver all the Devisen for which application was made, and for a long time to come would have to limit the distribution to small percentages of what was asked. But the speculators had learnt that the Reichsbank was now able, if it decided to do so, to put an end to all speculation on the foreign exchange market. The success of the Bank's campaign meant an immeasurable increase in the confidence of the public in the stabilization programme as a whole.

Here is perhaps the place to refer to a problem with

¹ In Dr. Schacht's vivid German "to serve the fish with his tail in his mouth (*die Devisenkäufer aufzuschwänzen*)"; which, on a German Stock Exchange, is the equivalent of "to squeeze."

which I was often faced, whether, namely, it would not be desirable, in place of the old gold mark, to adopt a mark unit corresponding to a smaller quantity of fine gold, for example a mark worth, not 100, but 75 or 80 of the old pfennigs. Such a measure was adopted in Austria, and in Hungary, and has latterly been adopted also in Belgium. Had we taken similar action, transactions with other countries would hardly have been affected, since the prices in world trade are quoted in gold and the conversion of the various international monetary units is everywhere on the basis of gold. As regards internal transactions, on the other hand, the creation of a smaller monetary unit would have had the advantage of facilitating a more gradual and less sudden transition from the inflation prices and wages which were still current to prices and wages based on the international gold parity. I was by no means opposed to the idea in itself, and would in all probability have acted on it, if that had still been possible. But in view of the rapidity with which the German inflation had proceeded and the dimensions which it had assumed, the possibility no longer existed. Not only had the wholesale trade already returned to the gold or Devisen basis; certain taxes had also been assessed in gold marks during the later months of the inflation. Above all, the Rentenbank decree, which I found ready for issue at the time of my taking over my office as Currency Commissioner, had accepted the fineness of the old gold mark as the standard for the Rentenmark, and the 10.42 dollar bonds of the Gold Loan in circulation were also equivalent to the old gold mark. Interesting, therefore, as the proposal was in itself, it had lost all actual character for me in advance, confronted as I was with facts which could no longer be altered and conditions which had been legally fixed.

What had been accomplished so far was not only of the utmost significance in respect of its economic effect: it also enormously facilitated the transition for the business world on the technical side, i.e. in the matter of book-keeping and accounts. The Reichsbank had been able to create and maintain for weeks on end the position

1 billion * paper marks = 1 gold mark = 10/42 dollar.

By a voluntary ratio of conversion, which rested on no legal basis of any kind, the Rentenmark was taken as equal to this gold mark, so that the position was

1 billion * paper marks = 1 gold mark = 10/42 dollar = 1 Rentenmark.

It may be imagined what it would have meant if there had continued to be fluctuations in the rate of any one of these three elements of the equation in relation to the others, if, for example, the Rentenmark had been quoted at a daily fluctuating rate. Little as a legally fixed ratio between Rentenmarks and paper marks would have helped to put through the stabilization measures which have been described; a fluctuating relation, on the other hand, between Rentenmark, paper mark, and imaginary gold mark would have introduced confusion into daily payment transactions. As it proved, however, it was only in the first few days of the conversion that there was any sign of the equilibrium between the three elements of the equation being disturbed, the Rentenmark establishing a certain preferential position in everyday business, many shops asking for it in preference to paper marks. After about the first fortnight, however, Rentenmarks, paper marks, and small bonds of the gold loan were accepted indifferently without distinction at the fixed ratio.

* Million millions; see footnote on page 100.

Incidentally the fixed ratio made conversion calculations very simple in the case of the paper mark. The objection was very often put forward later that our putting up of the dollar exchange from 630 milliards to 4.20 billions was done only in order to have the round figure conversion rate of PM 1 billion = GM 1, and that our action in so doing constituted a heavy and quite unnecessary blow to the mark. I have, I think, sufficiently shown that other reasons made the putting up of the dollar exchange essential. At the same time the round figure of GM 1 = PM 1 billion did effectively facilitate the introduction of the gold mark (Rentenmark). If instead of 1 billion an exchange of 970 milliards or any similar odd number had obtained, how would it have been possible in retail dealings to maintain such a ratio? As it was, however, the transformation of the book-keeping went through everywhere very simply. Government offices of the Reich were instructed to convert their paper marks into gold marks as from November 15th. The Ministry of Posts began by maintaining the two currencies, paper marks and Rentenmarks, simultaneously for postal transactions. Later the two coalesced of themselves. From December 1st onwards postal orders in Rentenmarks were introduced for remittances inside Germany; and from the same date stable value stamps were issued. The postal cheque system was converted into Rentenmarks on December 15th. The Reichsbank introduced Rentenmark clearing side by side with the paper mark clearing; and the private banks and savings banks followed suit.

The most decisive relief to the Reichsbank on the date November 15, 1923, was the cessation of the Reich's demand for credits. The Reich's demand for credits had always been by far the greatest source of

the inflation and the greatest menace to the Reichsbank note. In comparison with the demands of the Reich all other demands on the Bank for credit hardly counted. On the critical day, November 15, 1923, the Reich was indebted to the Bank to the amount of 189.8 trillion marks¹ whereas the total of all the other credits granted by the Reichsbank was only 40.1 trillion marks. The close association of the Reich with the note-issuing institution had been fatal to the latter.

The former management of the Reichsbank has frequently been blamed severely for the credit it extended to the Reich. But in any consideration of its attitude two phases must be sharply distinguished. Down to the time of the promulgation of the Law of May 26, 1922, which established the independence of the Bank, the Reichsbank was no more than a Government Department acting under the orders of the Chancellor of the Reich. The shareholders, it is true, were private persons; but they had no influence on the conduct of business. The Central Committee of the Bank, consisting also of private persons, was appointed by the Directors, and only asked for its opinions as the Directors pleased. It had no power to take decisions. The President of the Bank and the Directors were officials of the Reich appointed by the Emperor for life on the proposal of the Bundesrat. After the Revolution, so long as this was the legal position, the Chancellor could at any time merely issue instructions to this body of officials to give him the credits which he desired. Any opposition on their part would at best have had a moral effect; its practical results would have been *nil*.

After the amendment of the Bank Law of May 1922, however, the legal situation was entirely changed.

¹ I.e., Mk. 189,800,000,000,000,000; see footnote on page 100.

The Directors of the Bank were assured under the new Law of complete freedom in the conduct of business, without the Government having even the power to cancel their appointments. It was the express purpose of the Law to enable the Reichsbank to escape from the obligation to give credits to the Reich, though any expectations that the Bank would avail itself of this means of escape were at first disappointed. There is reason, it is true, to suppose that the Bank frequently drew the attention of the Government to the devastating effects of the discount of Treasury Bills, but there was no actual threat of a refusal to discount until August 1923, when for the first time the Reichsbank informed the Government that after the close of the year it would no longer be prepared to extend uncovered credits to the Reich. There can be no doubt that this declaration strengthened the pressure on the Government to take in hand the financial reforms. That such a step was not taken before is only to be explained by the force of tradition and the mental attitude of the former President of the Bank and some of his colleagues, who had not the heart, in view of the European situation and the unhappy position of their country, to force the Reich to rely on its own resources, though only by so doing was it possible to save the Reichsbank note from further collapse.

Now at length freedom for the Bank had come with the Rentenmark decree, and it now devolved upon the Reich to balance its budget on a stable value basis. The Rentenbank placed 900 million Rentenmarks at its disposal for the purpose, while 300 million Rentenmarks were held in reserve to cover the debt at the Reichsbank. The budgetary stabilization fell to the lot of Finance Minister Dr. Luther, who tackled the task with the greatest energy and was responsible for

its solution. That the Finance Ministry was not a little anxious in the last few days before November 15th at the prospect of what lay before it is readily intelligible. The representatives of the Departments were anxious before the critical day to get some kind of working reserve in the till by discounting as large a number of bills as possible at the Bank. Fortunately the existence of the Currency Commissioner could not be eluded. When a request was addressed to me to make joint representations with the Finance Ministry to the Reichsbank on the subject, I put it aside with the answer that my presence would only have the contrary effect to that which they desired, since I could not do otherwise than express myself as hostile to the proposal. The Reichsbank immediately took up the ball I had thrown down, and declared that they for their part were not in a position without the assent of the Currency Commissioner to discount a larger number of Treasury Bills than could be shown to be directly necessary down to the date November 15th.

By similar playing into one another's hands the Reichsbank and the Currency Commissioner avoided compliance with another request which was put forward on the basis of a former promise given to the private banks to facilitate their raising money through the Darlehnskassen on the dollar Treasury Bills taken over by them at an earlier date. Such a step would have involved an increase in the circulation of Darlehnskassenscheine, and this I rejected on the grounds that in the course of the stabilization many other hardships would inevitably arise, and that the private banks must get accustomed to standing on their own feet and relying on their own resources.

In the last six weeks of the year 1923, while the stabilization was taking place, the Finance Ministry of

the Reich had to contend with difficulties which were altogether abnormal. The credit of 900 million Rentenmarks placed by the Rentenbank at their disposal, and designed primarily for restarting the economic life of the Rhine and Ruhr as well as for unemployment relief and grants to the Railway and Posts, was used up with alarming rapidity. It became clear that it would in all probability be completely exhausted by the end of December. Accordingly, on December 7th, the so-called *Steuernotverordnung* or Emergency Taxation Decree was issued, which amongst other things made the third instalment of the "Rhine and Ruhr Tax," which was due on January 5, 1924, payable on December 18, 1923.

In spite of this provision it was an ever-present anxiety whether it would be possible to pay the next instalment of official salaries or not. In their need the Finance Ministry once again endeavoured to obtain credits by appealing to the Rentenbank to extend the credit of 1,200 million Rentenmarks which it had accorded. It was the only question on which the Board of the Rentenbank had a decision to take and a free hand to decide: for its other credits, i.e. business credits, were only given in accordance with the applications of the Reichsbank. It is the historic service of the Board of the Rentenbank to the country that at its sitting on December 20, 1923, it declined the request of the Finance Minister of the Reich, and thereby strengthened the compulsion on the Reich to stabilize its Budget by its own efforts. At this critical moment only the utmost severity and decision was in place, and it was forthcoming. It received its reward in the fact that Dr. Luther was successful in getting through the last days of December and the first weeks of January until the revenue converted into gold marks or Renten-

marks began once again to flow regularly into the Treasury and to provide the requisite cover for the expenditure. Without the energetic action of Dr. Luther in stabilizing the Budget the stabilization of the mark might indeed have been put through, but the stabilized mark note could scarcely have attained as it did an adequate circulation.

CHAPTER V

FROM RENTENBANK TO GOLDDISKONTBANK

FROM the summer months of the culminating year of the inflation (1923) the demands for a change in the Presidency of the Reichsbank had been multiplied. Till then it had been chiefly the Socialist Press which desired the departure of President Havenstein. Now the bourgeois Press also began to call for his resignation. Dr. Havenstein's appointment had been for life. What led the public to call for a change in the Presidency was the opposition of the Directors of the Bank to the demand, behind which so many political economists were now ranged, for the placing of credit policy on a stable basis. Remembering the struggle which was waged later round my own person, it is not matter of surprise that at a time of such excitement the conflict over Havenstein was not always waged with very high-grade weapons. But at bottom the issues in his case were objective rather than personal, and powerful enough at that. Even the *Kölnische Zeitung* wrote on August 19, 1923: "None of us will doubt that the old President, the type of conscientious Prussian official, has given his best to the service of the Reich and the German people. But he should have seen years ago that he was no longer the man to cope with present-day conditions, and should have resigned office accordingly. That he did not do so was his greatest mistake. The responsibility for his not having done so rests not only with him, but with all those who could long since have provided him tactfully in one way or another with an honourable exit."

The article in question was undoubtedly not written without knowledge of what was happening within the Cabinet of the Reich in those days. An announcement in the *Berliner Tageblatt* of August 26, 1923, gives what is probably an accurate picture of what occurred. "In the various interviews which Dr. Havenstein has had," it was said, "in the course of the last few days both with the President of the Reich and with the Chancellor, the need for a change in the management of the Reichsbank has been made clear to him: but Dr. Havenstein has not yet drawn the moral of these overtures."

Why Havenstein did not resign I have never clearly understood, and in spite of numerous statements on the subject which have been made to me since then I am still in the dark. I was myself acquainted with Havenstein through occasional interviews, and must admit that I always held him in the highest personal esteem. He was the best type of Government official of the Empire period, a man of altogether honourable human qualities, which, however, were limited by a certain obstinacy of outlook. That he was a specialist on currency theory he would himself hardly have claimed. The currency expert of the old Reichsbank management was the aged Vice-President von Glasenapp, whose astonishing knowledge of this intricate subject still compels the admiration even of those who differed from him on decisive points. I came ultimately to think that Havenstein felt he could not take the responsibility of relinquishing the office with which he had been entrusted until he was certain that a suitable new pilot had been found for the ship he was abandoning. He always wished to see Helfferich one day as his successor; but he no doubt recognized the political impossibility of Helfferich at a time when efforts were being made for an understanding with foreign countries.

This may have been the motive at the back of Havenstein's mind when at the end he told the President of the Reich that he was ready in principle to resign, but must make the reserve that he desired himself to select the moment for his retirement somewhere in the course of 1924. He clearly hoped that in the interval the possibility would arise of putting someone whom he regarded as a suitable successor into his place.

The question never came my way at all, except that once in an interview in a certain quarter I had occasion to combat the fantastic idea that the President of the Reichsbank could be removed from his office under the famous emergency paragraph, § 48, of the Constitution of the Reich "in the interest of the maintenance of public peace and order." The report which was spread later by my opponents that the reversion of Havenstein's office was held out to me in prospect at the time of my appointment as Currency Commissioner was in every respect inaccurate. On the contrary, I accepted my office without reserves or stipulations of any kind, knowing well that it would be one of the most difficult parts of my task to secure the close co-operation with the President of the Reichsbank which was essential for the success of the work. Immediately after my appointment I asked if I might call on Havenstein, only to learn that he was in the country. His health at the time was not of the best, and he was endeavouring to recuperate on the estate of Rörchen, near Königsberg, in the Neumark, in the house of his son-in-law. On November 20th came the news that he had died in the early morning, of heart disease. I had not seen him again during my time of office.

In the obituary notices in the Press the question of his successor was at once raised. There did not appear to be many suitable candidates for the post, and the

selection was soon narrowed down to the two names Helfferich and Schacht. As to the technical qualifications of the two, there was not much distinction to be made. Both had been bankers and had had long years of practical experience. Helfferich had not only studied the theory of currency policy for many years, but had also actually called a currency of his own into existence in German East Africa. I myself was not without training in political economy, though not to the same extent as Helfferich, and in Belgium during the occupation I had played a decisive part in currency questions, while in the last few weeks I had been able in the execution of the stabilization programme to place to my credit a success which few persons had anticipated.

The conflict was thus transferred to all intents and purposes from the region of facts and qualifications to the political sphere. Helfferich was a Nationalist and a member of the Reichstag and one of the most conspicuous leaders of his party. I was not so prominent a party politician, but I was known to everybody to be a convinced adherent of democratic ideas and the representative of a policy of economic understanding with other countries, to which alone I looked for the basis of national reconstruction. Those who were opposed to Helfferich attacked him for his mistaken financial policy during the war, and attributed to him a great part of the responsibility for the inflation. It was also argued that, at the moment when the Ruhr struggle had just been called off and the intervention of a committee of international experts to examine the position in Germany had already been resolved, the appointment of a man holding such extreme views on foreign policy to a post where he must inevitably play a considerable rôle in the coming discussions of international financial problems was not calculated to promote

advance along the line of foreign policy for which the Government of the Reich had decided and to which the great majority of the Parliament had given its approval.

My own opponents had no criticism to make of me on objective lines, apart from my democratic views in politics. They had recourse accordingly to personal calumny. The fact that the director of a company, of whose Board of Control I had been the Chairman, had been charged before an examining magistrate with offences against the decrees on dealing in Devisen was immediately used to throw suspicion on me, although the individual in question had been released from his detention after ten days and had been endeavouring for five months without success to have the matter cleared up in Court. The charge against him was later withdrawn, exhaustive inquiry by the magistrate having shown that there was no question of criminal action on his part. A second charge was that during my term of office under the German occupation in Belgium I had neglected my official duties, or perhaps done worse. In this case the documentary evidence was fortunately still available, and examination of it by the competent Government Departments revealed the fact that there had been no dishonourable offences on my part. By obscure hints of this and similar character, it was endeavoured to calumniate me personally and to make my candidature—for which frankly I had never myself been responsible—impossible.

A special rôle in this conflict devolved upon the organizations representing the Reichsbank. Under the law, the Directors and the Central Committee of the Bank had to express their opinion before the appointment of the President. The Directors in this case, acting no doubt in accordance with Havenstein's views, had

pronounced unanimously for Helfferich ; and the Central Committee adhered to their proposal. The adhesion of the Central Committee was the more striking in that it was composed of representatives of precisely those banking authorities who a few weeks before had sharply attacked Helfferich's Rentenmark proposals. My candidature was put forward notwithstanding in the Reichsrat, which alone had the right of making proposals, and the Directors of the Bank were asked to express their opinion and to obtain the opinion of the Central Committee on the subject. The Directors expressed their opinion in a lengthy document, which concluded with the decisive and unanimous rejection of my person as unsuited for the Presidency of the Bank. The Central Committee adhered to this expression of opinion on December 17th by a majority of all but three of the members.

These expressions of opinion remained, however, without success. The Reichsrat on the following day, in public session, proposed "the Currency Commissioner and consultative member of the Cabinet of the Reich, Dr. Schacht, for the post of President of the Reichsbank." The reporter of the committee, in making the motion, announced that the Government of the Reich had indicated that this proposal was agreeable to it. Dr. Schacht, he said, had co-operated in confidential relations with two Cabinets, and the experiences gained from this common activity had led to the conviction that in respect of knowledge and capacity alike he was the right man for the post. Four days later the President of the Reich, President Ebert, signed my nomination.

The record of these proceedings in retrospect is not without its humorous side. In particular the grounds adduced in the opinions of the two Reichsbank organiza-

tions repay perusal. In the Central Committee, amongst other critics, a representative of the occupied territory stated that he considered himself empowered in the name of the banking, industry, and trade of the occupied territory to say that Dr. Schacht did not command the standing which in their view a President of the Reichsbank ought to have. The declaration of this member will be not altogether unintelligible when my action in the matter of the emergency money on November 25, 1923, in Cologne¹ is remembered. In the opinion expressed by the Directors it was said, amongst other things, that I was lacking in the firmness required for carrying through a clear and definite currency programme. The following three years have unfortunately brought me criticisms for having displayed excessive firmness. That the Directors preferred Helfferich, who had himself formerly done occasional work in the Reichsbank and was known to practically all of them personally for long years past, and were not anxious to see an outsider in the position whom most of them had only occasionally seen or spoken to and some did not know at all, is also very intelligible.

I never pushed myself for the post. A few days only before the decision to appoint me I was asked by the Chancellor, Dr. Marx, as to whether I did not object to working with the Directors who had so decisively rejected my candidature. I replied in the negative, but I at the same time proposed to him two other candidates suitable, in my opinion, for the post. The public concluded from the circumstances of my election that extensive changes would now be made in the Board of Directors. I had no such intentions in my own mind, and I may to-day publicly state that not only have the Directors of the Bank worked with me in the most

¹ See page 109.

loyal and objective manner, but I for my part should not care by any means to have to do without the experience and knowledge of the gentlemen. We have learnt to know one another, and the result is as harmonious a co-operation as one could wish on any such body.

The concentration in a single hand of the functions of Currency Commissioner and head of the bank of issue made it possible to take more rigorous steps for the unification of the German currency. The first requisite, for which I had always contended, was that the Reichsbank should again obtain complete mastery of the German circulation. The inflation had been a terrible disaster for the country; and the question had certainly not yet been answered whether the Reichsbank, at any rate after the promulgation of the law establishing its independence, could not have rescued itself and its fiduciary issue from collapse. But all criticisms of the Reichsbank could not get over the fact that the Bank represented a solid edifice built up over five decades, the beneficent operation of which in the business life of the country must be restored in the shortest possible period, if only the inflation could be overcome. I was anxious to make an end as soon as possible of the idea that the Rentenbank might be entrusted with duties or functions in regard to the currency. I wished also to see the end of the small gold mark banks which had sprung up here and there with note issues of their own (as to which there will be more to say later). Above all, the motley character of the circulation (Reichsbank notes, Rentenbank notes, gold loan bonds, emergency money, etc.) had to be done away with as soon as possible, and monetary uniformity restored in Germany. All this could only be done if the German currency were based once more, alike in practice and in theory,

on gold. The idea that, in addition to the international gold-based money, an internal medium of circulation such as the Rentenmark could be maintained permanently at a stable value was so absurd that I had only one single thought, and that was how soon the return to gold would be possible.

The gold position of the Reichsbank on my assumption of office was in fact desperate. On December 31, 1923, the Reichsbank held 467 million marks of actual gold. The available holdings of Devisen were inconsiderable, for the Bank had extraordinarily weakened its position by its campaign at the time of stabilization. Its interventions on the market in the course of the year 1923 had led it to assume on behalf of the Reich obligations to foreign countries to a total of over 200 million gold marks, which the Reich had not yet repaid. Further, the guarantee for the redemption of the dollar treasury bonds issued in the spring of 1923 was still running; it involved a sum of 60 million dollars. In other words, it was a case of beginning at the beginning again with nothing in hand.

Under the amendment to the Bank Law, promulgated simultaneously with the Rentenbank decree on October 26, 1923, the Reichsbank was entitled to issue gold notes. In view of the position above indicated, there is little cause for surprise that the Bank made no use of its powers in this connection. As soon as I had received my appointment—the news reached me in the course of a short Christmas holiday—I sought out the Vice-President of the Bank, Herr von Glasenapp, to inquire whether the Bank had any intentions of acting on the law of October 26, 1923, and if so what intentions, or whether other views prevailed inside the Bank in the sense of the return to gold. I learnt that there were no views of the kind inside the Bank; and I

thereupon told Herr von Glasenapp that I did not propose immediately to take up my office, but intended first to go to London and see the Governor of the Bank of England.

On New Year's Eve I arrived in London and immediately arranged with Mr. Montagu Norman for a meeting on the following morning. In the course of my visit I made a frank statement to the Governor of the financial and monetary position of Germany, and I had the opportunity a few days later of doing the same thing to various leading financiers in the City. My intention of returning at all costs to a pure gold bank was approved on all sides, so that I could raise the question of English co-operation.

Anyone who throws his mind back to that time, when the Ruhr question was still without a solution and the economic interference of the French in the Ruhr seemed likely rather to be extended than curtailed, can only regard it as a proof of great confidence that not only was the Bank of England prepared in principle to assist the Reichsbank to create a gold bank by granting credits, but the City also was ready in principle to consider credit proposals.

On my way back from London I visited President Vissering, of the Nederlandsche Bank in Amsterdam, and here too my proposals for the creation of a gold bank met with a friendly reception. My proposals, however, shortly after this were cut across in a manner which I had least anticipated by the meeting of the so-called Dawes Committee, the members of which had clearly heard of my intentions and caused an invitation to be conveyed to me through the German Government on January 16, 1924, to come to Paris to discuss the subject.

In the interval before my departure for Paris I lost

no time in getting rid of the various forms of subsidiary money. The principal form of stable currency in circulation towards the end of the inflation was the small bonds of the stable currency loan (the so-called gold loan) issued by the Reich in 1923. Originally there was no explicit intention of giving the small bonds of this loan the character of media of payment. The original object was merely to afford the small saver a means of investing his money without losing its value. When, however, the larger bonds of the loan began to be used frequently in large transactions, the small bonds began to establish themselves—and indeed more readily than the large ones—for small transactions. The Nitrates Syndicate, for example, accepted the gold loan bonds in payment for nitrates sold to the agriculturists or to the trade. Similarly, the agricultural selling organizations acquired the bonds to finance their purchases from the farmers. In view of this adoption by the public of its own initiative of the gold loan bonds as media of payment, the Government resolved half-way through October 1923, since the establishment of the Rentenbank was being delayed, to issue more of the small bonds, including the smallest amounts of all, in order to provide stable media of payment for business purposes. In addition to the bonds already in circulation, so-called interim notes for $\frac{1}{10}$, $\frac{1}{4}$, and $\frac{1}{2}$ dollar were prepared and put into circulation through the Reichsbank branches.

The public literally flung itself upon this money as soon as it appeared at the counters of the Bank. Legally there was no distinction between the bigger and the smaller bonds of the loan. Neither of them had any gold backing: they were all based on a mere promise to pay of the Reich. For this reason there was a continual danger in view of the capital shortage in the

country that the large bonds, which were quoted on the Bourse, would fall below parity. Such a depreciation of the larger bonds would be bound to extend *ipso facto* to the smaller bonds, thereby creating a new danger for the circulation. The Finance Ministry thus found itself compelled, in addition to all its other troubles, continually to support the gold loan by purchases on the Bourse in order to keep it at parity. The fact that the Government of the Reich when issuing the small bonds for circulation purposes had held out the prospect of their exchange in the course of January 1924 for Rentenbank notes at the rate of 1 gold mark = 1 Rentenmark was an additional reason for preventing their decline. Altogether nearly 300 million gold marks of the small bonds had been issued. Had Rentenmarks been demanded in exchange, the Finance Ministry might have been obliged to provide anything up to 300 million Rentenmarks for the purpose, which it could certainly never have done. Fortunately it proved possible by purchases throughout the month announced for the exchange (January 1924) to maintain the quotation of the gold loan on the Bourse at parity, so that no claims to speak of for its exchange into Rentenmarks were made. It was absolutely vital for the purpose of the cash transactions of the Reich that the gold loan should maintain itself in circulation for a considerable period yet, and it was essential for the Revenue offices and the Reichsbank to make every effort to keep the small bonds in circulation, although after the introduction of the Rentenmark there was a growing tendency on the part of the public to get rid of them. Eventually, at the end of April, the financial position was so much better that the withdrawal of the small bonds from circulation could be effected.

The occupation of the Ruhr and the cutting off of the occupied territory from economic contact with the rest of the Reich brought the French military authorities face to face with a currency problem similar to those with which Germany was confronted during the war in the territories occupied by her. By a decree of October 19, 1923, the French Régie, which managed the railways in the occupied territory, was empowered to issue so-called transport certificates denominated in French francs. The certificates could be used in payment of any amount payable to the railways in the occupied territory. These so-called "Régie francs" were issued in notes from 5 centimes to 100 francs. Several hundred millions must have been issued altogether. The public accepted them like the French francs, and they came to be in general circulation for the purposes of small transactions and were not confined to use for payment on the railways. After the signature of the London agreement of August 1924 and the restoration of the railways in the occupied territory to German management, the Régie franc lost its *raison d'être* and was redeemed under an agreement between the Reichsbahn and the Régie.

Great difficulties were encountered in the redemption of the emergency money issued by the Federal States and communes. Its redemption was ordered by a decree of the Government on October 26, 1923, but in the majority of cases the issuers had no funds for the purpose. The conversion of the emergency money into funded loans, which was contemplated in some quarters, or the issue of loans for the purpose of repayment, were found to be impracticable. At first, therefore, there was a general outcry on the part of the Chambers of Commerce, economic organizations, communes and States against the decree. The French

Commander-in-Chief in the occupied territory cut the knot by merely decreeing that the banks (including the Reichsbank) and tradespeople must continue to accept the emergency money. But in the struggle against economic reason the military authorities were compelled to lower their arms no less than everyone else. The Reichsbank wisely declared its willingness in a number of cases to facilitate the redemption operations by temporary advances to the issuing parties, and to allow redemption by instalments in place of immediate lump sums. An agreement on these lines was concluded with the Railway, which had very large sums of emergency money in circulation. From the end of December 1923 down to July in the following year the various issuing bodies continued unintermittently to call in the money they had issued.

It has never been possible to obtain exact statistics as to the total amount of the emergency money issued. According to the data available at the Reichsbank, the total at the beginning of the stabilization may be estimated at nearly a milliard of gold marks. How quickly this money was withdrawn from circulation is shown by the fact that at the end of January 1924 the total in circulation had been reduced already to half a milliard, and by the beginning of April to a quarter of a milliard. By the middle of June it was less than 100 millions, by the middle of September less than 10 millions, and by the end of October 1924 the whole of the emergency money issued may be taken to have been withdrawn.

Amongst the purely private attempts to create special currencies in order to escape the general monetary collapse the "Hamburger Bank von 1923," which was created on October 25, 1923, occupied a special position. In addition to a nominal share capital, there was a

guarantee fund, which was not liable to call, 25 per cent. of which was in the form of Devisen actually paid up. Notes were issued, which were called Verrechnungsanweisungen or "Credit Bonds," for $\frac{1}{2}$, 1, 2, and 5 gold marks. Smaller amounts were issued in hard cash. The whole of the money issued was covered by a 100 per cent. cover of Devisen and gold mark bills. In the first months of its existence the bank did most useful work by supplying stable currency for wage payments and small business transactions. It was also in a position, thanks to agreements concluded with a New York banking firm, to arrange for credits on a gold basis. With the progress of the stabilization, however, the bank rapidly lost its *raison d'être*. The circulation of its money continually declined, and eventually the notes were called in for redemption by the end of September 1925.

The province of Schleswig-Holstein on November 24, 1923, created a Goldgirobank in Kiel on the same lines as the Hamburger Bank. This was in the time of the Currency Commissioner's activities, and I gave orders that the bank should only be permitted to issue gold notes on condition of its linking itself up with the gold note issue bank of the Reichsbank as soon as that should be founded. The Goldgirobank never had any considerable circulation for its money, and was later absorbed by the Reichsbank.

On October 22, 1923, the Finance Deputation of the Free City of Bremen arranged for the issue of stable currency in the form of Dollaranteilscheine (dollar certificates) in denominations from $\frac{1}{100}$ dollar to 100 dollars, for which the State of Bremen assumed a guarantee. They were issued only against payment in Devisen. The total circulation of these Bremen dollars was never over a few millions. They were

redeemed automatically from April 1924 onwards with the progressive reform of the currency.

None of the above-mentioned attempts to create special currencies had any great significance. I reckoned on their coming to a natural end as soon as the work of the stabilization as a whole was successful. A somewhat greater difficulty presented itself in the case of the Rheinisch-Westfälische Goldnotenbank (Rhenish-Westphalian Gold Note Bank). The French invasion of the Ruhr and the passive resistance had conduced to an economic set-back in the occupied regions of an alarming character; and the headlong acceleration of the inflation as a result of the Ruhr invasion bore heavier on the occupied territory, than on the other parts of the Reich. It was not therefore surprising that in the occupied territory, even more than in the other parts of the Reich, the idea of self-help in the matter of the currency should have made strides in prominent business quarters.

Unfortunately, on the Rhine and Ruhr this question had a very considerable political significance. The so-called Separatists in the Rhineland eagerly took up the idea of a currency of their own; and the French, who did everything they could to set the Separatist movement on its feet and to make it successful, all the resources of military force being put in motion for the purpose, no sooner heard of the proposal than they took matters into their own hands. It is all honour to the patriotism of Rhenish-Westphalian economic circles, bled as they were to the bone, that from the first moment they appreciated the great national danger which was concealed behind the foundation of the Notenbank under the patronage of the French President of the Rhineland High Commission, M. Tirard. In the middle of October 1923 the first discussion of the subject

between the representatives of the French and the business circles of the Rhineland took place in Coblenz. In the very first days of my tenure of office as Currency Commissioner I met for the first time in the Chancellor's antechamber a deputation of business men from the Rhineland and Westphalia, who with anxious faces discussed this important issue with me. They were anxious to obtain a decision of the Government of the Reich.

It was essential to act in this case with great prudence. A sheer refusal to allow the formation of the bank would have put the economic leaders of the Rhineland and Westphalia in an extremely difficult position. My object was therefore to gain time as regards the requirements of the Rhineland and to proceed as speedily as possible with the creation of a gold bank for the whole of the Reich. On December 14, 1923, at a meeting called by the Association of Importers and Wholesalers in the Products and Goods Bourse in Cologne the first public mention of the scheme for the Rhenish gold note bank was made. It came from the Cologne Banker Baron Schröder. According to the report in the *Kölnische Volkszeitung*, the substance of what he said was that the Currency Commissioner had no doubt improved the paper mark, but he had done so only by a—more than abrupt—calling in of credit which had compelled the country to produce the Devisen out of its own pockets. That was no natural improvement based on the growth of public confidence, but a result of stock exchange manipulations by Currency Commissioner Schacht, who knew the ropes. Baron Schröder thereupon argued for the creation of a separate bank to issue notes covered as to three-quarters by dollar balances and as to one-quarter by bills.

The reception of these utterances by the general

public in the Rhineland was not very friendly. I accordingly proposed to the Government of the Reich to make its assent in principle to the establishment of the Rhenish gold note bank dependent on the provision that in the event of the establishment of a general German gold bank the Rhenish institution should be automatically absorbed by the latter. It is remarkable that this same condition was imposed on me later by the Dawes Committee, when I created such a bank on a reduced scale in the shape of the Golddiskontbank.

When I returned to Berlin after my visit to London in the first days of January 1924, having secured the active support of the City for the establishment of a gold bank, a last discussion took place at the Chancery of the Reich on the subject of the Rhenish gold note bank, which took a somewhat dramatic course. Headed by Louis Hagen and Hugo Stinnes, the Rhinelanders now pressed for definite acceptance of the proposal. I thereupon asked whether they would regard the establishment of a gold note bank of their own as necessary even if a general gold bank for the whole of the Reich were to be created. They replied that discussion of the point was irrelevant, as under existing conditions it would not be possible to raise the amount of gold required to create such a bank. In view of the fact that my negotiations with the German bankers with a view to their association with the gold bank which I had in mind had not as yet assumed tangible form owing to the short time which had elapsed since my return, I observed that I should be glad if the deputation would give me eight days in which to raise the capital required for the gold bank. This respite was declined; and I was told that, unless I was in the position to state on the spot that the money was assured, the Rhineland could not agree to any further

postponement of the matter. Thereupon I ventured, relying on the assent in principle which I had secured in London and on certain preliminary conversations without binding character which I had already had with one or two leading German bankers, to make the assertion that the capital for the creation of the gold bank was already assured, and that its establishment and all the necessary formalities could take place at least as quickly as the establishment of the proposed Rhenish-Westphalian bank. I added that the Rhenish-Westphalian industry would receive preferential treatment from the Bank in the matter of credit.

On the strength of this statement the Government of the Reich decided for the present not to approve the statutes of the Rheinisch-Westfälische Notenbank and the proposal was thus once and for all buried. The discussions, which I initiated in the next few days with the German banks, established the willingness of all the banks concerned to co-operate in the creation of the new bank, so that my statement, made on my own responsibility, was fully substantiated. Unfortunately, in the course of the next few days, the Dawes Committee placed new difficulties in my way.

The first Committee of Experts (Dawes Committee) was entrusted with the task of considering the means of balancing the German budget and the measures to be taken to stabilize the German currency. It met for the first time in Paris on January 14, 1924. On Saturday, January 19th, I appeared by request for the first time before the sub-committee which had been appointed to consider the German currency question under the Chairmanship of Owen D. Young. Besides Mr. Young, there were present Professor Allix, Sir Josiah Stamp, M. Francqui, and Professor Flora as representatives of France, England, Belgium, and Italy

respectively, with their various staffs. My reception was quite courteous, Mr. Young's lighted pipe and the friendly greeting of Signor Flora, who said in German, "Habe die Ehre," at once created an atmosphere which made it easier for me to carry out the resolution which I had formed to speak throughout with complete frankness.

I had been sent a circular the same morning, which had obviously been put together with some haste and confused a number of subjects, so that at the very outset Young proposed that the sub-committee should drop the circular and ask me to give a comprehensive picture of the German situation as it stood. This proposal was accepted, and, although I was by no means prepared for such a proposal, it was not difficult for me in a speech of about an hour and a half to give a comprehensive picture of the financial, economic, and monetary position in Germany. I of course gave an account of what had been done already by our own efforts with the Rentenmark, and explained that I had it in mind to take in hand the transition to the gold standard by the creation of a gold bank, for which I had secured the initial capital necessary. I asked the Committee not to cut across the German effort which had been thus far so successful, and to allow us to continue the work of stabilization undisturbed. In particular I urged them to let me go as soon as possible so that I might complete the task to which I had set my hand of creating a gold bank.

A short interchange of question and answer followed. I was asked to remain at any rate for a few days longer: and the meeting was at an end. On leaving the committee room I found the usual bombardment of cameras awaiting me in the foyer of the Hôtel Astoria. Asked what impression the Experts Committee had made on

me, I answered laughing that that was not the question : the question was rather what impression I had made on the Committee.

It was not until very much later, when I read Rufus Dawes' book on *The Dawes Plan in the Making*, that I learnt that my remarks, and in particular my request at the end of them, had caused some astonishment on the part of the sub-committee. Rufus Dawes writes that on all essential points the sub-committee had already evolved the same plan for the creation of a bank as myself, but that they had proposed to give it a wider scope and different legal powers of control. From the conversations which followed on Monday, January 21st, it became increasingly clear to the sub-committee that my intentions in regard to the creation of the bank were seriously meant, and that my view of the urgency of the position and my desire to create the bank on my own lines might cause me to proceed with the scheme on my own initiative without reference to the sub-committee. According to Rufus Dawes' account, the members of the sub-committee thereupon considered the question whether they should make public announcement of their own plan or leave it to me to do the same with mine. The sub-committee took the view that a plan for a bank announced by them would naturally be more likely to meet with general approval than if they allowed me to continue my own efforts. The sub-committee accordingly decided on the following announcement, which was published in the newspapers of Tuesday morning :

The Committee have reached the opinion that an independent gold bank should be established in Germany, partly by mobilizing some part of the free reserves of gold and foreign currencies, which may exist in the hands of German nationals, and which at present discharge no economic function, and partly by co-operation of foreign capital. In their view such a step will form part

of the ultimate plan to secure future budget equilibrium and stable currency. In this connection, the Committee think that some of the features of the plan outlined before them by Doctor Schacht will prove, in due course, to be very useful, and they were glad to have the advantage of his views as a part of the whole field of possible or alternative action to be reviewed. The President of the Committee has, therefore, emphasized the need of allied unification in a programme. The Committee are convinced that foreign co-operation in the management of such a bank is similarly desirable for ultimate success.

From the further deliberations of the Committee, as reported by Rufus Dawes, it appears that there was some justifiable anxiety at one moment as to whether the Rentenmark could be held, and also that it was thought necessary to introduce foreign control into the management of the bank in order to allay the fear that the German Government might cause the new bank to issue notes to an excessive amount to meet its financial necessities. These two lines of thought had great influence on the subsequent negotiations.

On Tuesday, January 22, 1924, I had yet a further interview with the Committee, in which I made a special point of the impossibility in view of the economic situation in Germany of further postponement of the creation of the bank. The provisional stabilization of the Rentenmark, I said, should not blind the Committee to the fact that we were still in a stage of agony the issue of which was fraught with momentous consequences. Small people could still buy goods; but the entrepreneurs had no money to purchase raw materials or produce, since the necessity of maintaining the stability of the currency made it impossible to expand the note circulation by giving them credits. Rapid action was therefore essential. The Committee decided that at the end of the month they would visit Berlin to study the conditions on the spot.

In the three following days I had a number of interesting interviews, the invitations to which came from the French side, amongst others with M. Louis Barthou, the President of the Reparation Commission, and M. Robineau, Governor of the Banque de France, a conversation of some length with the President of the Republic, M. Millerand, and a similar conversation on the following day with the Premier, M. Poincaré. These conversations dealt with the general situation of Germany and in particular the possibility of an understanding with regard to the evacuation of the Ruhr. They were in continuation of certain discussions which had taken place already with a confidential agent of the French in Berlin. I had the impression with M. Millerand that an understanding might be possible, whereas the conversation with M. Poincaré made a wholly negative impression. In the case of both visits the forms of perfect courtesy were observed.

In the first week of February the Experts Committee was in Berlin, and my interviews with the sub-committee on currency were continued. In the course of these conversations it gradually became plain that some of the Experts were afraid that behind my designs for the creation of a gold bank there might be concealed the desire to "stymie" the Experts' own plan for a bank. In spite of negotiations lasting over several days, I was not able to convince the Experts that any such intention was far from my thoughts, and that, on the contrary, it was in order to support the Rentenmark that I must be given the possibility of giving gold credits to German business.

As it happened, during the very days that the Experts were in Berlin the Rentenmark showed signs of depreciation. It was of course impossible, however strict the control, to prevent Rentenmarks passing into the

hands of foreigners who had occasion for their use in Germany; and on the free market which thus grew up in the Rentenmark on foreign stock exchanges, especially in Holland, the quotations developed a distinct discount, which in the course of February was as much as 12 and 15 per cent. Meanwhile the issue of paper marks credits, even with a stable currency clause, had been slowed down as much as possible, and business, and in particular agriculture, were crying aloud for capital. Under the wording of the Rentenbank decree, agriculture had to receive 50 per cent. of the entire amount of the Rentenmarks set aside for private credits. Under these circumstances the credits granted by the Reichsbank in Rentenmarks showed a comparatively rapid increase. To these had to be added the 1,200 millions of Rentenmarks which had been put into circulation by way of the Reich. The result was that the Rentenmark circulation on January 31st had already attained the total of 1,196.2 millions. It was a pressing necessity to replace or supplement the Rentenmark credits by genuine gold credits. I accordingly said no more to the Experts Committee of my demands, and, instead of pressing directly for the big gold currency bank, I confined myself to asking that I might be empowered to limit the Rentenmark credits, which had assumed dimensions involving danger to the currency, by the addition of genuine gold credits which my proposed gold bank was in a position to supply.

The Experts Committee, however, still hesitated, and I decided accordingly to take refuge in publicity. On February 7th it fell to me to deliver a speech at the Agricultural Week in Königsberg, at the end of which I said something as follows: "For many months past I have been contending for the creation of the gold bank. From the day of my appointment as President

of the Reichsbank I took direct steps to give tangible form to this bank. In the course of my conversations in London and Amsterdam I have had the impression that there is a certain readiness to assist the creation of the gold bank by the provision of gold capital. While engaged upon this work, I was summoned by the Experts Committee to Paris, where I laid before them an outline of my ideas. I found at one and the same time lively assent for my proposals and disbelief in the sufficiency of a gold bank as a remedy under current circumstances. Their idea is rather that the ultimate German gold currency must be created as part of the general programme of the Experts. I accordingly told the Experts that I was in principle in agreement with them; and I added that it would be a great satisfaction to me if the Experts succeeded in coming to a decisive vote and submitting a report to the Reparation Commission within a few weeks time. But on what will happen to their report after it has been submitted the Experts Committee has no direct influence. Judging by all previous experience of reparation negotiations, it will be months, not weeks, before the Experts' reports can be made the subject of a united decision of the Allies which the German Government can accept. We cannot afford to wait till then. We need gold credits and new gold capital for our economic recovery. I hope, therefore, that the insight on the part of the Experts Committee is sufficient to prevent the wrecking of these efforts for the creation of a gold bank, which have been approved unanimously by the Directors of the Reichsbank and the Cabinet of the Reich."

I was reproached for these frank utterances when, on the following morning, I again appeared before the sub-committee in Berlin; but they had the satisfactory result of advancing matters nevertheless. I now took

up the attitude that, if my proposals were declined, I must leave the responsibility for further depreciation of the Rentenmark to the Experts Committee. Thereupon the sub-committee decided for the first time to put before me the main outlines of the plan which it had formed for the stabilization of the German currency. Without binding myself to details, I could not but attach great importance to this proposal, and I stated that I was prepared to base my proposals on the assumption that, if the currency programme of the Experts took shape and was accepted by the German Government, my gold bank should be absorbed *ipso facto* in the new currency bank. On this basis agreement was reached.

I have been sharply criticized since then from the German side for having agreed to such an understanding with the Experts. It was a fact that of the larger plan, which I had originally had in mind, only a very little remained possible of accomplishment; and the humorous Press made the most of the position, speaking of the "Little Gold Bank." One of these humorous papers involuntarily hit the nail on the head when it represented me standing by a small money-changers' office with the words underneath: "I had certainly thought of the business on a rather larger scale; but what of that? We can always add on another storey later."

I was in fact in a position of great difficulty. Without foreign credits I could not create the gold bank which I had in view; and foreign credits were clearly not to be had in defiance of the Experts Committee. I must accordingly have the consent of the Committee. As regards the more remote future, there were two possibilities. Either the Experts' report and its currency proposals would be accepted by the Allies, and later by Germany, in which case my gold bank would be in

fact superfluous, and I could either wind it up with a good conscience or let it be absorbed by the new bank ; or, on the other hand, the Experts' report would have no tangible results, in which case I should have a provisional gold bank actually in being, operating within narrow limits but not without international relations, on which and on the sensible conduct of its business it might hope to find a basis for subsequent extension. I need not, therefore, cite the subsequent course of events in justification of my attitude. My attitude was determined by my own anticipation of the events.

Foreign opposition to direct action without waiting for the Experts' report having been thus eliminated, I set to work to put through my proposals in the reduced form of the scheme for the creation of the Golddiskontbank. The scheme did not go through without encountering internal political opposition. Before the bill which had been drafted could be laid before the Reichstag, I took occasion in the Budget Committee of the Reichstag on March 8th to make a report on the position to date. I referred with the utmost frankness to the differences of opinion between the Experts Committee and myself, and argued roughly as follows : " I have always had the idea of attracting capital from outside or from hitherto unused sources with a view to making it available for the national requirements. I have thought that the form of a bank was the best fitted to attract foreign capital, and I can point to the fact that all other attempts to attract foreign capital to Germany have hitherto failed. The ideas of the Experts Committee ran, of course, in another direction. The Experts Committee wished to create a definitive gold currency in Germany in order to place the collection of German balances for reparation purposes on an assured monetary basis. The collection of the revenue

in Germany was not to be menaced by the threat of inflation." I then stated that an international group had declared its readiness to give the Reichsbank a credit of 5 million pounds sterling, and that I had also assurances enabling me to count on foreign rediscount of bills to be purchased by the Golddiskontbank to an additional amount of 10 million pounds. Lastly, negotiations with a German bankers' syndicate had gone far enough to enable me to count on a further credit of 5 millions.

The parties of the Right and their Press vigorously criticized these utterances in the next few days. They recognized, it is true, the necessity of credits for Germany, but were opposed mainly to the basing of the bank on the pound sterling and also on the right of note issue for which it was proposed to apply. These objections were advanced principally by Helfferich, who also read into the assurance which I had given to the Experts Committee an assent to the Experts' currency proposals, in which he was wrong. His objections were not shared by the majority of the Budget Committee, although I was not able to reveal the real grounds for my insistence on the right of note issue. My real grounds were in fact to be found in my desire to be in a position through the Golddiskontbank to return to the gold standard, even if the Experts' report should not be accepted by the German Government.

On March 19, 1924, the Law for the creation of the Golddiskontbank was passed by the Reichstag, and on April 7, 1924, the bank was actually founded at the Reichsbank. Under the Law the Golddiskontbank has its seat in Berlin. It was given the right to issue notes up to the amount of 5 million pounds. This right was never exercised, and ceased to exist with the coming

in force of the new Reichsbank Law of October 11, 1924. The rates of interest, at which the bank discounts, have to be made public from time to time. The management and liquidation of the bank, in the event of liquidation being required, are placed in the hands of the Reichsbank. The Reichsbank was empowered at the same time to acquire shares of the Golddiskontbank, and in the event of the latter being absorbed by it at some future date was given the right to increase its own capital accordingly. Of the total capital of 10 million pounds, 5 millions were paid up by the Reichsbank, which borrowed for the purpose. The remaining 5 millions were subscribed by a syndicate of German banks and bankers comprising more than 150 firms. Of this second 5 millions, 25 per cent. only were called in the first instance, but it was left to the members of the syndicate to pay up further amounts if they so desired.

The Golddiskontbank began work immediately after its establishment, and made credits available for German business which at one time amounted to as much as 14 million pounds. As the foreign rates of interest for a long time were below the German rates, the Golddiskontbank was in a position to give these credits to the business community at cheaper terms than the Reichsbank. In particular it rendered appreciable services to the export trade, and is still to-day a useful instrument in the hands of the Reichsbank, although with the progress of stabilization its original activities have fallen into the background. The Reichsbank was in a position at the end of a year to pay back the credit granted to it of 5 million pounds, after it had first acquired all the shares subscribed by the German bankers, syndicate in exchange for Reichsbank shares, so that the Golddiskontbank is to-day owned exclusively

by the Reichsbank. The bank has not found it necessary to make use of the re-discount facilities placed at its disposal in London and New York except on a very small scale, since in the ensuing period the Reichsbank was able to strengthen its own position sufficiently to undertake the re-discount of bills for the Golddiskontbank itself.

CHAPTER VI
FROM CURRENCY CRISIS TO ECONOMIC
CRISIS

THE various obstacles which delayed the creation of the Golddiskontbank were much to be regretted; for by the end of January 1924 the symptoms of a new currency crisis were already beginning to be apparent. On December 31, 1923, that is to say, at a time of the year when there is always a heavy demand for money, the Reichsbank, the Rentenbank, and the private banks of issue had altogether 609 million marks of credits outstanding. In the following weeks Rentenbank credits were continually poured into the channels of business, for the country was crying out for credit. At the end of January 1924, i.e. only four weeks later, 1,153 million gold marks of credits had already been issued. This total increased at the end of February to 1,548 millions, and at the end of March to rather over 2 milliards.

This rapid multiplication of credits was undoubtedly a great mistake. The increase in the circulation was far too rapid. It forced down the exchange, and forced the price level up. The wholesale trade index number of the Statistical Office of the Reich rose from 117.3 in January to 120.7 in March, and 124.1 in April. The exchange of the mark in New York, which had maintained itself approximately at parity in December 1923 (average quotation for the month 23.81), fell in January 1924 to 23.04, and in February to 22.30. The percentages of dollars which the Reichsbank was able to allot to applicants on the Bourse were increasing in December 1923, and in the first week of January

were as much as 20 per cent. of the application in the case of sterling and 15 per cent. in the case of dollars. In the following days these percentages steadily sank, and by the beginning of March had again touched bottom at 1 per cent. There was general talk under these circumstances of new inflation and of the impossibility of maintaining the Rentenmark, and with it the paper mark, at their existing parity.

The reverse of the picture as shown in industry and trade was naturally more encouraging. Whereas down to January 1924 the crisis which the stabilization provoked had found expression in sinking prices and increasing unemployment, the months from February to May showed a rise in prices and a decline in the unemployment figures. The tendency was helped by the fact that, side by side with the credits given by the Reichsbank, an additional 900 million Rentenmarks in the shape of the Rentenbank credit to the Reich had passed through the hands of the Reich into circulation and become available for the business community. All this money was put into circulation with astonishing rapidity owing to the large floating obligations of the Reich to German industry, in connection chiefly with the Ruhr struggle; and the rapid increase in the quantity of the money was only in part compensated by a reduction in the rapidity of the circulation. The confidence of the business community in the stability of the currency was still only very slight; and in consequence such hidden reserves as private enterprise still held in the form of stable capital assets, whether in the shape of Devisen or of material values, were not drawn on as cover for credit requirements. Everyone tried first to get as large credits as possible in the new money without touching their reserves. The result was an increase of internal consumption and imports,

while exports declined. It was an orgy of improvidence, of disbelief in the whole effort, and of that habit of extravagance which was begotten by the distress of inflation, when money seemed no longer to have any value. One factor which operated to enhance the demand for credits was the fixing by the Reichsbank of its discount rate for stable credits after December 29, 1923, at 10 per cent. per annum, while the interest rates of the open market in view of the dearth of capital were still much above this figure.

I can only reproach myself for not having paid proper attention in good time to these developments on the internal credit market. The commercial pages of serious organs of the Press (for example, the *Frankfurter Zeitung* as early as February and Dr. Pinner in the *Berliner Tageblatt*) had early called attention to the dangers of over-lavish distribution of credits with its corollary of over-rapid increase of circulation. My excuse for this neglect is to be found in a material and in a personal factor. The material factor was that it was primarily the agriculturists who clamoured for the Rentenmark credits allotted to them and for as much more as they could get. Agriculture had no liquid capital reserves at its disposal, like certain circles of industry and commerce. The money which had accrued to it during the inflation had mostly been immobilized to its entire extent. The agriculturists were consequently hit hardest by the deflation, so far as their freedom of action depended on the possession of money. In view of the necessity in the interest of the national food supply to make provision for spring orders on an adequate scale it was difficult to take up a negative attitude in regard to the requirements of agriculture, since there was no other source of credit at the agriculturists' disposal. It was at this time, therefore, with the

distribution of the Rentenmark credits to the agriculturists, that the big holding of agricultural bills by the Reichsbank took its origin. There will be occasion to return later to this point.

The personal factor, to which I look to excuse my failure to follow the credit developments in the internal market, is my enforced absence from Berlin at this time, except for fleeting visits, owing to my perpetual discussions with the Experts in Paris as to the new form of the Reichsbank and my interviews in London on the subject of the credits for the Golddiskontbank, the effect of which was to keep me for weeks on end away from Berlin. At the end of March, when these negotiations were at an end and I was again permanently in residence in Berlin, the necessary steps to end the currency crisis and rehabilitate the stability of the mark were immediately taken by the Reichsbank in the shape of a restriction of credits.

That the Reichsbank was decided to have recourse to very energetic measures was evident from a minor intermezzo in the middle of February. Amongst the regulations for the protection of the mark exchange which dated from the inflation period was one to which I have already referred, in the shape of an instruction by the Reichsbank to the banks to accept no orders for Devisen unless complete cover was deposited for them in German money with the bank entrusted with the order. This regulation was still in force. In the course of February the Reichsbank was in a position to know that in various quarters it was being infringed. We promptly took action by abruptly excluding the firms concerned from use of the clearing system or eligibility for bill credits or both. As the firms in question were not firms of no standing, but included names both from Berlin and from the provinces

which bore a high repute in the banking world, this vigorous and decided action on the part of the Reichsbank naturally excited much attention. Eventually even one of the big Berlin banks was found infringing the Reichsbank regulation in the same way. It, too, was subjected to the same penalties. Altogether five banking houses in Berlin, a firm in Baden, a firm in Schleswig-Holstein, a firm in the Rhineland and a firm in Silesia were penalized by the Reichsbank in this way. The entire Reich therefore had thus been given a visible warning signal.

The Reichsbank, it must be admitted, had laid down very sound lines for the distribution of credits. A "stable currency clause" was insisted on in all credits; and credits were supposed to be granted only for legitimate trade in commodities or for production. At the beginning of March the provincial branches of the Reichsbank were instructed not to be too liberal in the granting of credits. Before coming to the Reichsbank for credits the firms were to be induced to sell their holdings of securities and Devisen and all surplus stocks of goods. The demands of agriculture were also to be treated with a more niggardly hand. But what could all these sound precepts do in face of the tumultuous demand of the country for credits, the strength of which may be gauged from the following symptomatic utterances which I take this opportunity of rescuing from oblivion?

On January 12, 1924, the Rentenbank announced that "the necessitous position of agriculture calls for a rapid and generous supply of credit, if the food supply of the country is not to be endangered."

The Minister of Economic Affairs wrote on January 26th to the Reichsbank: "In view of the acute credit famine in the country, I beg to suggest that the

issue of the Rentenmarks at your disposal against bills should be made easier and more rapid."

The Sächsische Bank in Dresden, one of the private banks of issue, wrote on February 4th: "For the maintenance of the economic life of Saxony on orderly lines we consider an appreciable increase of our allotment of Rentenmarks to be absolutely essential."

The Deutscher Zentral-Giroverband on February 19th was of opinion that the negative attitude of the Reichsbank Directors in the matter of credits did grave prejudice to their organization. Lastly, an agricultural leader, who was a member of the administration of the Rentenbank, wrote to me in a personal letter on February 21st: "I am overwhelmed with a mass of complaints, telegrams, letters, and threats; and the first thing which they all want me to do is to have it out with the President of the Reichsbank!"

This little selection of flowers will serve to show the kind of reception that was awaiting the Reichsbank and myself when, on April 5, 1924, we decided on a drastic measure, which established the prior claims of the currency over all other economic interests. On that day an instruction went out to all branches of the Reichsbank ordering them, as from April 7th, to give no new credits, and to cease from all further discounting of bills, discount facilities in the future being restricted within the limits of the funds becoming available through repayment of existing credits.

A storm of indignation went through the entire country. There was a shower of complaints from individuals and economic bodies. The Press and public meetings were full of attacks and critical expositions of the impossibility of such a policy on the part of a central bank: such a policy (it was said) was without parallel in the whole history of banking.

In the face of this storm the Reichsbank stood firm and unshaken as a rock. For weeks and even months there was no departure by so much as a centimetre from the line of credit restriction which we had laid down, until the desired success was attained. The success was a double one—a material success because it saved the currency, and a psychological success because it broke down the opposition, open and secret, of the inflation profiteers to the currency and policy of the Reichsbank. From those weeks onwards there are no longer any traces of the belief or the hope or the fear on the part of the German business world that the Reichsbank would ever again give economic or political interests priority over the claims of the currency. Not only the currency, but also the belief in the currency, was made stable by this action on the part of the Reichsbank; and the belief was not evoked by long argument and persuasion, but imposed by the act.

Even those who in principle approved the policy of the Bank adduced a number of material objections to the methods adopted; and with these objections the Reichsbank had to deal. The first argument was that the so-called policy of rationing, that is to say, the distribution of credits on a basis of quotas, was mistaken in itself and should give way to a normal policy of control through the discount rate. Those firms, it was pointed out, which happened on the key-date (April 7th) when the credit restrictions came into force to be already in possession of credits from the Bank, were in the fortunate position of receiving their accommodation at a lower rate of interest than those who were forced to rely on the capital supplies of the open market, since the Reichsbank discount rate was well below the rates of the open market. This distinction not only involved arbitrary discrimination in

favour of certain groups of firms : its economic effects were equally undesirable, since many firms whose activities were not of a productive character were thus privileged, while others, who were doing productive work of national importance, were not.

A further objection raised was that the artificial maintenance of the Reichsbank discount rate at a low level impeded the formation of new capital and discouraged savings. The fact that the bills discounted by the Reichsbank were required in a large number of cases to carry a second signature by a private bank had the effect of transferring the Reichsbank's monopoly of credit to the private banks, thereby giving the latter special advantages.

Lastly, it was said, the curtailment of discounts compelled the private banks to keep larger liquid reserves than would be necessary if they were able to fall back on the Reichsbank for re-discount of their bills, and as a result more money was withdrawn from the money market.

In reply the Reichsbank could argue that, although the distribution of credit on the particular day, April 7th, was an arbitrary one, inasmuch as a halt was called at a particular moment and with a particular composition of the Bank's portfolio, the arbitrary element would be eliminated as rapidly as possible by the subsequent regrouping and redistribution of the credits on economic lines. In fact, in the weeks which succeeded April 7th the Reichsbank scrutinized meticulously the whole series of credits granted. The Bank's branches were instructed to consider carefully the objects for which the credits were designed, and as far as possible to divert the sums coming in from the repayment of bills into channels calculated to lead to the most productive results from the standpoint of the general economic

interest. Firms which did not happen to have any bill credit with the Reichsbank on the date April 7th were very soon accommodated if they could claim consideration on the above grounds ; and it is really astonishing, looking back, to see how few complaints of neglect reached the Reichsbank from individual applicants. The academic objections to the credit rationing system did not receive the support of actual experience.

To replace credit restriction by a policy of mere increases in the discount rate was not a possibility for the Reichsbank. The times when money was loaned at a rate of several hundreds per cent. per annum were not so far distant. It is sufficient to recall that interest at 22 per cent. per diem was taken by German Courts of Law in November 1923 as a reasonable market rate ! How was it possible that three or four months after this, when the Rentenmark had already known what it was to fall 12 and 15 per cent., a mere increase in the discount rate would have been sufficient to ward off all attacks on the currency ? A discount rate of 15 or 20 or even 30 per cent. per annum would not have been sufficient to prevent a single speculator from putting through his transactions behind the back of the Reichsbank ; and the country was still filled with numbers of such speculators, who were not in the least concerned as to whether their good name and reputation suffered so long as they could pocket their profits. For the long-term capital market, on the other hand, however short of capital it might be, and for an immense number of other relations of indebtedness for which the official Reichsbank rate was the standard, a discount rate of 20 or 30 per cent. would have been simply intolerable. Agriculture in particular would have gone to pieces altogether under such an interest policy on the part of the Reichsbank : the agriculturists at that time

were mostly living on short-term credits from the Reichsbank.

The unfavourable effect of a low Reichsbank rate on savings was at this date still very slight. Confidence in the national currency was still not forthcoming to an extent sufficient to induce a serious resumption of saving activity.

Lastly, as regards the monopolistic position of the private banks, the Reichsbank had done its utmost by the establishment of the closest contact with influential private financiers to avert injurious effects from this monopolistic position. In itself and under normal circumstances it was true enough to say that such restriction and rationing of credits was an extremely undesirable measure, and that recourse should have been had to the discount screw instead. But this is true only of normal conditions. The powerful political factors which have been operative during the post-war period have changed the position, and it is matter of experience that under present conditions changes in bank rates have far less effect on the international movements of capital than was the case before the war. The attraction of the interest rate is no longer the only factor. Political apprehensions and allowance for currency risks to-day play a far larger part than was formerly the case. Moreover, in Germany at this period, before the restoration of stability in foreign political relations, the disproportion between the supply and demand of capital was so clamant that no interest rate could have produced any sort of reasonable relation between the two.

In circles which had not much acquaintance with the problems of money and currency policy there was very strong support for the argument that production was curtailed by the restriction of credits and the limitation of the circulation which accompanied it. The

currency ultimately, it was argued, rests upon production, and, inasmuch as the policy of credit restriction impedes production, it leads in the last resort to undermining of the currency. This highly popular argumentation, which crystallized in the designation of myself as the "Economic Executioner," was misleading in so far as it ignored the fact that reserves of goods and Devisen existed inside the country, which their holders were leaving untouched while they were endeavouring to live on credits from the Reichsbank. It was essential that I should at any cost first plumb the extent of these reserve resources before I abandoned the currency. The further course of events was my justification.

The first direct effect of credit rationing was naturally that the portfolio of the Reichsbank remained at a comparatively constant level. Expressed in gold marks, the bills and loans of the Reichsbank

on	April 7	totalled	2,000	million	gold	marks
"	May 7	"	2,019	"	"	"
"	June 7	"	2,071	"	"	"
"	July 7	"	1,963	"	"	"
"	August 7	"	1,854	"	"	"

from which it will be seen that the credit rationing also operated to slow down the increase in the circulation. The total circulation on April 7, 1924, was 2,955 millions; on May 7th it was 2,854 millions; and on June 7th it was 2,919 millions. The fact that further Reichsbank credits were not to be had compelled the business community to look for resources outside the Reichsbank, and as at that time there were no other sources, they were compelled perforce to draw on their reserves, whether in the form of stocks of commodities or of Devisen, which were still available from the inflation period or had been accumulated

during the so-called "cranking-up phase" from January to April 1924 in the speculative expectation of a new inflation.

The stocks of commodities were the first to be put on the market, with the inevitable result of a fall in prices. The wholesale trade index number of the Statistical Office of the Reich fell from 124.1 in April to 122.5 in May, 115.9 in June, and 115.0 in July. That this falling tendency did not show itself in the general cost of living index number was due to the fact that the prices of agricultural products during these months showed a tendency to rise, of which happily the agriculturists had the benefit. An incidental factor in the position was the much too large number of retail businesses, another phenomenon dating from the inflation period; these superfluous businesses interposing between the passage of the commodity from the wholesaler to the ultimate consumer appreciably increased its price.

The stocks of commodities were followed by the stocks of Devisen. Working capital had to be found somehow, and the impossibility of finding it otherwise forced the Devisen out of the pockets of their holders. For weeks the struggle continued between the Reichsbank on the one hand and the Devisen holders on the other. Not until May 20, 1924, was the Reichsbank in a position to allot more than 1 per cent. of the applications on the Bourse for dollars. But by June 3rd it was possible to meet the entire amount of applications for dollars, as well as other foreign exchange, to the full 100 per cent. of the applications. The 100 per cent. allotment, which for the first time for nearly a decade past indicated a normal foreign exchange market, was the subject of notice and comment by the whole of the public. It was felt to be the first tangible proof of the

successful stabilization of the national currency. The success of the credit policy of the Reichsbank was recognized on all sides, and it was generally felt that the German currency had passed the danger zone. Whereas on April 7, 1924, the total gold and Devisen holdings of the Reichsbank were shown as 592 millions, on July 7th they amounted to 977 million marks, and on August 7th to 1,256 million gold marks.

The falling prices of commodities had contributed to this result by compelling industry to pay more attention to exports. From January to the end of May the surplus of German imports over exports of commodities amounted to some $1\frac{1}{4}$ milliards of gold marks, the figure for May alone being 354 millions. In June the surplus of imports over exports had fallen to 278 millions, and in July it was transformed into a surplus of exports over imports of 17.2 millions, which in August was increased to 141.2 millions. This change from an excess of imports to an excess of exports was attributable partly to the curtailment of imports owing to internal shortage of capital, partly to increase of exports owing to the enforced fall of prices.

The internal economic organization of the country had also undergone notable changes. The inflation had called into being an enormous increase of the machinery of production, and still more of the machinery of distribution, in Germany. Innumerable new firms had come into being which owed their existence partly to the system of Government control, partly to the miscalculations of the inflation phase. The restriction of credits swept like an autumnal storm through this garden of surface blossoms. Whereas in March the number of bankruptcies was only 68, in April it had risen to 133, in May to 322, in June to 579, and in July to 1,173. In addition to these bankruptcies, there

were numerous firms which had to have recourse to the procedure created at the beginning of the war under which they were enabled to avoid bankruptcy by placing themselves under judicial supervision (Geschäftsaufsicht). Whereas in the first quarter of 1924 the number of cases of recourse to such judicial supervision was only 43, in April it was 380, in May 639, and in June 845.

On the money market the policy of the Reichsbank had at first inevitably the effect of increasing the rates of interest. The rate for one month's money rose from about 30 per cent. to almost 45 per cent., and for overdrafts there was a still more marked increase from about 40 per cent. per annum to nearly 80 per cent. But in the first half of May the culminating point was reached, and in the following weeks and months the money rates sank very rapidly indeed, in proportion as the crisis in trade and production made itself felt. From July onwards the rates for money were once again below the rates in March. The restriction of credits also naturally operated to hamper stock exchange business. The tax on stock exchange transactions, which in March had yielded nearly 25 millions, and in April still yielded over 15 millions, fell in May below 10 millions and touched its lowest point in July with less than 7 millions yield for the month.

The Reichsbank has been severely criticized for its whole policy of restriction. The subsequent success of that policy has been our justification, and, if I had once again to decide in a similar situation, my decision could not be other than what it was on April 7, 1924. At the outset of the credit restriction phase I told the general meeting of the Association of Saxon Industrialists in Dresden, on April 9, 1924, what I believed will always be found to be true doctrine. I said: "I believe the

Reichsbank is in the position of Odysseus, when he had to sail between the monster Scylla and the whirlpool Charybdis. Charybdis is the whirlpool of a new currency inflation, and Scylla is the monster of economic paralysis which snatches the crew from the ship of the national economy and swallows them in her maw. I believe that the Reichsbank can make no other choice than that which Odysseus made: that is to say, it must seek to avoid the Charybdis of inflation and steer close to Scylla, who may indeed snatch and swallow a certain number of members of the crew, but will allow the rest to pass unscathed."

When, in August 1924, the German Government went to London, it could look back on an economic system which had been weakened indeed, but also purged, and above all on a currency made stable. In the international negotiations which ensued it could claim that this result was attained of its own free will and by its own effort without any foreign help. It is true that the reverse of the medal was such as to break the heart. The German people, which before the war had known wealth and prosperity, now knew that it had been put back to the position of the 'sixties of the last century. Arbitrary and irresponsible as the war itself, the Inflation had claimed its hecatombs. Tears, bitterness, and despair beyond all measure were the end of it.

CHAPTER VII

THE DAWES PLAN

DURING a great part of the months of February and March 1924, I found myself in Paris in order to discuss with the Experts Committee the outlines of the reorganization of the Reichsbank. I had no opportunity to exercise any influence on the other parts of the Dawes Plan, for example, the amount of the payments. On the other hand I was given the opportunity to discuss all the more important points of the scheme for the reorganization of the Reichsbank with the Experts. When towards the middle of January the first mention of the Experts' Plan appeared in the Press, the most adventurous views with regard to the new Currency Bank were to be found there. Certain rudiments of these ideas still figure in the Dawes Plan and are incorporated in part in the Bank Law. But, taking it altogether, it may be said that it proved possible in the course of ten weeks' discussion to evolve a bank law which it is possible to work.

My principal efforts naturally were devoted towards eliminating the element of foreign influence on the Reichsbank or its successor as much as possible. For days on end I argued in order to make clear to the Experts the impossibility of foreign influence on the policy of a national bank of issue. Again and again I pointed out that by the assumption of influence on the policy of the Bank the foreigners would be taking upon themselves a responsibility which they are not in a position to bear. I further pointed out that in the event of subsequent international co-operation between

the various national banks of issue, for which I already was pressing, it would tend to diminish the standing of the German bank of issue if its policy were not entirely in German hands. There was no case, I said, of foreign influence in any other European bank of issue. Even in Austria, whose bank of issue had been placed under the protection of the League of Nations, no advantage had been taken of the possibility provided by the statutes of placing a certain number of foreigners on the Board; while in the case of the Bank of Danzig there was no provision for foreign co-operation at all.

It did, in fact, prove possible to exclude foreign influence from the policy of the Bank. The powers of the General Council, half the members of which are foreigners, are restricted—with the exception of certain special cases to which I shall have to return—to the reception of reports, whereas the management of the Bank and the whole policy of the Bank are left entirely to the German Directors. I endeavoured for days on end to have a council of trustees set up parallel with the Bank, instead of the General Council with half of its members foreigners; but I could not carry my point. I well remember the half-humorous, half-serious remark with which Owen D. Young, who was throughout well disposed, closed our discussion: "If we trust this Bank," he said, "with all the money these reparation sums represent, we must at least have the right to a certain insight into its affairs." If I could not with a good conscience refute this observation altogether, I could, at any rate, make use of it in support of my further demand that at any rate the German Reich, which would undoubtedly be the next biggest customer of the Bank after the Agent-General for Reparation Payments, should be given a position on the Bank similar to that of the foreigners.

My demands in this direction turned principally on the proposal that the President and Directors of the Bank should be required to have their appointments confirmed by the President of the Reich. I was able to show that Governmental confirmation of their appointments was required by the heads of the banks of issue in all of the following countries: France, Spain, Sweden, Norway, Jugo-Slavia, Czecho-Slovakia, Denmark, Switzerland, Holland, Belgium, Rumania, Bulgaria, Austria, Danzig, the United States, the South African Union, and Japan. It is only in England that the Governor is elected in accordance with a century-old tradition by the free choice of the Council of the bank. It was inconsistent, I argued, with the whole German conception of the State that the head of the Reich should not have an influence on the selection of the chief of the central currency institution.

One must go back to the political antagonisms and to the atmosphere which still prevailed immediately after the inflation period to understand how obstinately the Experts Committee adhered to the demand for absolute separation of the bank of issue and the State. Both sides contended with the utmost energy for their point of view, and in the end the difference was bridged temporarily by a not altogether lucid compromise. According to this compromise the President of the Bank was to be elected by the General Council, but his nomination was to be "counter-signed" by the President of the Reich. It was apparent later, when the Bank Law was being drafted, that by the expression "counter-signed" the Experts understood a purely formal act which the President of the Reich would not be entitled to refuse, whereas I naturally took the view that counter-signature implied a right of free decision, that is to say the right to confirm or not to confirm the

appointment. When later the organization committee for the Bank of Issue (of which I shall have to speak further), consisting of Sir Robert Kindersley and myself, came to draw up the Bank Law, we were compelled to find a solution of this point, because President Ebert in the end refused to exercise such a purely formal right; and ultimately on my suggestion the solution which is now incorporated in the Bank Law was reached at a conference between Sir Robert Kindersley, the Vice-Chancellor of the Reich, Dr. Jarres and myself, under which the Directors of the Bank do not all require to have their appointments confirmed by the President of the Reich but the President of the Bank does. It is only in the event of two candidates elected by the General Council failing to secure confirmation by the President of the Reich that the third candidate is entitled to assume the position of President even without confirmation, a case which in practice will no doubt never arise.

One of the points where steps were taken to diminish the influence of the Reich on the Bank was in regard to the duration of the note issue privilege. In the old Bank Law the Reich had the right to renew or not renew the privilege every ten years. The Experts now wished to have a privilege of issue fixed once and for all for fifty years. This claim affords yet another illustration of the part which political factors played, after all, in the last resort under the cover of the Experts' Plan, and how difficult it was for the Experts, despite their personal inclinations, to exclude them. I argued with great emphasis for a shorter period of twenty-five or at most thirty years, but could not carry my point, because the issue was complicated by the political consideration—unspoken but none the less clearly present—that by fixing a shorter period for the right of issue a precedent

might be created which would prejudice the question of the duration of the reparation payments. The intentions of the Experts were based primarily on the principle of making the bank of issue the channel to receive the reparation payments independently of the question of the possibilities of transfer to the foreign creditors. If the right of issue of this bank were to be fixed at only twenty-five years or some such period, that might be considered to amount to a tacit admission of the impossibility of demanding payments beyond the limits of this period. Such an admission was the last thing which French policy at that date would have felt that it could accept.

It was only in the very last days before the completion of the report that I was able to exclude certain other proposals, which revealed the foreign lack of confidence in us at that time in a particularly strong light. One of these proposals was the suggestion that foreign members should be included amongst the Directors of the Bank. Another was the suggestion to place the note issue department, which was to be entirely separated from the credit department, in a foreign neutral country. Looking back at such proposals to-day, one sees their complete senselessness from the practical economic standpoint in a lurid light; but they show the atmosphere in which the discussions took place at the time.

Another point of great importance was the design of the Experts to wind up the old Reichsbank and create an entirely new bank of issue. Their idea in this connection was, of course, derived from the inability which the old Reichsbank had displayed to protect its independence under the stress of the inflation. It was very difficult for me, in face of the facts, to maintain that the independent bank which it was desired to establish could be created by a mere remodelling of the

Bank Law, without breaking up an institution with fifty years of practical working behind it and a record which had approved itself under all peace-time circumstances. Nothing, I argued, is more dangerous in questions of credit than to shatter existing traditions. The Reichsbank had acquired from its peace-time record a reputation throughout the world which even the worst events of the inflation—which, after all, were not so much financial developments as political shocks—had not been able altogether to shatter. It would therefore be an irresponsible act to do away with the Reichsbank by a stroke of the pen and create a new bank which would have to acquire the whole store of experience and confidence which had accumulated in the Reichsbank. The Experts Committee decided accordingly, instead of creating a new bank as originally proposed, to maintain the old Reichsbank with appropriate remodeling of its legal basis and of the statutes, which it left to the organization committee.

In the discussion of these points the suppression of the four private banks of issue still existing in Germany besides the Reichsbank nearly went through unnoticed: the Experts clearly had no idea of the existence of these banks. Although in my capacity as President of the Reichsbank, and also on general economic grounds, I could not be very well disposed towards the continuance of the private note issue privileges, I considered it nevertheless desirable, on grounds of German internal politics, to draw the attention of the Experts to the existence of these banks, and to emphasize the political reasons for which it was urgently to be desired that their continued existence within the limits of the issue bank legislation should be made possible. A provision in this sense accordingly was approved by the Experts.

In other respects I endeavoured to do what I could to prevent approved provisions of the old Reichsbank Law from being sacrificed too lavishly to the zeal of the theorist collaborators of the Experts Committee. There are places, it is true, where these theoretical legislators have left their traces in the new Bank Law, for example in the prohibition in § 24 of the law to "grant loans on the security of . . . oilfields." Similarly § 35, with its provision for a special cover for the deposits of the bank is an innovation, which arises from a complete misapprehension of the character of the deposits of the Reichsbank. But these and other blemishes appear to me to be rather in the nature of beauty spots or of minor significance, so that I preferred not to waste energetic representation on such matters if on the more important points I could secure acceptance for the German view. This I was able to do in a very large number of questions of the organization of the Bank, in particular in the maintenance of the Bank's character as a central department of the Reich, in retention of the official status of the entire staff of the Bank, in the preservation of the character of the shares as registered inscribed shares instead of bearer bonds, and the like.

A question of special significance for German business conditions was the problem of whether the Reichsbank should take bills with only two signatures or should invariably insist on a third signature. In the Experts Committee what may be called the Anglo-Saxon attitude in regard to this question prevailed, the view, that is to say that the bank of issue ought to be primarily a bank of banks, and that accordingly the bills which it discounts ought to carry the signature of a bank in addition to the two signatures arising out of the transaction which the bill finances. In this way only bills with

three signatures would in the normal way be handled by the issue bank.

In view of the whole history and practice in Germany in the matter I could not accept legal restriction to three signatures. Unlike the Bank of England and the Federal Reserve Banks, the Reichsbank has always been a bank with numerous branches. Altogether it has in Germany something like five hundred branches and agencies. This system has been built up primarily to handle the book transfers of money (the so-called Giro clearing system), but it has had the consequence incidentally of bringing the branches of the Bank at all time into direct contact with the clients without intervention of other banks. On the other hand the Reichsbank receives in practice a great part of the bills in its portfolio from the other banks, in which case there is a third signature. The Reichsbank has always regarded the importance of the bank signature as consisting in the fact that it interposes to a certain extent a buffer between the aggregate credit commitments of the Reichsbank and the aggregate credit demands of the business community with all their inherent risks. The central institution in this case is less directly connected with the economic risks of the country's business activities than when it takes bills with only two signatures. Direct discount of bills with only two signatures, i.e. without the signature of a bank, may, under circumstances, result in the freedom of action of the central bank being hampered at critical moments; and the liquidity of the Bank's resources cannot be said to be assured to the same extent as when the buffer of the third signature is interposed between the Bank and the country. Legal restriction of the Reichsbank's right of discount to three-signature bills might also create a state of things where the private banks would have

something like a monopoly of re-discount facilities at the central institution, which is not a development to be desired. The Reichsbank must be in a position, under given circumstances, to compete directly with the private banks.

The Experts recognized the justice of these considerations, and accepted a compromise solution, which is incorporated in the Bank Law and is entirely satisfactory, empowering the Reichsbank to discount two-signature bills up to a total of one-third of its entire bill holdings.

A large place in the discussion was taken up by the question of the redemption of the Rentenbank notes. The Experts Committee rightly viewed the existing circulation of Rentenbank notes as a weak spot in the German monetary system, and were anxious for its removal as soon as possible. It was urged that the Reichsbank should immediately undertake the exchange of Rentenbank notes for its own notes. I was afraid that the immediate imposition of such an additional burden on the Reichsbank would lead to a weakening of its gold holding, and I evolved accordingly a scheme under which the Rentenbank notes would be redeemed over a period of years in accordance with a legally defined schedule. I pointed out at the same time that, of the total of 2 milliards of Rentenbank notes issued, some 870 millions had been devoted to business credits, with the repayment of which the notes would automatically redeem themselves. As regards the remaining sum of approximately 1,200 millions it was desirable that it should be redeemed out of the legally defined interest payable by the persons subject to the Rentenbank mortgage charge, and that the process should be spread over some five to ten years. In the interval the Reichsbank would gather strength to such

an extent as to be able to increase its note circulation by a corresponding amount without danger to its own position.

My ideas on the subject were accepted, and were given a form by the Organization Committee, to which I shall have occasion to return. The Rentenmarks in circulation, at any rate so far as the 1,200 million marks put into circulation by way of credits to the Reich were concerned, constituted the same problem as that which the floating internal debts of Belgium and France have presented, or still do present. Belgium has undertaken to get rid of this debt, in so far as it is based on note circulation, partly by replacing it by a foreign debt and partly by the establishment of a sinking fund organization; and France has made a beginning in the same direction by the establishment of a sinking fund. The legally defined redemption of the Rentenbank notes is fundamentally similar to these efforts. But the Reichsbank from the first moment has been concerned, although not legally obliged to do so, to maintain its gold and Devisen cover not only for its own notes but also for the Rentenbank notes in circulation as if the Rentenbank notes already constituted a part of the Reichsbank currency.

The most difficult of all the discussions in connection with the material issues involved in the Bank Law were when the Experts and myself came to treat the question of the direct gold redemption of the bank notes. I was, like all the members of the Experts Committee, and still am to-day, a convinced adherent of a complete gold standard. But the economic situation of Germany at that moment was quite extraordinary. In all Europe there was not a single country which at the moment had legally established complete redeemability in gold of its notes. Even the pound sterling

was at a heavy discount. The immediate neighbours of Germany were passing through stages of greater or less paper inflation. It was now proposed that Germany, whose currency had *de facto* returned to gold parity, should suddenly bind itself *de jure* to complete gold redeemability.

That appeared to me a quite untenable view. Not that I would have refused to accept the principle of redeemability in gold, but that I was anxious for a period of grace, the duration of which I would have left to the judgment of the responsible heads of the central bank. It was the American members of the Experts Committee who were most emphatic in their opposition to this view, and all that I could obtain from the negotiations in Paris was that the Experts' Plan should prescribe immediate and complete redeemability in gold while leaving it to the discretion of (a) the Organization Committee, (b) the General Council, and (c) the Directors of the Bank by joint decision to postpone the date on which complete redeemability would become effective. Such decision was not to be valid unless all these three bodies voted for it unanimously or with only (at most) a single dissentient voice for each body. It was thus left open for any two members—say of the General Council—to bring about the immediate resumption of redemption in gold any time they pleased. The Organization Committee later had occasion once again to deal with this question exhaustively.

Mention may be made lastly of a point which was of personal moment to myself. The Experts, naturally not being in a position to do more than lay down the basis for a plan, proposed to set up organization committees to handle the individual execution of their suggestions and proposals, and these organization

committees were to have decisive influence in the drafting of the necessary laws and statutes. An organization committee of this kind was proposed in the case of the bank of issue, and it was provided that it should consist of the President of the Reichsbank and one or two representatives of the Experts Committee. I had endeavoured to have the Organization Committee composed of two members only, a German and a foreigner, but had been unable to secure acceptance of my proposal. It was then proposed to entrust to the Organization Committee the election of the first members of the General Council of the Bank and of the first President. As I was bound to consider the possibility of the selection of myself as first President, I was faced with the prospect, if it should so happen, of being appointed President by the decisive votes of two foreigners. I did not feel that I could expose myself to such a situation, and I accordingly suggested to the Experts Committee, waiving my life appointment as President of the Reichsbank, that the first President of the new or reorganized bank should be President for the first six months only and that within these six months the election of the new President should take place in the manner proposed by the General Council. This proposal too was accepted, and it helped also when the Organization Committee came to be appointed to limit its composition to two members, namely, Sir Robert Kindersley and myself.

It would be tedious if I were to attempt to go into the further substance of the discussions which continued for weeks on end with the Experts Committee on the questions arising in connection with the new Bank Law. But I feel it my duty here to place on record that the whole of the discussions with the Experts Committee were always, so far as the political

situation would allow, on a purely objective basis. The majority of the differences of opinion which arose were due merely to the fact that the members of the Committee came from foreign countries with differently organized banking systems; but they never refused to listen to statements of the facts of the German conditions, and they passed judgment on what they were told with insight and appreciation. What is even more worth emphasizing than this feeling for facts is the determined resolve which was apparent in all the members of the Experts Committee at every point to do what could be done to enable reasoned economic views to prevail over political prejudices and antipathies.

On April 9, 1924, at one of the most critical moments through which the German economy was called to pass, the Experts' report was presented to the German Government. Heated discussions followed on the part of the German public. The burdens proposed were indeed treated in all quarters as intolerable. But the conviction gained ground that the acceptance of the report as a basis on which to build afforded the only possibility of gradual progress towards a restoration of satisfactory economic international conditions. What all reasonable quarters recognized was that the report had taken the reparation problem out of the envenomed political and military atmosphere and had assured the predominance of economic conceptions. Thus the discussions on the Dawes Plan in August 1924 led to the London Conference. In the interval the German legislative measures required for the execution of the Plan were drafted and it was possible to incorporate them in the London Pact.

As regards the Bank Law there was exhaustive work still to be done by the Organization Committee (Sir

Robert Kindersley and myself). A report, which the Organization Committee presented on July 7, 1924, to the General Secretary of the Reparation Commission, gave a comprehensive statement of all that we had done. It stated that the Organization Committee had decided, on the strength of a report on the legal aspects of the matter by the English lawyer, Dr. Ernest Schuster, K.C., and of another report on the material aspects of the matter by Mr. Kettle, a member of a well-known firm of London Accountants, not to propose the creation of a new Bank but to let the Reichsbank continue, subject to an amended version of the old Bank Law.

A preliminary condition of such a solution was the conclusion of an agreement between the Reichsbank and the Reich, which was rendered necessary by the proposal that existing provisions of the old Law should be allowed to lapse. The agreement was to the following effect: In return for recognition of its monopoly rights in regard to the currency for a period of fifty years the Reichsbank was to undertake the entire liability for repayment of the dollar Treasury Bills to the amount of 60 million dollars maturing in April 1926. Further, the debt of the Reich to the Bank amounting to GM 235 millions was to be amortized as follows: 100 millions to constitute a permanent loan carrying interest at 2 per cent. and redeemable only on the lapse of the note issue concession, and the remaining 135 millions to carry interest at 3 per cent. and to be redeemed in equal annual instalments within a period of fifteen years. At the same time a general meeting of the shareholders of the Reichsbank, which was held on July 5, 1924, was informed that in the event of the passing of the whole of the Dawes legislation the existing capital of the Reichsbank of 180 millions nominal would be reduced to 90 million gold marks.

A number of amendments, differing in certain cases from the recommendations of the Experts' report, were put forward by the Organization Committee in regard to certain points of the Bank Law; and, where questions of principle were involved, the assent of all the members of the Experts Committee concerned was obtained. Thus in the first place the maximum capital of the Bank was fixed at 300 instead of 400 million gold marks. Again, in the Experts' report it was proposed that there should be a gold cover of $33\frac{1}{3}$ per cent. against notes and of 12 per cent. against deposits. After Sir Robert Kindersley had made himself familiar with the conditions in Germany, he recognized the impossibility of such a cover for deposits, and came to an agreement with me on the Organization Committee that the legal gold and Devisen reserve for the notes should be increased from $33\frac{1}{3}$ to 40 per cent., and the gold cover for the deposits be eliminated. The reserve in short-term bills and other liquid capital assets, which according to the Experts' report was to be held against the deposits, was at the same time increased from 30 to 40 per cent., the deposits of the Agent-General for Reparation Payments being exempted from this provision. It was further provided that of the 40 per cent. gold and Devisen cover for the notes three-quarters should be held in gold.

Again the Experts' report had proposed that, after payment of a dividend of 8 per cent. on the capital and after provision for the necessary reserves, the balance should be distributed in equal proportions between the Reich and the Bank. The profits which would go under this provision to the shareholders appeared to me much too high. Reference back to the year 1924 will illustrate this point. In that year, after distribution of an 8 per cent. dividend, there

remained for distribution a net profit of approximately 90 million marks, of which under the Experts' report 45 millions would have gone to the shareholders on the then paid-up original capital of 90 million marks. At my suggestion accordingly the Organization Committee decided to amend these provisions for the distribution of profits in the following sense: of the first 50 millions of profits the shareholders were to have half, of the second 50 millions the shareholders were to have one-quarter and the Reich three-quarters, while of further surpluses the shareholders were to have one-tenth and the Reich nine-tenths. The result for the year 1924 was to give the Reich about 55 millions instead of 45 millions.

The chief change of principle was in connection with the immediate redeemability in gold. Whereas (as I have explained) the Experts Committee in its report had decided that the redeemability in gold could only be suspended by unanimous decision of the Organization Committee, the General Council and the Directors (voting unanimously or with at most a single dissentient voice for each of the three bodies in question), the Bank Law contained a stipulation in the opposite sense, namely, that a decision of all three bodies was required for the introduction of immediate redemption, and that pending such decision the question of redemption should remain in suspense. § 52 of the Bank Law accordingly now provides that concurrent resolutions of the Directors and the General Council are required for the putting in force of the provisions of § 31 (redemption in gold or Devisen). As a result of this change the Directors of the Reichsbank are free to postpone the unconditional redemption of their notes until such time as the issue banks of the other European countries have adopted a similar pro-

vision. It is to be hoped that, when this legal provision is put in force, it will be in virtue of an international understanding between all the banks of issue interested, and will be applicable to all of them at one and the same date.

Special interest attaches to the work of the Organization Committee on the provisions for the liquidation of the Rentenbank notes. The Organization Committee drew the attention of the Experts to the fact that under the Dawes Plan industry, trade, and commerce in Germany would be saddled with a reparation charge of 5 milliard gold marks. These circles, however, under the Rentenbank Law, were already subject to a first mortgage charge for the benefit of the Rentenbank notes in circulation. It was therefore (we argued) only reasonable and desirable to relieve industry, trade and commerce of the Rentenbank charge, and to shift the cover obligation in respect of the Rentenbank notes in circulation entirely on to the shoulders of agriculture, which under the Dawes Plan was not specially charged. Accordingly the Rentenbank Liquidation Law proposed to increase the mortgage charge covering the Rentenbank notes, which now rested solely on the shoulders of the agriculturists, from 4 to 5 per cent. of the value of the charged land, while at the same time reducing the rate of interest from 6 to 5 per cent.

Of the Rentenbank notes in circulation to a total of some 2,070 million marks, 1,200 millions had been put in circulation through the medium of the credit granted to the Reich. To redeem this amount the Reich undertook over a period of ten years to devote 60 million gold marks a year to a Sinking Fund. It further guaranteed that out of the interest payments on the charge at least the same amount of 60 million gold

marks should be devoted yearly to this Sinking Fund, so that the redemption of the 1,200 million Rentenbank notes would be complete in ten years at latest. The remaining 870 millions had been issued in the form of three-month bill credits, and would in theory liquidate themselves within three months. The Organization Committee, however, recognized that in the difficult initial months of the deflation these credits had mostly been given to agriculture, and that immediate repayment on maturity would not be possible without provoking a severe agricultural crisis. It was accordingly arranged that these 870 millions should be redeemed in three years at latest at the rate of at least one-third of the total in each year.

It was further provided that the share of the Reich in the profits of the Bank should also go to Sinking Fund.

The Organization Committee further agreed to the following settlement in view of the admittedly urgent need for the rehabilitation of agricultural credit in Germany. The Rentenbank was to confine its activities to the liquidation of its own notes and to forgo any other form of business activity. At the same time a new agricultural bank (the institution later known as the Rentenbank Credit Institution) was to be created, and the Rentenbank was to hand over to it its current liquid resources (some 150 million gold marks). The first 60 million marks of the interest on the mortgage charge of the Rentenbank Law (5 per cent. interest on a 5 per cent. charge) guaranteed by the Reich having been paid into the Sinking Fund, a further 25 million marks per annum was to be paid over to the new agricultural bank as working capital. Any interest on the mortgage charge over and above this sum (i.e. over 60 plus 25 = 85 million gold marks) was to go to the Sinking Fund.

The Organization Committee came to the conclusion that the redemption of the Rentenbank note circulation should be completed in about seven years altogether.

This well-thought-out arrangement was received by the agriculturists as a great relief, and constitutes an important chapter in the whole history of the rehabilitation of the German credit system.

The various amendments made by the Organization Committee were incorporated in the Bank Law, and with the signature of the London Agreement of August 30, 1924, received the approval of the various Powers represented on the Reparation Commission. One of the preliminary conditions for the definitive coming into force of the London agreements was the placing of the international loan to the amount of 800 million gold marks as proposed by the Experts for the support of the German currency and to facilitate the reparation payments of the first Dawes year. I had already taken occasion during the August negotiations in London to hold preliminary conversations on this subject. In the course of these conversations it was generally agreed that both on general political grounds and also in view of the amount of the loan the co-operation of as many capital markets as possible was desirable. I accordingly took the opportunity, during the ensuing weeks, to establish touch with the various central money markets, and in particular to apply to a number of banks of issue, with the result that in the last week of September the placing of the loan could be made the object of negotiation in London.

It would be not devoid of interest, though lacking perhaps in discretion, if I were to give a picture of the atmosphere prevailing during these days. Not only was it difficult to get the banks of the various countries together and to settle a number of questions

of etiquette; in addition to this, the distribution of quotas and the apportionment of the loan as between the various currencies and markets occasioned no little difficulty. Without the dominant intellectual and moral leadership of the Bank of England, which in close co-operation with the New York house of J. P. Morgan & Co. lent me the most emphatic support, it would hardly have been possible to bring this difficult operation so quickly to a conclusion.

The inflation in Belgium, France, and Italy also gave rise to difficulties in respect of the participation of these countries. On the other hand, the real negotiations in the matter of the loan between the debtor and the creditors were very simple. In the course of the discussions I made no attempt to haggle with the leading bankers, but confined myself to saying that in the interest of further credits to German business I must lay stress on the desirability of as low a rate of interest for the loan as possible, and that the loan must be a big success. I must further admit that the issue price of 92 which the bankers offered was a market price under the then prevailing conditions, and that Germany had occasion only to be grateful for the debt and rapid putting through of the loan. If there is one thing which in retrospect I regret, it is the fact that it did not prove possible to provide for any call or conversion of the loan after a given period. A stipulation for its convertibility on these lines would have been of great value to us to-day, when German credit has so greatly improved.

On October 10th the loan agreement was approved by the Finance Minister, Dr. Luther, in the name of the Reich and by the various banking groups. On October 15th the issue of the loan to the public took place, and was an overwhelming success. The Reichs-

bank itself had been able to contribute to this result by taking over from particular banks, whose allotments were too high, sub-allotments for the Golddiskontbank.

The work of legal and statutory reorganization of the Reichsbank was thus complete. The new Bank Law came into force on October 11, 1924. On October 30, 1924, the General Council of the Reichsbank met for its first constituent meeting. Simultaneously there were inaugural meetings in Berlin of the other organizations prescribed by the Dawes Plan, the Board of Management of the railway, the Board of Management of the Bank for German Industrial Obligations and the Transfer Committee. All the foreigners concerned had collected in Berlin, including the newly appointed Agent-General for Reparation Payments, Mr. S. Parker Gilbert, who was to take the place of Mr. Owen D. Young, the latter having only carried on the work of the Office of the Agent-General up till then *ad interim*. At midday on October 31, 1924, there was a meeting between all the foreign representatives, the German Chancellor, Foreign Minister, and Finance Minister, and the German members of the General Council of the Reichsbank, at a luncheon in the premises of the Reichsbank. The Germans present were thus given the opportunity of making acquaintance with the foreign representatives; and the latter also, who in many cases had not yet made each other's acquaintance, were enabled for the first time to do so.

Strange feelings and reflections may well have been present in the hearts and heads of those who took part in this luncheon. The German people had not only determined to take upon itself a heavy burden; it had also had to accept foreign co-operation in a number of branches of the national administration. To avoid this foreign interference was out of the power

of the German people in the face of the military threats of its opponents and in view of the absence of German means of defence. At the same time the dominant feeling of those present was not a feeling of resignation, but of unshakable resolve to regard the settlement established by the Dawes Plan not as an end achieved but as the beginning of a new period of development ; and beneath all the latent bitterness there was nevertheless place for a silent feeling of gratitude for those who on the Dawes Committee had endeavoured to erect a barrier of economic reason in the face of political and military animosities. I considered myself, therefore, justified in delivering in the course of the luncheon the following speech :

Mr. Chancellor of the Reich and Gentlemen,—It is a great distinction for the President of the Reichsbank that to-day's meeting should take place in these rooms, a meeting the historical significance of which is indisputable. It is the first time for more than ten years that representatives of eight civilized nations have come together to overcome the great tension and antipathies, which have prevailed up till now, in a spirit of friendliness. It will contribute to the reconciliation and to the reassurance of the German people to know that this co-operation is to take place in a sphere in which the German people has as high achievements to show as other countries.

What is the spirit underlying the co-operation of which the Dawes Plan is the expression ? It is the replacement of the old methods of diplomacy and war by a new method which endeavours to solve the difficulties of the inter-relation of human existences.

These difficulties are of two kinds. In the first place there is the national difficulty, arising out of the fact that each people inevitably has the wish and the natural right to combine in a single national unit all members of the race who speak its language, live in accordance with its customs, and have a common historical tradition. The second difficulty is the social difficulty arising out of the fact that every man who has the will and the power to work has the right to a sufficient subsistence to enable him and his children to share in the progress of material civilization, which is the first condition of moral advance.

In the new method of solving these difficulties the Dawes Plan represents a first step, a step which may be incomplete but

188 THE STABILIZATION OF THE MARK

is a satisfactory beginning, while the ultimate results will be the more satisfactory in proportion to the reasonableness and the prudence displayed by all those who are called upon to take part in the execution of the Plan. If amongst all those so called I single out a single man as the best type, I am sure that you will not regard my so doing as a depreciation of the others, but rather as an honour for them all. The type I single out is the noble character who is sitting on my left. I raise my glass and drink in this good German wine to the health of the new spirit which we all desire to follow, since it will lead us along the path that leads to peace and friendship, the spirit which is incorporated in the person of Owen Young.

CHAPTER VIII

THE RECONSTRUCTION OF THE GERMAN MONEY AND CAPITAL MARKETS

THREE dates constitute landmarks in the recovery of the German currency. On November 20, 1923, the mark was stabilized at the rate of a billion ¹ paper marks to one gold mark; on April 7, 1924, the enforcement of credit rationing finally assured the success of the stabilization; and lastly, on October 10, 1924, the addition of the 800 million gold marks of the Dawes Loan to the working capital of the country provided just that economic backing which the situation required. With the adoption of these measures stabilization could be regarded as complete, though a large number of problems still remained for solution. The sudden transition from the daily depreciation of the paper mark to complete currency stability could not but hit the business world hard. The illusions of seeming wealth in inflated paper money crumbled to nothing, and the alarming spectacle of poverty on a gigantic scale began to take shape upon the screen. The banks' own funds and customers' deposits at the conclusion of the inflation and in the year before the war respectively were as shown in the table which appears on the following page.

In other words, the money part of the working capital of Germany had declined to one-tenth of the pre-war figure. Never before has a people at a high stage of economic development been so denuded of its entire working capital as Germany was denuded by the World War and the Versailles Treaty. All the

¹ Million millions; see footnote on page 100.

				1913.	End of 1923.
				In Billiards of Marks.	In Billiards of Gold Marks.
Savings banks	..	..	..	19.7	0.1
Banks	..	..	..	13.4	2.7
Co-operatives	..	..	..	4.6	0.4
Insurance institutions	..	..	..	6.3	1.2
Total	..	..	..	44.0	4.4

savings put into the 100 milliards of war loans had gone on the expenditure of the war, and what still remained had gone in the huge deliveries and payments of the Armistice and peace treaty. The value of the payments alone has been estimated by the American Institute of Economics, the impartiality of which is beyond dispute, at about 26 milliards of gold marks: the German estimate was 36 milliards.

This denudation of all liquid resources might perhaps have been tolerable for a purely agricultural country. For a country so highly industrialized as Germany the reintroduction of liquid capital was an indispensable preliminary to the revival of production. The reconstruction of a normal money and capital market was inevitably, therefore, the first preoccupation of the Reichsbank. The task devolved upon the Reichsbank not only as a consequence of the general economic position, but also in virtue of § 1 of the Bank Law, under which, in addition to "regulation of the circulation" and "facilitation of the clearance of payments," the Reichsbank was given the further task of making provision for the "utilization of available capital."

The problem had a negative and a positive side. On the negative side was the task of winding up all insti-

tutions left over from the war and post-war periods, which were calculated arbitrarily to affect the natural operation of economic cause and effect.

One of these institutions left over from the war was the Darlehnskassen. They were originally conceived in the war as a subsidiary form of credit machinery. When on November 22, 1923, the total of the notes which the Darlehnskassen were entitled to issue was limited to 10 trillion ² marks = 10 million gold marks, the continuance of the Darlehnskassen lost its practical significance. Accordingly, on February 12, 1924, the Directorium of the Darlehnskassen, of which the President of the Reichsbank was Chairman, decided to give no new credits and to wind up existing credits with as much consideration as possible for weak debtors. The final closing down and dissolution of the Darlehnskassen was fixed by order of the Finance Ministry of the Reich (dated March 17th) for April 30, 1924. One year later the last outstanding loans had been repaid.

The abolition of another of these institutions of the war period, the system of so-called Geschäftsaufsicht or judicial supervision of businesses in difficulties in lieu of bankruptcy, was not so easy. The Geschäftsaufsicht system was originally intended to protect persons who had been taken away from their businesses by the exigencies of military service and were for this reason unable to meet their commitments. It was in the nature of a moratorium for those taking part in the war. With the close of the war this consideration was no longer applicable; but the loss of the war involved such an extraordinary deterioration of business conditions that the authorities could not make up their minds to abolish the system. It was inevitable as a result that numerous abuses should arise, since side by side

² See footnote on page 100.

with the class of debtors who were victims of the new conditions through no fault of their own there was another class, whose indebtedness was due to intention or incompetence and would normally have led to insolvency in any case, and both these classes endeavoured by recourse to *Geschäftsaufsicht* to procure a remission of the necessity for payment over a long period. By decrees of February 7 and June 14, 1924, it was at length decided that *Geschäftsaufsicht* should only be admissible in cases where there was good reason to believe that "the insolvency or over-indebtedness of the debtor would be at an end within a measurable period or bankruptcy would be averted by agreement with the creditors." The duration of the *Geschäftsaufsicht* was also limited to three months, and certain facilities for the conclusion of a compulsory composition were introduced. The following table, which gives the number of *Geschäftsaufsichten* ordered by the Courts, shows clearly the large recourse to the system at the beginning of the war, followed by a steady decline in the numbers, until with the stabilization crisis of the year 1924 there is again a sudden increase.

Geschäftsaufsichten ordered by the Courts :

Year.					Number of Cases.
1914-15 ..	..	..	..	..	3,865
1916 ..	..	..	..	..	1,029
1917 ..	..	..	..	..	463
1918 ..	..	..	..	..	235
1919 ..	..	..	..	..	172
1920 ..	..	..	..	..	231
1921 ..	..	..	..	..	516
1922 ..	..	..	..	..	132
1923 ..	..	..	..	..	163
1924 ..	..	..	..	..	7,111
1925 ..	..	..	..	..	6,052

There can be no doubt that in the years after the war, whether during or after the inflation, all justification

for the Geschäftsaufsicht system had ceased. The Reichsbank again and again drew attention to the harm which the system did (particularly after the stabilization had been put through) in preventing the resumption of normal credit conditions. The decrees of February and June did not indeed meet the desires of the Bank sufficiently; but a new Bill is in preparation which is supposed to be going to do away with the chief evils of the system.

But the most significant step taken to wind up the war system of Government control was in connection with the foreign exchange market. The legislation in regard to dealings in Devisen, which was introduced during the war, was very appreciably intensified after the war in the attempt to cope with the undammed flood of inflation. After November 20, 1923, the only addition to these measures was in the case of the Rentenmark, the export of which was forbidden. The Rentenmark, however, inevitably found its way to foreign countries, in the pockets of travellers, for example; and, when with the currency crisis of February and March 1924 the crowning peril of a new decline of the mark again reared its head, a decree was issued (on April 3, 1924) under which any person travelling for pleasure to foreign countries had to pay a fee of 500 gold marks. This draconian measure was withdrawn ten weeks later.

At the beginning of November 1924 important provisions of the legislation on Devisen were abolished, in particular the prohibition to sell marks to foreign countries. Similarly the permit, which had hitherto been required for the purchase of Devisen, was abolished; and the only essential restriction remaining was the requirement to purchase Devisen through the Devisen banks, and not in private transactions. The notification

of sales and purchases to the revenue offices and a number of other irksome restrictions were also abolished. At the end of 1924 all the regulations with regard to the export of capital from the country were withdrawn. On May 1, 1926, forward transactions in Devisen were allowed, and the prohibition to purchase Devisen at any but the uniform quotation fixed on the Bourse also went. With it disappeared the last remnant of the foreign exchange control.

The free play of the money and capital markets was thus once again restored, but it very soon became clear that the Bourse, which is the primary reflector of the conditions in the money and capital markets, was also enormously weakened. In the last third of November 1923 Bourse quotations reached their highest point. With the intervention of stable currency conditions they fell rapidly. The Bourse was overrun by a crowd of so-called "free" brokers and jobbers—a result of large-scale dismissals of clerical staff by the banks—but the turnovers rapidly declined. With the lavish credits of the initial months of 1924 there was a revival; but it was quickly interrupted by the Reichsbank policy of credit restriction. The lowest point was reached in June 1924, approximately at the moment at which the currency could be said to have been finally rescued by the credit policy of the Bank.

To excite the failing interest of the private investor, steps were gradually taken to reduce the Turnover Tax, and also the rates of commissions which at the close of the inflation had attained altogether abnormal levels. Whereas before the war the charges involved in the purchase of a share amounted approximately to 2 per mille, at the beginning of 1924 the rate was as much as 54 per mille. In April 1924 it was brought down to 28 per mille, in November of the same year to 14 per

mille, and in May 1926 to a little below 7 per mille. The charges on dealings in shares are thus still three times as high as before the war. In the case of mortgages the charges, in spite of all reductions, are still more than four times as much as before the war. In the meanwhile the large influx of "free" brokers and jobbers on the Bourse greatly declined, largely as a result of steps taken by the Bourse authorities in the interests of ordered conditions of stock exchange business. In particular an attempt was made to facilitate the reduction of bank charges by extensions and improvements in the so-called securities clearing system, the actual exchange of the securities between the two parties, which had hitherto been customary, being replaced by mere book entries at the clearing office of the Berlin Kassenverein.

The smaller the supply of money and capital in Germany, the more the Reichsbank was compelled to direct its efforts towards ensuring the most effective use of what there was. The restoration of a regular Giro clearing system was accordingly the object of the Bank immediately after the stabilization. The losses involved by the holding of cash balances during the inflation had led to a proportionate increase in the recourse to the system of book transfers. The number of Giro entries at the Reichsbank in 1913 was 26.5 millions; in 1923 it was 79.6 millions. Immediately after the stabilization the Giro system again began to work on orderly lines, and the process was greatly facilitated by the establishment of the ratio 1 billion paper marks = 1 Rentenmark = 1 Reichsmark. Whereas the entire turnover of the Giro system in 1913 was 379 milliards, in 1924 it was 433 milliards, and 472 milliards in 1925. Formerly the Reichsbank compelled its Giro clients to keep comparatively high minimum deposits on their

Giro accounts proportionately to their utilization of the Giro facilities: in May 1924 the Reichsbank changed its practice and was content with only very small balances. The clients gladly availed themselves of this opening during the worst period of the capital famine. Whereas in 1913 the average amount of a Giro credit balance was 25,531 marks, in 1925 it was only 17,245 Reichsmarks.

During the inflation bills had gradually ceased to figure as an instrument of payment in ordinary commercial transactions, since with the rapid depreciation of the money the value of the bill was always very much less at the end of its currency than at the beginning. Some effort on the part of the Reichsbank was required in order to rehabilitate the bill as an instrument of payment in commercial transactions. The efforts of the Bank in this direction were assisted by the reconstruction of the private discount market and the resumption of the practice of bank acceptances. In the early summer months of 1924, while the credit restriction policy was still in force, the Reichsbank took the first step in relief of the credit stringency by giving assurances to the principal accepting banks that within certain limits and without prejudice to the maintenance of the credit rationing system their acceptances would be re-discounted by the Reichsbank at any time. In this way bank acceptances, which during the inflation had completely disappeared from view, gradually found their way back again into use. It was not until the end of August 1926, however, that the total in circulation by all the German credit banks reached as much as 314 million Reichsmarks. In the last year before the war the total of such acceptances was almost seven times this figure, viz. over 2 milliard marks!

This enormous decline once again revealed how the

acceptances of German banks in international shipping credit transactions had been wellnigh extinguished by the inflation. There is no doubt that herein lies an obstacle to the reconstruction of international trade, in so far as imports into Germany are concerned. Before the war the branches of German banks in foreign countries, especially in London, were acquainted with German conditions, and were in a much better position to finance German import transactions than foreign firms could be. This facility is now gone also, and once again we find the system of dividing the nations into watertight compartments having a general effect of restriction on international trade.

One of the principal forms in which money and capital first began to accumulate again to any considerable extent was that of the so-called public moneys. The range of the State's activities in Germany was always somewhat wider even before the war than in other countries, the State railways and the social insurance system with its wide ramifications being largely responsible for this. The German municipalities also were extremely active before the war in the sphere of public utilities (i.e. publicly owned profit-earning concerns). The expression "public moneys" is used by the Reichsbank to mean all those sums of which the Reich, the Federal States, and the Communes dispose, as well as all those moneys which are accumulated in virtue of social legislation (e.g. in connection with the public insurance system and unemployment relief), and lastly funds accumulating in virtue of legislative enactments with private insurance undertakings and public banks and savings banks. As compared with private savings, the accumulation of which is still very slow, these public moneys to-day represent the largest part of the new capital in process of creation.

It always was, and still is, the object of the Reichsbank to ensure that all these moneys should be administered on uniform lines and should be made available for the reconstruction of credit both in the short-term market and in the long-term market to the greatest possible extent. There are two factors which militate against this intention. On the one hand there is the circumstance that a number of State officials have become accustomed since the war to manage industrial and commercial concerns, and incidentally to conduct the finance of these concerns; and on the other hand there is a tendency—originating in the Dawes Plan—for concerns of the Reich and the Federal States to manage themselves independently, a tendency which meets with enthusiastic support from departmental officials in search of occupation. The separation under foreign pressure of the posts and railways from the administration of the Reich is the most striking example of this tendency. The two administrations in question, which used to form a part of the civil service of the Reich and States, immediately proceeded to inaugurate a financial and monetary policy of their own without the requisite personal and professional qualifications. The agreeable feeling of having large sums of money to handle has such attractions for the parties concerned that the higher considerations of the public welfare are bound perforce to suffer.

I am well aware that in other countries the view prevails that railways and to some extent postal services ought to be private enterprises and as such entitled to bank with whatever institutions they please. But matters of this kind cannot be treated as matters of theory alone; they must be considered in the light of their historic development. The German Railway, in spite of its legal character as a private enterprise, is

regarded first and last by the entire population as an undertaking which must be run on public utility lines, if the interests of the public are not to be sacrificed. The same applies to the Posts. In those countries where the railways are in private hands, as in England, France, and the United States, the individual railway companies have a historic development behind them and have been administered for decades on lines of private enterprise modified little by little in recent times by an infusion of public control. As regards financial policy, they all have an experience which dates from decades back and an appropriately trained staff: but I question whether there is a single one which has established a bank of its own. In all these cases the companies work with existing banks and banking houses, and the moneys are administered by these banks. In Germany, on the other hand, the Posts and the Railways, although quite without experience in that field, have been ambitious of having their own banking organizations. In this connection it must be remembered that, unlike the railway companies of the other countries with private enterprise, the German Railway Company is the only railway-owning corporation in Germany; that is to say, it has a monopolistic position. Incidentally it is the largest railway undertaking in the world. It consequently accumulates sums of money which are capable of exercising a decisive influence on the money market.

The same tendency to administer their own funds without banking education or experience pervades the various Governmental bodies which dispose of large sums for social welfare purposes. Each department jealously watches against the intrusion of a third party into such transactions: and the grotesque situation resulting is that every Ministerialrat in Germany is anxious to be his own banker.

In the teeth of quite extraordinary opposition the Reichsbank has made continuous efforts to secure order and system in the administration and employment of these public moneys. The Bank's view is that these public moneys of the Railway, the Posts, the social funds, etc., should properly be in the hands of the Reichsbank. In this view it is at one with the Governor of the Bank of England, Mr. Montagu Norman. Giving evidence before the Indian Currency Committee not long ago, the Governor pronounced in unmistakable terms for the view that the central bank of a country should be the repository of all Government balances, and the agency through which the financial operations of the Government in and outside the country take place; and he added that it was of the first importance that the policy of the central bank and of the Government should at all times be in as complete harmony as possible.

This is also the view of the Reichsbank; but it presupposes that the Government for its part should follow a uniform monetary policy, and should not leave it to individual departments to do as they please with the money passing through their hands. It must unfortunately be said that such a policy—which in the German Reich before the war was followed as a matter of course—is to-day still far from being followed. The severance of all connection between the various funds and their separate administration on independent and conflicting lines has the great disadvantage that it compels the Treasury to budget for its requirements independently of the financial resources which these funds represent. The Finance Minister is obliged to keep very much larger working funds in hand than would otherwise be necessary, the effect of which in the field of taxation policy is inevitably to burden the

taxpayer unduly. The Dawes Plan itself recognized the principle that the Railway should have its funds handled by the Reichsbank ; but the principle unfortunately went by the board in the final drafting of the provisions of the Railway Law which deal with the subject. The Reichsbank, however, will not cease to use its efforts to obtain recognition for this sound doctrine in the interests alike of the Treasury and of the money and capital markets.

One unfavourable result of these centrifugal tendencies in the administration of the public moneys became apparent after the inflation, when almost all of the departments in question began to use their funds for credit transactions at the highest possible rates of interest. Such a policy, carried out by persons without experience, was bound to lead to heavy losses, which culminated in a number of cases in public scandals. Again and again the Reichsbank contended with all the energy at its command that, if public departments are to put their money out at interest at all, they should at least be under an obligation to place it at the disposal of the market at the lowest, and not the highest, rates of interest. Little by little this policy advocated by the Reichsbank has made headway, at any rate to some extent and in the case of some departments. In the summer of 1925 the Government of the Reich openly adhered to the view that "public moneys should be so administered that not only the danger of an increase of the private rates for money does not arise but there is also an incentive in the contrary direction." The Government of the Reich further proposed to place itself in touch with other public bodies handling money, especially the Federal States and Communes, with a view to the enforcement of similar principles in the operations of the latter. The carrying into effect of

these principles is unfortunately still far from complete. I cannot doubt, however, that the logic of facts and the correctness of the Reichsbank's views will in the end make headway in this sphere also.

The efforts of the Reichsbank were not confined to the case of the public moneys. On the money and capital market in general the Reichsbank ever since the stabilization has worked systematically for a reduction of interest rates; and its efforts have met with an increasing measure of success in proportion as the process of purging the economic life of the country from the remnants of the inflation and eliminating the purely speculative elements (unnecessary middlemen and the like) by the enforcement of the credit restrictions became effective. At the beginning of the year 1924 an interest rate of 100 per cent. per annum was nothing uncommon on the open market, and may almost be said to have been a normal rate. The Reichsbank, on the other hand, adhered after stabilization to its rate of 10 per cent., which rapidly compelled the private rates to come into line. The introduction of the credit restrictions at the beginning of April led to a passing increase in the private rates; but this was again followed by a fall. On October 6, 1924, the *Stempelvereinigung*,¹ to which all the principal Berlin banks belong, fixed its interest for loans and advances at 12 per cent. On February 26, 1925, the Reichsbank was able to reduce its rate to 9 per cent., upon which the banks followed suit with a reduction to 11 per cent. The commission charges of the private banks were also gradually reduced in response to the insistence of the Reichsbank. They amounted on October 6, 1924, to 6 per cent. per annum, and were reduced on December 17, 1924, to 4½ per cent., on January 26, 1925, to 3 per

¹ Central organization of the Berlin banks.

cent., on October 1, 1925, to 2.4 per cent., and on September 1, 1926, to 2 per cent.

The process of reducing interest rates received an impetus when from the middle of 1924 the credit restrictions, having completely attained their object, were relaxed in ever-increasing degree. From the end of June onwards the restrictions were relaxed in the case of big particular credit institutions. Such procedure could only be temporary; and on September 13, 1924, accordingly the whole schedule of credit limits as fixed on April 7th was raised by 10 per cent. Special concessions were frequently granted in addition for particular objects of special economic importance. But notwithstanding all such concessions the system of credit restrictions was maintained in principle for a whole year more, until at last at the beginning of September 1925 a public announcement could be made that the situation on the money market was so much stronger that the rationing could be discontinued. I never concealed from myself that credit rationing was an extremely imperfect and undesirable form of action for a bank of issue, and I trust that it may never be necessary to have recourse to it again. But extraordinary situations call for extraordinary remedies, and cannot always be mastered by the theoretical rules evolved for normal conditions.

A number of big undertakings, which were not without reserve resources of their own, had stood the first shock of the credit restrictions in 1924. They now set themselves in the period which followed to adapt their organization to the changed conditions. Those undertakings which were organized on uniform and compact lines were successful in the attempt. Others, which in the course of the inflation had bought up a collection of varied concerns having no organic

connection with one another and had never been able to cement them into one economic whole, were less successful.

The chief of these amalgamations of capital without unity or internal cohesion was the firm of Hugo Stinnes. From its original form of a coal trade undertaking, Hugo Stinnes had succeeded before the war in developing his firm to a point where—within his own sphere of coal and iron—he commanded a position of high standing and a considerable property. It was not until the war and the post-war periods that Stinnes began to step outside his own sphere. He first acquired shipping interests and began to handle foreign trade. Later he associated with himself oil-interests, metal and machinery factories, assured himself a foothold in the wood and paper industry, and in the chemical industry, and acquired printing concerns, newspapers, hotels, and controlling interests in banks. There is no doubt that these various acquisitions would not have been possible had not Hugo Stinnes known how to exploit the speculative possibilities of the inflation to his own advantage.

The stabilization of the currency was bound to call a halt to these activities, and would in all probability have led him to seek what was the only solution in the circumstances, i.e. the dismemberment of the numerous interests of his extraordinary concern and the concentration of those which were essential, had not death in April 1924 put an end to his amazing passion for work and exaggerated ambition. The sons, to whom he left his capital accumulations, had not the wisdom to purge and fortify the vast concern by prudent restrictions of its scope; they believed that they ought to continue their policy of expansion even after the currency stabilization. They not only invested such

liquid resources as they still had, but took up new credits, most of them short credits, for the purpose; and the more the business declined as a result of the economic crisis, the more it absorbed of working capital, which again could only be raised for the most part in the form of short credits.

The catastrophe came at the beginning of June 1925. The firm was no longer in a position to meet its liabilities, and it could not raise any further credits. It applied to the Reichsbank.

The abrupt collapse of so large an industrial and trading concern would have involved vast new difficulties for the German economy, which was itself engaged on a process of transformation of great difficulty: and since the collapse was due in the main, not to defects in the undertakings themselves, but to unwise financial methods (i.e. the locking-up of short-term credits in long-term capital outlay) the Reichsbank decided without further hesitation to take steps for the support of the concern, materially and financially. The German banks involved were summoned to a meeting, and a syndicate was formed to give credit and liquidate the concern. The syndicate paid up all liabilities to outsiders, and also undertook the sale or exploitation of a large number of the firm's assets.

The action taken by the Reichsbank averted a shock to the economic life of the country which would in all probability have had adverse effects on the national credit in foreign countries. How wisely the Reichsbank had acted was shown by the further course of the affair. Out of the sums realized for its capital assets the firm was able to pay back a large part of its debts, and still retain so large a capital that it was able to attract American interest which in turn enabled it to continue

operations, and thereby to obtain the means of paying back the last pfennig of its liabilities.

The Reichsbank came to the rescue in the case of other big industrial concerns, in difficulties through having locked up their capital, and with similar results; that is to say, by gradual liquidation it was made possible not only to meet all outstanding liabilities but to put the concerns in question on their feet again after a salutary process of purging and concentration.

With the conclusion of the London Agreement and the strengthening of the internal position of the Reichsbank by the flotation of the Dawes Loan, while at the same time foreign credits began to pour into the country on a large scale, the credit rationing could be gradually relaxed. With the relaxation of credit rationing the discount policy of the Bank came into its own again. On January 13, 1926, the Reichsbank was able to lower its rate to 8 per cent., and to induce the private banks once more to reduce the margin between the Bank Rate and the private rates (till then 2 per cent.) to 1 per cent., as formerly in peace-time. On March 27, 1926, the Reichsbank was able to reduce its rate still further to 7 per cent., which was followed by further reductions on June 7th to $6\frac{1}{2}$ per cent., and on July 7th to 6 per cent. This rapid fall of interest rates during 1926 was made possible chiefly by the influx of foreign credits.

Apart from its direct influence on the interest rates of the private banks and its own discount and credit policy, the Reichsbank did much to help the return to normal rates by its gold policy which, pursued systematically ever since the stabilization, contributed to strengthen confidence in the German currency in an ever-increasing degree. At the end of 1923 the gold and foreign exchange holdings of the Reichsbank had

fallen to a level which could almost be described as desperate. It is true that on December 31, 1923, the Bank could still show a gold holding of 467 million marks, but there was practically no holding of foreign exchange by the side of it. On the other side of the account guarantees and foreign currency obligations of the Reichsbank in foreign countries were still running, and in addition there was the guarantee of the Bank for the redemption of the 60 million dollars of Treasury Bonds of the Reich. On all previous occasions when the attempt was made to support the mark the Reichsbank had still behind it considerable stocks of gold and Devisen: but at the beginning of the stabilization at the end of 1923 the gold and Devisen backing had been heavily weakened. The influx of Devisen which followed on the stabilization in December 1923 and the surrenders of Devisen after the introduction of credit rationing on April 7, 1924, proved, however, sufficient to meet all the current foreign exchange obligations of the Bank, and at the same time free the gold reserve, which was still ear-marked as security except for 422 millions of its total, so that the only liability remaining was the guarantee on the dollar Treasury Bonds. Here, too, the Bank was in a position to afford relief by gradually buying up a considerable quantity of these dollar bonds with its own notes instead of with Devisen, so that when the bonds fell due on April 15, 1926, there was only a comparatively insignificant amount outstanding.

From the moment that the Reichsbank had larger stocks of foreign exchange, and possibilities of obtaining it, than the market required (which was the case from June 3, 1924, onwards) it began systematically to build up its gold reserve, chiefly by converting dollar balances in New York into gold. The gold reserve

rose on June 14, 1924, to 448 millions, on June 23rd to 462 millions, on July 7th to 466 millions, and continued to rise. Almost every weekly return down to the end of the year showed an increase in the total: on December 31st it was 760 millions. As the proceeds of the Dawes Loan became available, it was possible to go farther, and on March 31st, 1925, the total of 1 milliard was reached and passed. After this there was no further increase until the year 1926, when large purchases were made in connection with the influx of large long-term foreign credits. The greater part of the gold was bought in New York: England and Switzerland were the next largest source of supply with approximately equal amounts: smaller amounts were purchased in Sweden, Holland, and Russia.

The gold policy of the Reichsbank did not meet with approval in every quarter. The adherents of the nominalist theory of currency were particularly critical of the action of the Bank. I have never engaged in academic controversy either with the nominalists or with the advocates of an index currency. I have invariably said frankly that I do not set great store by currency theories, but should be prepared at any moment to accept any currency adopted by America and England. I will refrain accordingly at this point from discussing questions of gold currency, "gold nucleus currency," Devisen currency and so forth. I merely note that the theory of metallic currency is now stronger, and not weaker, than it ever was, and that nothing showed the superiority of gold so much as the war. To say so much is not to say that the heads of the great central banks of issue cannot and should not endeavour even more than before to avoid fluctuations in the price level by wise distribution and employment of the gold on which the currencies are based.

Of all the demands for credits with which the Reichsbank was assailed after the stabilization, the demands of agriculture were the most clamant. The Reichsbank was placed in this case in a difficult position. From the standpoint of pure currency theory a bank of issue is by no means a suitable institution for giving agricultural credits, since agricultural credits are for the most part not three-month credits but credits with nine or twelve months to run. In pre-war practice at most 5 per cent. of the total bill holdings of the Reichsbank were agricultural bills. Nevertheless the necessity of not allowing agricultural production, the primary basis of the German economy, to be paralysed induced the Reichsbank to give something like 800 million marks in the form of bill credits to the agriculturists during the initial months of the year 1924.

I was well aware that these credits constituted a danger—less perhaps for the Reichsbank itself than for the agricultural industry. What German agriculture needed was not short but long credit. I have already explained¹ how, as a result of the work of the Organization Committee, provision was made for amortization of these agricultural bills in three equal annual instalments payable through the intermediary of the Rentenbank. This provision gave the agriculturists a certain breathing space, but could not entirely relieve their requirements. Their demands as voiced in the agrarian Press accumulated round the head of the President of the Reichsbank, and from time to time sharp conflicts arose with agrarian circles, because I was not prepared to repeat the initial experiment at the expense of the liquidity of the Reichsbank portfolio. Again and again I pointed out that bill credits could not help agriculture, and that long-term mortgage credit must once again

¹ See page 183.

be set on its feet. I have also on occasion directed attention to the backward methods of agricultural production frequently followed, and have earned thereby much open hostility and . . . secret assent. I have frequently endeavoured to help the rehabilitation of mortgage credit by diverting into this form of investment public moneys suitable for long-term investment. The Postal service and certain of the social funds have found employment in this direction to a gratifying extent.

In January 1926 Director Oskar Wassermann, of the Deutsche Bank, approached me with the suggestion that agriculture might find relief by borrowing abroad on a large scale at a rate of interest well below the German rate for long-term investments. The suggestion was combined with a proposal, which had been put forward more than once by individual agriculturists, to lower the rates of interest by creating interim credits of some years' duration in place of twenty to twenty-five year mortgages. I gladly took up the proposal; but I was anxious on grounds of currency policy not to appeal to foreign capital but to attempt to raise the necessary sums within the country. The Golddiskontbank was well suited to assist in the achievement of this object, since the aim of the Golddiskontbank, viz. the improvement of the German balance of payments, could be attained as well by diminishing imports, which I hoped would be the result of the supply of capital to agriculture, as by increasing exports.

In the course of a few weeks there thus came into being the scheme by which the Golddiskontbank declared itself prepared to purchase at par from the Rentenbank Credit Institution some 100 million marks' worth of 7 per cent. mortgage bonds maturing in

equal parts after three, four, and five years. The individual private and public mortgage banks and institutions were to undertake the actual distribution of the credits to the agriculturists, and were to assume part responsibility for their repayment. The commission charged for these services was made so low that the farmers were enabled to obtain the money at a little over $7\frac{1}{2}$ per cent. This form of accommodation was adopted by me because, while I did not very seriously anticipate repayment on maturity after three to five years out of the profits of agriculture, I assumed that within that period the possibility would arise of transforming these interim credits into long-term mortgages at interest rates which would be well below the current rates. The year 1925 had shown that the private and public mortgage banks were in a position to make available for the agriculturists several hundred millions of marks of new long-term credits in a single year, so that it was reasonable to hope that sufficient long-term credits would be equally available in the future, out of which the three to five-year credits would be repaid.

In addition to these steps on the part of the Gold-diskontbank, the Reichsbank itself took action by investing its official pensions fund of 80 million marks in agricultural mortgages. Lastly, the Reichsbank admitted a large number of mortgages for the first time as collateral for loans, and raised the percentage of collateral for loans from 50 to 75 per cent.

The upshot of all these measures was an astonishing upward movement of mortgage quotations, which made considerable new funds available for agriculture from hitherto untapped sources. In May 1926 a further step was taken in the shape of a declaration by the Reichsbank of its willingness to back short advances

by the Preussenkasse¹ on stored grain. The mere announcement of this facility was sufficient to avert precipitate sale of the new harvest on the lines which had to be followed very much to the disadvantage of the agriculturists in the autumn of 1923.

One of the greatest dangers to the reconstruction of the money and capital markets was to be found in the proposals for revalorization of depreciated debt. Numerous mortgages, which had matured during the inflation period, had been repaid in depreciated paper marks. The recipients naturally regarded this as a grave injustice, and from 1922 onwards complaints on this head redoubled and took the form of a demand for legislation. The Government, however, could not bring itself during the inflation period to decide for any positive settlement of the question, and down to July 1923 it continued to proclaim the principle that a mark was a mark, and that was the end of it.

The situation was complicated by the fact that the courts were beginning in their decisions to diverge from this standpoint of the Government. Eventually even the Supreme Court of the Reich delivered a decision (on November 1923) in which it abandoned the principle "a mark is a mark," and admitted the principle of revaluation of paper mark mortgages in accordance with the circumstances of the particular case and the solvency of the debtor, on the basis of § 242 of the Civil Code, which asserts the principle of *bona fides* and good faith. This decision inevitably led to much other litigation, and compelled the Government to face the necessity of legislation on the revalorization problem. This legislation was forthcoming in the first place in the so-called Third Steuernotverordnung or Emergency Taxation Decree of February 14, 1924,

¹ A central organization of Prussian co-operative banks.

in which the legislature gave its sanction to a writing up of mortgages to 15 per cent. of their gold value. Obscurities, however, arose in the execution of this measure; and everything pointed to the issue of a definitive revalorization law. The solution was not rendered easier by the fact that all the political parties felt impelled to promise their voters unattainable things in the way of revalorization. In the end the principal parties reached a compromise which took shape in the two laws of July 16, 1925, on the revalorization of private mortgages and the liquidation (revalorization) of public debt.

I myself from the first took the view that a settlement based on the purely legal conception of *bona fides* was an impossibility. As there could not possibly be any question of a 100 per cent. adjustment, and anything that was done must be in any case on a very much lower scale—ultimately the maximum of 25 per cent. prescribed by the Law was allowed in the majority of cases—the purely legal view meant that the man of small means, whose mortgage claim was his principal capital asset, was not given sufficient consideration, whereas the rich claimant who could well afford the loss would have his claim revalorized on an identical scale. I was for this reason consistently in favour of the so-called social standpoint in the treatment of this question; that is to say, of compensation to the impoverished small *rentier* and saver at the expense of the State, whether the State funds for the purpose were to come from a special impost *ad hoc* or from other sources.

The valorization question further interested the Reichsbank because the Bank was asked to follow suit and revalorize its own paper money. The chief argument put forward was that a distinction ought to

be made between bank notes issued before the war and bank notes issued during the inflation. It was proposed to calculate the gold value of every note at the date on which it was put into circulation, and to make such value as far as possible the basis of the revalorization. Those who argue for this insane claim forget that it makes no difference to the value of a bank note when it is issued, that 1,000 German marks of the Reich are 1,000 German marks for all time without reference to the date of their issue or the gold value of them on that date, and that the new and the former issues of money depreciated equally under the stress of inflation. It is also overlooked that bank notes are not put in circulation on particular days, thereupon remaining in circulation outside of the control of the Reichsbank, but return to the Reichsbank in the course of their circulation at regular intervals impossible to control and are at once put in circulation again. Lastly, it is overlooked that under the new Bank Law the Reichsbank is obliged to redeem the whole of its paper money in circulation at the rate of 1 billion² paper marks to the Reichsmark and at no other rate. The idea of revalorizing the notes is still an obsession of thousands of people and, although in the meanwhile the Supreme Court has shown the untenable character of the idea by its decision of May 20, 1926, it will still be some time before the last believer is persuaded of the impracticability of a currency revalorization, and the hope that the past may be once more revived fades from the last unhappy human breast.

² Million million; see footnote on page 100.

CHAPTER IX

FOREIGN CREDITS

I HAVE already spoken of the alarming degree to which the wealth, and in particular the mobile capital, of Germany was destroyed by the war and by the inflation. Although the German army was successful in keeping enemy troops from German soil, the isolation of Germany from the other industrial countries had not been without its effect on the German industrial machinery, which was no longer always abreast of the highest technical standards. The need for adequate working capital to set production going once more, and to finance the necessary changes and improvements, was accordingly urgent. But to set its industrial machinery going again Germany could not afford to wait for capital to accumulate at home, and was compelled to rely on her ability to attract capital from foreign countries.

The experts who drew up the Dawes Plan regarded the restoration of German credit in foreign countries as an essential base for the success of their plan, and they endeavoured to shape the Plan in such a manner that Germany's credit would in future be as independent as possible of adverse influences. In the years of the inflation it was extraordinarily difficult for German undertakings even of sound character to raise in foreign countries the credits necessary for their continuance, but after the publication of the Dawes Plan, and still more after its acceptance in August 1924, the situation changed completely, and there began a steady flow of credits into Germany. The stabilization of the mark

at the same time had a powerful effect on the formation of new capital inside the country. It is not possible to say with certainty to what extent the accumulation of capital in the initial years after the stabilization was due to new savings or merely to the reappearance and mobilization of hidden reserves of foreign exchange, commodities, and other forms of material values. In treating the figures for the years 1924 and 1925 in particular, when the fear of a new collapse of the currency was still general and the policy of credit restrictions was in full force, these points must be borne in mind; and it is not until the year 1926 that the figures represent once more to an overwhelming extent the genuine creation of new capital. The following data must be treated in the light of these general considerations.

At the end of January 1924 there were only 409 million Reichsmarks of deposits in the German savings banks. Of these only 50 millions could be regarded as genuine savings, the remaining 359 millions representing current account (Giro) deposits. At the end of December 1925 the total deposits in the savings banks had increased to some $2\frac{1}{2}$ milliards, of which about 1.6 milliards were savings and the remainder Giro deposits. In the first eight months of 1926 the combined total had risen to 3.7 milliards.

The deposits with the German credit banks rose between the end of October 1923 and the end of December 1925 from about 0.3 milliards to 10.7 milliards. In the following eight months, that is to say down to the end of August 1926, they rose to 12.2 milliards. This figure naturally includes numerous duplicated entries, and the statistics cannot therefore be used without qualification. But the slight increase in 1926 shows clearly enough that bank deposits are no

measure of the saving power of the country or the volume of capital accumulation. For one thing it must be remembered that they are not unqualified credit balances, since they are subject to deduction for items on the other side of the balance-sheet.

In the case of the co-operative banks it is not until the end of June 1924 that the deposits reach as much as RM 250 millions. There are no complete statistics as to the growth of these deposits in the period following; but judging by particular data available it is not likely that the present total of deposits with the co-operatives exceeds 1 milliard.

Before the war insurance enterprise played a big part in the creation of capital. The capital assets of the private insurance concerns before the war were worth over $5\frac{1}{2}$ milliard marks: they are not likely to be as much as the twelfth part of that sum now. The social insurance offices, which also before the war accumulated capital on a large scale, are very slowly beginning to do so once more.

One very widespread form of investment of capital in Germany before the war was mortgages. The new capital invested in mortgages since the stabilization can hardly have reached $2\frac{1}{2}$ milliards by the middle of 1926: before the war the capital in this form of investment was something like 60 milliards.

The figures of the postal cheque system present a livelier picture. The postal cheque credit balances, which were about 50 millions at the beginning of the stabilization, had risen to 500 millions in the middle of 1926. These figures must be treated like the figures of the bank deposits. They show that the new capital, whether derived from savings or by borrowing, is used primarily—and that quite apart from the economic depression—for financing current business, that is to

say as working capital, and that the amounts which go into permanent investments are still insignificant.

Some $1\frac{1}{2}$ milliards of fixed interest-bearing securities were issued on the internal market in the years 1924 and 1925. In the first half of 1926 the fixed interest-bearing issues totalled about the same amount as in the two previous years together. But these figures also require to be treated with the requisite qualification.

Although the aggregate result of all these figures is such as to justify the German people in the hope that the creation of new capital is slowly beginning once more, there is every need to guard against exaggeration of the results achieved. At the beginning of the stabilization the total circulation, including all forms of subsidiary money, was only about 1.3 milliards; so that when the present total of the circulation ($5\frac{1}{2}$ milliards) is taken into account, it is found that 3.95 milliards out of the total working capital of the country represent merely increase in the circulation. A great part, moreover, of the deposits, in the case of the banks especially, are public moneys artificially accumulated as the result of excessive taxation of trade and industry. Taking one consideration with another, it is clear that the restoration of the capital resources of the country out of the country's production and savings is not progressing very fast. The great part of such working capital as has again been accumulated is really derived from foreign loans, that is to say, is only borrowed.

After the conference which culminated in the London Agreement of August 1924, foreign countries began for the first time since the inflation to show considerable readiness to give credits to Germany. It was the City of London which, with its old knowledge of the Continent and of Germany especially, was the first to look for opportunities of financial business in our

country. This first period of foreign credits is a period almost exclusively of short credits: there was practically no flotation of long-term loans. The Reichsbank soon became aware from the rapid influx of Devisen that a lively use was being made of these credits, and it looked as if the money was being used by the German borrowers for long as well as short operations. Accordingly, even at this early stage, the Reichsbank considered it desirable to draw attention to the character and significance of such foreign borrowing. At a banquet of the Central Association of German Banks and Bankers on December 15, 1924, I urged that short credits should only be taken up for short transactions, and that the risk of having to repay such credits in foreign currency, which might conceivably not be obtainable from the Reichsbank on credit and would then have to be paid in cash, should be kept in mind. Short foreign credits, I said, should be employed only for short self-liquidating transactions.

From October 1924 onwards the Reichsbank endeavoured to collect as accurate statistics as possible with regard to the volume of foreign credits, in view of the great importance of such data not only for the foreign exchange policy of the Reichsbank but also for the transfer policy of the Agent-General for Reparation Payments, who in this matter has to keep in touch with the President of the Reichsbank. In so far as public issues of capital are concerned, the figures are easy to obtain. As regards private loans and bank credits the Reichsbank endeavours by the agency of its branches throughout the country to obtain a certain insight into the position.

The statistics collected confirm what has been said. Apart from the Dawes Loan, which has a special character, some RM 200 millions alone were raised in

the last quarter of 1924 in long-term loans, while between RM 300 and 500 millions were raised in short credits. In the first half of 1925 loans increased by approximately a quarter of a milliard of marks, while short credits in the same period increased by about a milliard. In the second half of 1925 a further milliard of long credits was taken up, while short credits increased only by a few hundred millions. The first half of 1926 brought a further increase of 800 millions of loans, whereas short credits fell again to rather over a milliard. At the end of September 1926, that is to say after two years in all of foreign borrowing, the position was approximately that some $3\frac{1}{2}$ milliards of marks had come into the country in the form of long-term loans, while there were something like $1\frac{1}{2}$ milliards of short credits running concurrently.

These figures give an approximate picture of the total foreign indebtedness of Germany. It is true that other operations have to be taken into account at the same time, such as purchases by foreigners of German real property or stock exchange securities or interests in German undertakings. On such points there is, of course, no statistical material available. On the other side of the account it is impossible to say what the Germans have bought back of their own loans and shares issued abroad. It may well be that the two items balance one another. Altogether the total foreign indebtedness of Germany at the present moment must be called very moderate in comparison with other countries. If the Reichsbank has nevertheless interposed on repeated occasions to utter warnings with regard to this matter of foreign indebtedness, its reasons for so doing have been not so much the amount of the indebtedness as the use which has been made of it, the rate at which it has mounted up, and the close con-

nection of the problem with the reparation liabilities of the country.

Special interest attaches to the question of the use made of foreign credits in view of the claims which the Reich, the Federal States, and the Communes have felt impelled to put forward to satisfy the public utility requirements of the country. Before the war Germany ranked as one of the most highly developed countries, whose public institutions in such matters as transportation, hygiene, education, and social welfare were in many respects a model to the civilized world. A great part of the capital required to finance these institutions was naturally raised by borrowing instead of from current revenue, since the benefits of such institutions are spread over decades and it is reasonable to spread the burdens equally. The war and the result of the war completely destroyed the internal capital market, which had been responsible up to this time for financing this expenditure: but the standard of the national requirements in this field was not destroyed, and it was not possible to put the German people back to the point which it had left behind several generations back. Would it be possible suddenly to demand of the American people that it should be content to-day with the cultural requirements which satisfied the generation before the Civil War? Such a demand would be senseless, and would not benefit the human race in any way. On the contrary.

We must look, therefore, for the capital which will enable us to maintain the old level of culture. But it makes a great difference whether this capital is capital saved within Germany or capital borrowed from abroad. While every effort must be made, therefore, not to allow a setback of civilization in this case, there is at the same time an absolute necessity for the very greatest economy

in public expenditure. If public institutions are to be financed at all with foreign capital, it must only be those which contribute in the first instance to increasing the level of production of the country, and not such as serve mere luxury or avoidable increases of consumption.

The Reichsbank has been continuously at pains to diffuse such views and to make them effective. So far as the central authorities of the Reich are concerned, it has found complete understanding for its efforts: with the States and Communes only to a lesser extent. When in the last few weeks of 1924 one of the German States seriously proposed to raise a foreign loan of an amount representing RM 100 per head of its population, half of which was to be used for giving credits to its citizens, the Reichsbank pointed out that this corresponded to a loan of 6 milliards for the Reich, and that a halt must be called to such abuses. As a result of these representations discussions took place between the Reich and the States, which led to the establishment on December 23, 1924, of certain guiding lines for foreign borrowing by Federal States and Communes. To give practical effect to these guiding lines, an Advisory Board for Foreign Credits was attached to the Finance Ministry of the Reich and met for the first time on January 17, 1925. The Advisory Board has acted as a check on foreign borrowing over a period of months. The chief difficulties of the Board have been (a) the formal difficulty of the fact that it is based only on a free agreement between the Reich and the States and has no powers under any legislative enactment of the Reich, and (b) the material difficulty of the fact that, when States or Communes apply to it for leave to borrow, it never has the whole of their finances before it to review, but only such documentary support of the application as they have thought fit to attach. It

has been in a position to decide whether the object for which the loan is to be used is such as to justify its conclusion; but it has not been in a position to say whether or no the available internal resources of the State or Commune are sufficient, with the exercise of proper economy, to take the place of the whole or part of the loan.

I accordingly took occasion in October 1925 (before starting on a journey, which I had long had in mind, to New York) to discuss these problems in a speech which I delivered at the invitation of the Government of the State of Baden in Karlsruhe. I urged that foreign borrowing should be restricted within the most rigidly essential limits. It so happened that I had occasion to discuss the same question immediately on my arrival in New York and on my first visit to Washington, as authoritative American quarters were beginning just at this time to consider whether considerations of reparation policy should not induce a certain reserve in handling the desire of the American bankers to finance public and private enterprise in Germany.

It was another of those moments when the shadow of the spectre of Versailles threatened to disturb the natural progress of economic development. Then, as on so many other occasions, I endeavoured to make clear the responsibility which would be involved in any attempt to allow political motives to interfere with the natural course of international economic development. I found a benevolent appreciation of my view, because I laid every emphasis on the other hand on the responsibility of the leaders of German economic life and their consciousness of such responsibility. I was able to point to the fact that we, for our part, had been endeavouring for nearly a whole year to reduce the volume of foreign borrowing within the lowest possible

limits, in so far as public bodies were concerned, while on the other hand the big private enterprises of Germany in their own interest would never be likely to have recourse to foreign credits to a greater extent than could be defended on monetary and economic grounds.

Accordingly, on my return to my own country, I took occasion once more to bring the whole complex of these questions before the Government, with the result that the directives of the Advisory Board were very considerably strengthened. The work of the Board in the year 1926 has been increasingly thorough and penetrating, though it cannot be denied that the opposition of the Federal States, and still more of the Communes, to the "guillotine" at the Finance Ministry has become stronger and the attempts at evasion more frequent.

As regards the use to which the foreign loans of private undertakings in Germany have been put, it may be said at once that they have contributed, without a doubt, to increase production. Their first use, especially in the years 1924 and 1925, was to replenish Germany's stock of commodities up to the peace-time level. In the second place they have been used extensively to bring the producing plant of the country up to date, to make good the defects arising out of the isolation of the war and inflation periods, and to further the process of "rationalization." The initial steps in this direction were taken with the aid of short-term credits; but, so soon as the possibility presented itself, these short-term credits were replaced by long-term loans. The process was assisted by the steady appreciation of German credit abroad and the resulting reduction of rates of interest.

Side by side with these developments the Reichsbank has continuously endeavoured to encourage others, and

itself to attempt, systematically to employ the new capital accumulated on the internal market to finance the economic effort of the country. I have referred above to the action of the Golddiskontbank in supplying the agriculturists with comparatively cheap credit in the form of three to five-year mortgages, and in widening the market for agricultural mortgages. The issue of RM 150 millions of preference shares of the German Railway, and of RM 150 millions of Treasury Bonds of the Postal Service with a currency of several years, operated in the same direction. Both these transactions were negotiated within Germany without recourse to foreign countries; and they encouraged private financial concerns to undertake a number of internal capital issues, of which the flotation of a RM 90 millions loan of the United Steel Works¹ was the most important. But for a long time ahead Germany will not be able to dispense with foreign credits.

When the Dawes experts discussed the payments to be demanded from Germany, they were less concerned with the question of how the tribute was to be raised in Germany than with the question of how the tributary payments were to be transferred to the foreign creditors. The transfer problem was brought suddenly on to the *tapis*, a problem of which the pre-war epoch knew nothing, because it regulated itself through the normal processes of export and import and the interchange of services. Now, however, side by side with the old normal obligations, new artificial obligations which had to be met by one party only without counter-services had been called into being. No doubt it was realized before the war by the initiated in banking circles that in the case of big foreign loans the foreign

¹ The new German steel trust.

exchange market must be carefully prepared beforehand so as to prevent disturbance of the market and concomitant losses by the sudden influx of large amounts of foreign currency. The Dawes tribute represented a similar but much larger problem; and the Experts' report dealt with it at length. But before it could become acute, the same problem arose on the other side when, with the placing of the Dawes Loan, a stream of foreign credits—a stream fed by many tributaries—began to flow into Germany, involving big capital transfers into Germany from foreign countries.

The significance of this development lay in the first place in its bearing on currency policy. The foreign money is placed at the disposal of the German borrower, for example in New York, in dollars. The German borrower can only make use of these dollars, whether directly or indirectly, in two ways. He can either (*a*) make foreign payments with them, for example for commodities imported into Germany or for shipping freights, insurances, and similar services; or he can invest the money in foreign countries. In all these cases the German currency is not directly affected by the loan transaction. Or (*b*), on the other hand, he may need the money for his German enterprises; in which case he has no other choice than to sell the dollars directly or indirectly to the Reichsbank, which gives him in exchange German Reichsmarks with which he is enabled to keep his internal concerns going. The latter alternative is by far the commoner. A comparison of the import figures with the amount of foreign loans taken up shows that with slight variations the amount of imports remained stationary, while the amount of foreign loans continually increased. This means that the foreign money was

not devoted in its entirety to the financing of imports, but was used to a considerable extent for internal purposes and converted into German currency at the Reichsbank.

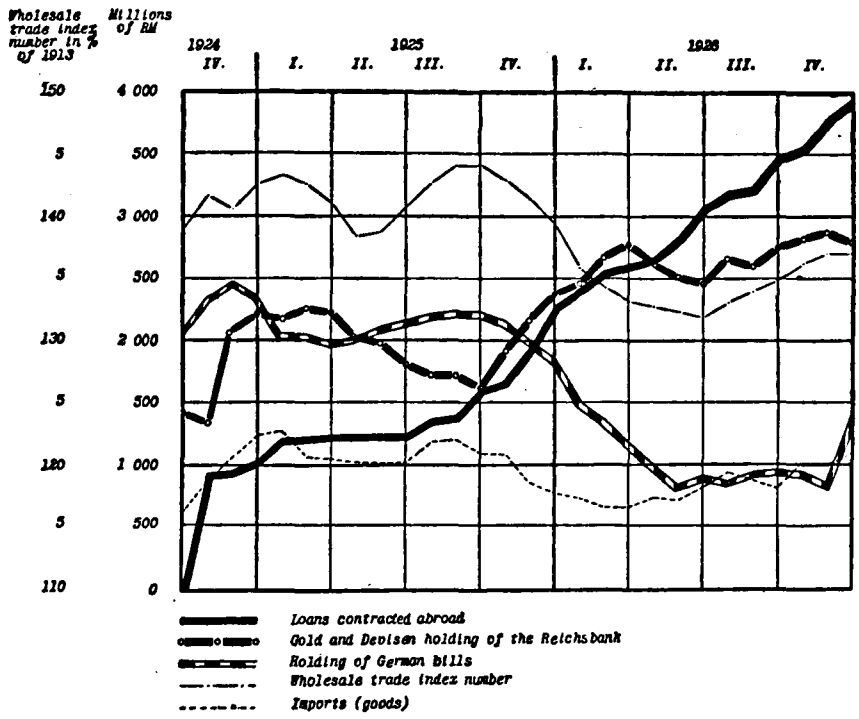
Accordingly, hand in hand with this increase of foreign loans there goes a growth of the gold and foreign currency holding at the Bank, as the diagram on page 229 shows. From the standpoint of the currency the question automatically arises for the Reichsbank how long such a policy can continue without ill effects. The operation of such an exchange of foreign currencies, if continued on an abnormal scale, is inevitably twofold. In the first place the Reichsbank as an agency of credit is thrust on one side, and the credit granted by the foreign country takes the place of the bill credits given by the Bank. This development, in the case of the Reichsbank, is already clearly to be seen from the diagram. In the place of a compact and concentrated portfolio of inland bills the Reichsbank is compelled to buy bills and lend money on bank terms on the foreign money market. The second result is that the note circulation of the Reichsbank will continue to increase, at any rate for the present, without the Bank being able to prevent it—and that even if it were to take the foreign currency, e.g. the dollars, not at the current exchange quotation inside of the two gold points, but in the form of actual gold imports. The Reichsbank is compelled under the Bank Law to purchase any quantity of gold at the rate of RM 2,784 per kilo. It would therefore be compelled to increase its note circulation against these foreign loans, even though the latter were to come in to Germany in the shape of gold instead of dollars. It goes without saying that such a process cannot be repeated at will, since an immeasurable increase of the note circulation is bound to

lead to an increase of prices (see diagram opposite) on the commodity market. It is accordingly indispensable for the Reichsbank for its part to exercise influence on the rate at which the foreign credits are taken up. Its action will also be governed by the knowledge that unrestricted and uncontrolled increase of foreign credits means that it loses touch with the internal money market, to say nothing of its mastery.

In addition to the currency side of the problem the general economic repercussions of foreign borrowing have to be borne in mind. There is no doubt that foreign capital is indispensable for the economic reconstruction of Germany. Without it the complicated machinery of production could not, and cannot, be brought again into working order and made capable of standing alone. But here, too, it is a question of the extent of the recourse to foreign money. It goes without saying that borrowed capital, which is invested in the improvement of production, can only be paid off in the course of time by annual payments out of regular annual profits. Herein lies the need for differentiation in the manner of employment of the capital. Only capital which is productively invested will yield the required annual payments. Foreign loans contracted for unproductive consumption or luxury purposes will only be tolerable if the general increase in production is large enough to make it possible to finance their amortizement out of the surpluses and savings on the national production as a whole. Ultimately, no doubt, such "unproductive" loans can operate to increase production, if, for example, they are employed on objects of public health or social welfare. Everything depends in such matters on how far one can go.)

I have accordingly always argued that as a general

Foreign trade of Germany (imports), and wholesale trade index quarterly. Corresponding to the position of the line of the left axis



¹ Including the bills re-discounted by the Reichsbank from April 1924 to May 1926.

proposition public bodies which are responsible for expenditure from loans on these objects are called upon to exercise economy and reserve. This warning gathers force from the significance of the transfer problem in connection with the repayment of such loans. Whether recourse should be had to foreign or internal capital in the case of public utility loans is a question which is not answered merely by ascertaining whether the annual redemption payments can be raised out of increased internal production: it depends on whether the redemption payments can be transferred to foreign countries, i.e. transferred in foreign currency. And inasmuch as the foreign currency required to finance the repayment of public utility loans can only be procured out of the proceeds of national production, it is of quite exceptional importance carefully to watch the supply of Devisen (which is to say of claims on foreign countries) inside the country with an eye to whether it is sufficient, in addition to providing interest and sinking fund for foreign loans of a genuinely productive character, to finance other foreign loans of a general public utility character as well.

Lastly, the question of foreign credits for Germany has a very important side in the light of reparation policy. The Dawes Plan proposed tribute payments by Germany to foreign countries, which from the fifth year onwards amount annually to at least $2\frac{1}{2}$ milliards of gold marks. It is carefully indicated in the Dawes Plan from what sources these payments are to be derived, viz. from particular taxes of the Ordinary Budget and from the interest on the railway and industrial Bonds. All these sums become available in the form of German currency; and—in so far as they are not transferred in the form of deliveries in kind—foreign currency has to be purchased for them, the purchases

being made in such a manner as to enable the maximum of transfers to be effected which can be put through without danger to the German currency. So far as the German balance of payments is concerned, it makes no difference at all whether the payment is made direct in foreign currency or in the form of deliveries in kind, that is to say in exported commodities for which no corresponding amount of foreign currency is received.

The idea at the bottom of the much-discussed settlement, for which the Dawes Committee was responsible, is that Germany should only transfer to foreign countries the surpluses which she is able to produce on her balance of payments. The Agent-General for Reparation Payments is accordingly only to convert the reparation moneys accruing inside Germany into Devisen, i.e. into transferable form, within the limits set by the necessity of maintenance of the currency parity. Such conversion can therefore only take place with the surpluses arising out of the country's economic activities: it may not and cannot be attempted with borrowed foreign capital. The Experts' report describes expressly the objects for which foreign capital is to be used, namely: (*a*) for the establishment of a new bank of issue; (*b*) to prevent interruption of the deliveries in kind during the transition period, and above all (*c*) for the establishment of that confidence on which the success of the entire Plan is dependent. The Experts' report further says explicitly that "reparation . . . can only be paid abroad by means of an economic surplus in the country's activities." Devisen derived from foreign loans and credits are not the fruit of an economic surplus in the country's activities, and do not arise out of the "economic situation," which the Experts said was to be the decisive factor in determining the limits of the transfers, at least not

in the sense that the economic situation is the cause and the Devisen the effect. The Experts' report nowhere contemplates the use of foreign capital for other objects, least of all for transfer purposes. Had it done so, it would have gone far to prevent the growth of that confidence, on the restoration of which the Experts laid so much importance. What foreign capitalist would lend a pfennig to Germany if he saw that his money was being used for direct payment of the reparation tribute instead of for the strengthening of the economic capacity of Germany?

As matters stand the position is that, as a result of these large foreign loans, the gold and Devisen holding of the Reichsbank attains (as we have seen) a point which is beyond what is required for the protection of the German currency. It is not possible to tell from the figures to what extent these gold and Devisen holdings are derived from German economic surpluses as distinct from the proceeds of foreign loans. Accordingly there is the great danger that the Agent-General for Reparation Payments will begin now, and will continue on an increasing scale in the future, to convert his internal balances into foreign currency when these balances represent, not the economic surpluses of the German balance of payments, but the capital lent by foreign private capitalists. Germany at the present time is artificially increasing its holdings of foreign currency through the influx of these foreign credits, since the entire capital amount of these credits (in so far as they are not used to pay for imports) is shown as a holding of foreign currency. With each new credit that is taken up the annual payment which is required for their progressive redemption—at present it is only a small sum—becomes bigger and bigger. We see, therefore, that the future annual redemption charges

on Germany in respect of these private foreign credits will increase. But at the same time we find that between the beginning of September 1924 and the end of October 1926 the Agent-General for Reparation Payments transferred altogether (including interest payments on the Dawes Loan) some 740 million gold marks in actual foreign currency and some 1,160 million gold marks in the form of deliveries in kind. The weighty question arises to what extent this round sum of 1,900 million gold marks of Devisen and deliveries in kind equivalent to Devisen represents a German economic surplus or merely a holding of Devisen acquired by foreign borrowing.

Some light is thrown on the point by the balance of payments drawn up by the Institut für Konjunkturforschung (Institute of Conjunctural Research) attached to the Statistical Office of the Reich. According to this the totals of the principal items in 1924 and 1925 show adverse balances of approximately 2,000 and 4,000 million Reichsmarks respectively, or a total of 6,000 million Reichsmarks, which, if allowance is made for the favourable balance of payments in the first half of 1926, is reduced to something like 5,500 Reichsmarks.

It was only possible to cover this adverse balance, and incidentally to raise the reparation payments which it includes—this applies particularly to the years 1924 and 1925—by the use of the foreign currency derived from foreign credits.

The truth of this conclusion is confirmed to some extent by the diagram shown on page 229. It must be borne in mind that the diagram only shows the long-term foreign loans (and not the short credits), and further that the lull which has been apparent since March 1926 in the growth of the Devisen holdings of the Reichsbank is due to other causes as well (repayment of the short credits with resultant decrease—or no increase—in the

aggregate total of foreign credits, and—possibly—an increase in the Devisen reserves held by the business community). Subject to these qualifications, however, the diagram shows the foreign credits increasing while the imports remain stationary, and further, in recent months, the credits ceasing to flow into the hands of the Reichsbank and the gold and Devisen holdings of the latter falling below the amount of the credits. The margin between the two (gold and Devisen holdings of the Reichsbank on the one hand and total of foreign credits on the other hand) becomes more conspicuous if it is borne in mind that the $1\frac{1}{2}$ milliards of short credits are not shown in the diagram, because it is not possible to give a reliable graph of their amount.

What is the moral of these figures? The moral is that the Transfer Committee must not fail to take these developments into account. The political payments ought not to be transferred at the cost of the payments to the private creditors. The problem with which we are confronted, when clearly analysed, is this: Germany needs foreign credits to restore her capacity of production and to enable her to increase her exports on a scale sufficient to produce Dawes payments to the largest possible amount. If Germany were to be prevented from taking up such foreign credits, she would be completely incapable of making any Dawes payments at all. On the other hand, the annual interest on these foreign credits is not paid to the foreign creditor in German money, but in foreign currency. The Transfer Committee, in arranging its transfers, has consequently to consider not merely the necessity of not imperilling the present stability of the German currency, but also the need for maintaining a sufficient reserve of foreign currency in German hands to enable the annual pay-

ments for the service of the private credits to be transferred before the political payments.

The German business community has always maintained a very high standard of commercial morality and a strong sense of responsibility. The maintenance of these standards is the foreign creditor's best security. Germany will never be guilty of betraying the confidence foreigners have placed, and will continue to place, in her economic capacity. The danger is not in respect of Germany's commercial morality, or her ability to make the requisite economic effort. Germany has shown as no other country has done of what economic effort she is capable, and for what she is prepared, if permitted to work in peace. The danger comes once more from the political side, and from the political side alone. The claims of politics ought not to be allowed to take slices out of the German payments at the cost of the clear and obvious claims of business, that is to say of the foreign creditors.

Again, the Dawes Plan is not a final solution on the road to reconstruction of ordered international relationship. It purposely leaves open two important questions, the question of the transfers and the question of the duration of payments. The Dawes Plan calls, not for revision, but for completion and final settlement. That will no doubt come as the ideas which are here put forward come to be considered, and it will pave the way to recognition of the truth that political claims and political interference with the natural development of events must be cut down to the limits of what is consistent with normal economic intercourse between nation and nation. The confidence of business and banking circles, without which international reconstruction of the European economic structure destroyed by the war is inconceivable, must not be shattered.

This is no German question : it is a European and a world question. All that we Germans can and will do for its solution is honourably to do the utmost that the world can reasonably demand of us ; but we should show ourselves to be unworthy of confidence and without a sense of responsibility if we did not continue to direct the attention of the world to the fact that peaceful international reconstruction is only possible if the natural economic laws are allowed to operate freely.

CHAPTER X

INTERNATIONAL CO-OPERATION

WITH all the evil which the war brought upon the world it brought one good effect. The various intellectuals of the countries are to-day in closer contact with one another than they ever were before the war. Everywhere the war has brought recognition of the fact that the nations must understand one another better, and that above all a process of moral education must be inaugurated if wars are to be avoided in future. The heavy indebtedness of the European peoples to one another and to America, and the heavy claims which America has on Europe, compel the nations to concern themselves more closely with one another's affairs. The great majority of the German people is prepared willingly to take its part in this international contact, although the necessary international realignment takes place at a moment when Germany is still suffering from the arbitrary pressure of foreign force.

The dictated peace of Versailles cannot last for ever, because its premises—not only its economic premises, but its ethical and moral premises as well—are false. The inward insincerity and consequent lack of moral backing of this document can no longer be concealed in the presence of a policy which means the disarmament of Germany by Powers whose armaments themselves are left untouched, which asserts the self-determination of peoples but would forbid in perpetuity the adhesion of Austria to Germany, which asserts the significance of plebiscites as decisive of the destinies of countries, but in the teeth of a plebiscite has assigned Upper

Silesia to a foreign Power, which proclaims the League of Nations as the custodian of universal justice and through the agency of the League deprives the Saar of its rights, which allows its adherents to postpone the payments of their own debts while giving credits for military purposes to others, and to claim the rights of private property for themselves while ignoring them in the case of their opponents, which emphasizes the supremacy of the white race, but employs coloured men to oppress and fight other whites, which demands reparation payments but seeks to prevent any increase of production or exports on the part of the debtor, which declares the German people unsuited for colonial activities while its adherents are perpetually involved in colonial wars. All these are inward falsities which run counter to the natural evolutionary laws of the human race.

No doubt each people has a right to its own cultural existence. But just as individuals differ from one another in value, so do individual peoples. Each of them is to be valued according to their achievements for the general culture of mankind. The road to civilization for the less developed peoples should not be thrown open by artificially keeping down the more developed races. National feeling is not a right, but a duty. Only those nations are entitled to make a show of national pride who feel and act upon the obligation to lead the way in friendly competition with the other peoples to increase and enrich the cultural assets of mankind. The division of large political units in Europe which resulted from the issue of the war has not assisted either the economic or the cultural progress of the nations. The new small national States which have come into being have the one ambition only of creating economic independence for themselves. As

though the Czech were only supplied by Czechs, or the Pole by Poles, the Serb by Serbs, the Rumanian by Rumanians, and the rest of it! Each of the new States bars itself off from its neighbours and seeks to foster the growth of new industries under the artificial protection of tariffs, a presumption for which its nationals pay dearly. Each would like to sell as much as possible to the others without taking goods in exchange. The development of the sources of supply which nature has provided has to give place to the imaginary dictates of political and nationalist ambition. And yet never was the international exchange of commodities so necessary in the world as now. The volume of trade has declined throughout the entire world as the result of the war. Instead of trying to restore and increase the old capacity of consumption so as to bring production above the pre-war level, and heal the wounds which the war has inflicted on all parties as soon as possible, we find the nationalists everywhere at work to put new difficulties in the way of the international movement of commodities. Mistrust, envy, and fear are the dominant factors of international policy. Passport impositions continue to obstruct the movements of travellers and traders, foreigners are harassed and impeded in their economic activities, and so on. A fundamental change of mental attitude is a necessity for all concerned.

For Germany all these things are of special importance, because Germany has been compelled by the forcible decision of its enemies annually to make large payments of tribute. How is this tribute to be paid if not by exporting very many more industrial products than we import? Those who demand the tribute should open their markets to our wares. The yoke to which Germany is subjected has intensified

the desire to produce and the willingness to work of Germany to the highest degree ; but the only result is increased apprehension on the part of other industrial countries of German competition.

I am persuaded that this state of things is bound to lead to international organization in the case of all the principal economic problems. It is not as if the markets are not there. It is not as if there was no one to take the industrial products of the world. On the contrary, vast markets are left untouched because of political blindness. Soviet Russia cuts herself off artificially from foreign trade. Her population starves when all the while they might exchange their agricultural products, which everyone wants, against necessary industrial articles. The new small States cannot buy, because their purchasing power is mistakenly squandered in taxes for the fostering of costly industries, for the maintenance of an overgrown administrative machinery and for the upkeep of military armaments. Four hundred million human beings in China would be prepared to take part in the international exchange of commodities and to increase their standard of living, if the political confusion of the world did not bar their way. Until the last coloured man in the African Continent has a wireless apparatus installed in his hut, let me not be told that there is a lack of markets ! It is all a question of organization. There are no obstacles of principle.

The increase and the organization of the purchasing power of the several peoples is the most pressing task of the present, and not the increase of industrial production. The whole trend to-day is towards industrialization without regard to whether the food supply and the satisfaction of other fundamental requirements of the masses are assured. Attention is concentrated, not

on the supply of food-stuffs and raw materials, but on the creation of self-supporting industrial units not requiring to purchase any industrial products from their neighbours. This passion for industrialization is closely bound up with the militarist attitude in international relations. Since it is to-day impossible to wage war without a vast technical machinery, and since the majority of politicians cannot conceive of peoples living side by side without the possibility or necessity of war, each small national State endeavours to build up for itself an industrial machinery which is secretly regarded as an auxiliary military system. Such a system can perhaps be supported by the big economic units; but in the case of the array of small States into which Europe has been split up it is bound to break down under the burden of its cost. A system so built up in defiance of economic laws and of the spirit of peaceful work cannot permanently be financed, because the area of the individual States' production is too small, and because no one in the world has any interest in supporting such a system with credits.

It is not only the military and administrative expenditure of these small national economic units that is becoming an intolerable burden: the expenditure on cultural objects, which they cannot help but undertake, is also too much for the small States to support. Scientific research, whether in the field of pure or applied science, is impossible without the provision of big scientific institutions, comprehensive collections, richly equipped libraries, modern experimental laboratories, and the like: and all these advantages are unobtainable without very considerable outlay. Is it conceivable that each of the Succession States of the Austro-Hungarian Monarchy can build up from the beginning such a scientific equipment as the Habsburg

Monarchy built up in Vienna? How is it possible that all this scientific equipment can be made available, for example, in Czecho-Slovakia, where two million Slovaks, three and a half million Germans and five and a half million Czechs live side by side, in all three languages at once? Does anyone believe that the universities of Latvia and Esthonia can approach in their equipment the level of (let us say) Harvard? Are we not bound here too in the field of scientific research and education to come more and more to super-State organization?

If the peoples would only set themselves, pencil in hand, to calculate the cost of nationalist barriers in the cultural and economic field, many an eye would be opened wide. The enormous advantages and the conspicuous prosperity of America as compared with Europe are not based in any sense on particular individual gifts or achievements of Americans, but on the fact that America is a big economic unit with almost all the raw materials on the spot, and with a market of 120 million people hampered by no restrictions or chicaneries or political multiplicities. In Europe we are collapsing under the burden of over-population, and suffocating in the dog in the manger atmosphere which the spirit of fear, hatred, and suspicion which this constriction engenders has created. These problems cannot possibly be solved by the method adopted by (for example) Poland under cover of the dictated peace of Versailles, the method, that is to say, of driving the minorities out of the country to set free the soil for settlement.

Germany is making every effort to increase her agricultural production. But the fertility of the German soil is limited, and the supply of raw materials is not very extensive, and their yield is also limited. On the

other hand, there is in the world more than enough unsettled or thinly settled country, where raw materials and food-stuffs of every kind might be produced. More extensive settlement and opening up of these regions is an indispensable necessity for the European peoples and Germany in particular. But emigration on a large scale encounters two obstacles. The first is the reluctance of the home-dweller to emigrate to a foreign State with foreign culture, where he is compelled not only to sever all personal and family relationships but also to forgo all connection with his home culture and all moral and social share in the cultural achievements of his own people, where he must leave behind not merely relations, neighbours, and friends, but all the traditions, art and intellectual activities of his native land, all, in a word, that he values over and above actual economic existence. For all these reasons it is necessary to create for the German people the possibility of compact settlement in some suitable part of the world, where the emigrant can make his home with those of his own race and culture and find a substitute for his native land. It is not possible to settle Poles, Italians, Japanese, and Germans together. It is impossible not only on economic grounds but for sheer human reasons.

The second obstacle comes from the other side. The South American States, for example, which include enormous tracts of free land for settlement, have established their political unity already. Brazil is Portuguese, and the other countries of South America have Spanish culture. Their political consciousness is strong enough to prevent them being willing to allow their existing unity to be disturbed by too great an immigration of other peoples. We thus find difficulties being placed in the way of immigration by these countries no less than the United States: it is altogether intel-

ligible that it should be so in view of the national and social structure of these countries.

Matters are different in most of the colonial regions, in particular in Africa. In this case there are no State formations properly speaking. It is a case of wide tracts of land, which are not settled by nationals of the sovereign Power. In this case there is only a historical claim, which rests on the misleading imperialist conception of the big State. The Versailles Treaty abolished the conception of colonial sovereignty in the case of Germany, and substituted for it a policy of European mandates. It is not merely a dictate of universal justice—which unfortunately is not always a factor that weighs very heavy—but an economic necessity for the maintenance of European peace that this conception should be extended to all colonial regions. It is an intolerable idea inconsistent with the further peaceful development of the world that English, Dutch, Italian, French, Spanish, and Portuguese sovereignty should be entitled to exist while German sovereignty is not. The falsity, to which the Versailles Treaty gives expression, that Germany is not capable of colonizing work has been refuted by a host of competent English, French, American, Italian, and other observers. Foreign study by fair and honourable observers of Germany's colonial work has compelled the admission that the Germans in the course of a single generation have done more and better work in the field of colonization than other nations have done for centuries.

It must therefore be possible to make some colonial territory available for settlement and exploitation by the German people, so as to provide Germany with the possibility of regular emigration and to facilitate the solution of the problem of her food supply. The question of sovereignty does not arise. There is no

suggestion of founding a new national State. It is not even a question of Germany being given back her own colonies, if a substitute for them can be found elsewhere. German colonial settlement is altogether possible in the form of a mandate from the League of Nations: it is even possible—if existing injustices cannot be immediately removed—under foreign sovereignty in the form of economic work peaceable in character and uncomplicated by political aspirations.

For the German people the possibility of independent colonial activity has the special interest that it will facilitate the transfer of the Dawes tribute, since the German currency can be used in the proposed colonial settlements. We were able to conduct all our economic enterprises in our former colonies in our own currency without exchange risks and without the necessity of procuring foreign money. The dictated peace of Versailles and the Dawes Plan, which is built upon the basis of the Versailles Treaty, while imposing upon us big obligations of payments in foreign currency, have at the same time enormously curtailed the area of circulation of our currency by taking our colonies away from us. They should rather have extended the area of our currency, thereby increasing our production, if it was desired to increase the possibility of transferring payments to foreign countries. Long experience shows that the savings of a nation play a far bigger part in its economic development than foreign capital which it acquires by borrowing. It is just for this reason that the problem of the Dawes payments is less a question of raising the sums demanded than of transferring them. Our war debts can never be paid off by the export of steel goods, textiles, glass, toys, and the like. If, on the other hand, we had the possibility of producing colonial raw materials and food-stuffs with our own

internal savings in our own currency, we should be able with ease to find a market for them and to make the transfers required.

But it is not only the material possibility of supplying herself with food which over-populated Germany lacks. Colonial activities have an educative and a moral significance. The social problem, with which the world is now confronted, is how to enable the individual to maintain a standard of living which will not merely protect him from starvation but will give him possibilities of moral and intellectual development. Colonial activities are a moral effort for any people. They imply self-discipline and self-training; they appeal to the imagination and to that faculty of hope without which reasonable beings cannot live. Before the war socialism and capitalism were the two great movements to which the world looked for its salvation. Before the war capitalism ruled almost without restriction. It led to the war with all the unspeakable suffering which that brought with it, because it had associated itself with political imperialism instead of with purely economic conceptions of the material and moral welfare of mankind. After the war it appeared as though socialism was for a time to take the place of capitalism: but socialism then began to slide down the precipitous slope of Bolshevism, the horrors and devastations of which exceed even those of the war. The capitalist system is indispensable, because it is founded on the natural elements of progressive production; but we are called upon to make it tolerable for humanity, and to dissociate it from its purely material aims by the infusion of a sense of moral responsibility. This is the road which the Dawes Plan took. The leaders who were responsible for it came nearer to a solution of the problems posed, because they placed the interests

of human well-being before political aspirations and the mere material acquisition of possessions. Only if this sense of responsibility is strongly felt will it be possible to realize the ideal of peaceful existence of the people side by side, enabling nations and individuals alike to work out and develop their several capacities.

In full consciousness and appreciation of these problems the Reichsbank, to all appearance an institution serving material interests only, has taken its place in the ranks of those who are engaged on common international work. It has sought to establish and develop friendly understanding with sister institutions in other civilized countries ; and indications are already accumulating, now here, now there, of the potentialities of such common work when inspired by the sense of responsibility. In this manner we shall pass by way of the seemingly material effort to the ethical progress of mankind, and what I wrote twenty years ago in reply to a question as to the purpose of man will become true. This is what I said :

We do not know the purpose of man : but since we feel in ourselves a part of that power under whose iron laws, mighty and eternal, the cycles of existence fulfil themselves, we feel and see that all life proceeds in perpetual struggle against the forces of destruction, but yet with steady progress from that which is imperfect to that which is more perfect. We feel and see that order overcomes chaos, reason unreason, and love hate. We feel and see that our own existence too aspires to a rational and more perfect end. Out of this consciousness is borne the ethical sense of duty which we have, the dictates of which impel us to bring our own actions into harmony with the mighty laws of existence, making reason, order, and love the measure of our activities.



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