

DAWN

By Count Hugo Lerchenfeld

POLITICAL history is not a sequence of incoherent and haphazard events but a chain of causes and effects. A single individual may decide from one day to the next to alter the whole course and character of his existence, to close one chapter and begin another entirely different in tone and construction. Nations cannot. They are subject to the laws of evolution, for even a revolution is generally only evolution—an explosive sequence of events crowded into a short space of time, but leaving more of the *ancien régime* untouched than usually is at first apparent.

When the Dawes Report was published it was almost universally acclaimed as the opening of a new era. It was to solve all problems, financial and economic, and to bring back peace and prosperity to the world. Certainly the welcome accorded to it showed clearly how deep was the world-wide longing for a settlement.

Valuable as was the Report, its paramount importance was due to the fact that for the first time since the armistice an official conference dealing with reparations was able to put the whole problem on a business basis, and to eliminate all political elements and all illusions as to Germany's capacity to pay unlimited sums. The path indicated by the experts is certainly stony and fraught with danger, but it seems the only way out of a situation which has become more and more intolerable since the days of Versailles. Europe cannot recover as long as large districts like Germany and Russia remain outside the pale of normal international intercourse.

"Finally convinced, as we are, that it is hopeless to build any constructive scheme unless this finds its own guarantee in the fact that it is to the interest of all parties to carry it out in good faith, we put forward our plan, relying upon this interest." This extract from the Dawes Report lays stress upon the two elements essential to success: common-sense and moral responsibility.

Much has been said and written about the Report, often without a very thorough knowledge of its contents and of the underlying situation. It may, therefore, be useful briefly to recapitulate the problems which it is designed to solve.

Germany's recognized indebtedness is determined by the difference between the maximum of her financial and economic profits and the needs of her population. The per capita rate of taxation is required to be at least as high as in the Allied countries. This indebtedness can only be paid in kind or in labor, but not in money, since money is only the expression of the standing of a country's currency in international exchange. The value of German money can only be maintained if the budget of the Reich is balanced and if the economic balance between Germany and other countries is preserved. The economic balance includes the balance of payments and of commerce between home and foreign markets. On this account we must differentiate clearly between the payments needed to carry out the demands of reparation obligations, and the transfer of such payments to the Allied creditors. Germany's capacity to produce and thus fulfill her engagements is primarily based on the assumptions that the resources of the occupied territory will be restored to her, that the economic unity of these territories with the rest of the country will be reestablished, and that an end will be made of the present strangulation of trade by the interference of the occupation authorities, especially the military authorities. Only such measures of superintendence and security as are mentioned in the Report should be put into effect. The most important innovation in the new plan is the proposed German Bank, to be organized with the help of a foreign loan as a substitute for the Reichsbank. The Dawes Plan neither establishes the total sum of the reparations, nor does it set a certain number of years as the term for German payments; it limits itself to fixing the extent of yearly payments, assuming that the next four years will be a period of transition and that normal conditions of trade and production may be expected to begin with the fifth year. This estimate of production may be altered if necessary to maintain the stability of the German currency, or to enable the creditors to share the benefits of a favorable development as measured by a joint prosperity index. On the other hand, this sum represents Germany's entire yearly indebtedness, including the expenses of Allied occupation and of all measures necessary for the carrying out of the peace treaty as well as of the experts' proposals.

Optimism is the keynote of the whole scheme. Business can never be carried on without optimism, and the New World is essentially optimistic. But at the same time optimism does not

absolve us from weighing carefully all possible difficulties. When in the Church of Rome a man of saintly life is proposed for canonization, a so-called canonical trial is held and an *advocatus diaboli* proceeds to set forth all possible reasons why the candidate for sainthood should not be admitted into the company of the elect. So in this case it can be only an advantage to consider what difficulties may arise and when a deadlock may occur. A timely warning may avoid danger and sound criticism means constructive work.

My introductory remark to the effect that historic events are insolubly linked by cause and effect is confirmed by the reparation question. The Treaty of Versailles failed to solve this vital problem and all the measures since taken by the Allies have been conspicuously lacking in justice and judgment. Political and emotional motives have ruled in place of economic considerations. That Americans should have been the first to recognize this fact not only redounds to their credit, but at the same time throws a light on the deeply-rooted misunderstandings which prevented an earlier acceptance of a logical and intelligent procedure.

Mistrust has lain at the bottom of everything, the effect not only of the war but also of the maladjustment of European affairs by the resultant treaties. And this feeling of mistrust is mutual.

The German people mistrust the Anglo-Saxons in the belief that they begrudge Germany her legitimate economic expansion. The clauses of the treaty depriving Germany of her colonies and her merchant marine, denying her right to be treated as an equal in commercial relations, are quoted as proof of the validity of this standpoint. It is felt that no opportunity to exclude German competition will ever be neglected and that the Dawes proposals will be made an instrument towards this end. At the same time England is believed to consider the continuation of Germany as a great continental nation essential to the maintenance of the balance of power in Europe. Bismarck used to speak of the British plan of using the Germans as their soldiers on the continent. A look at the other side shows the English people still uneasy at Germany's industrial and commercial ambitions, though the nightmare of naval and colonial competition is gone. They hear of the progress which the German industries have made since the war, of new plants erected, of old plants modernized, of the dumping of goods in foreign markets which they hold partly responsible for their millions of unemployed. They read

imposing statistics of new tonnage sailing under the German flag. They are told of the prosperity of the vanquished and his reckless spending at home and abroad. This mistrust must forcibly influence English policy even under the Labor régime. At the same time the English public is unfavorably impressed by rumors of German armaments and military preparations, as they feel themselves pledged to secure the future peace and safety of their former ally.

Between Germany and France the gulf of mistrust is much deeper. France, according to public opinion in Germany, is to a certain extent ready to coöperate economically with the German captains of industry and finance, but she wants to reduce her neighbor to a state of political disintegration similar to that of the German Federation before 1866. French power and security, it is said, are synonymous to German impotence. For this reason the historical controversy between the two neighbors appears in French eyes as merely the result of permanent Teutonic aggression throughout the centuries. The conquest by Louis XIV of the old provinces of the German Empire, like Lorraine, Alsace, and parts of Flanders, are entirely forgotten, as are Napoleon's imperialism and the national thirst for "la gloire." The war of 1870 is declared Bismarck's most Machiavellian move on the chess-board of politics. Yet recent events on the Rhine, especially the support given by the French authorities to the Separatist movement, seem to justify the German fear that France is pursuing a policy of her own which has nothing to do with her claims for reparation. Now France, and even Poincaré, have accepted the Dawes Report, and Herriot and his cabinet have been giving it their support. Nevertheless the French nationalists are still undaunted, and the demand for "securities" is hovering over the whole situation. In fact, there are two kinds of securities. The first kind is political, a safeguard for national and territorial integrity; the second is economic, a guarantee for the fulfilment of the obligations imposed on Germany. The German people at large, including those belonging to the parliamentary parties which voted for the acceptance of the Report fear that the country will be ground between the millstones of these two types of security, and that even a French Government of the Left will finally yield to nationalistic pressure.

Another complication is the question of Germany's disarmament. The Allies have demanded a final country-wide investi-

gation before abandoning military control to the League. Inter-allied commissions comprising hundreds of officers and privates have been investigating in Germany ever since 1919, and the presence of these commissions—their very considerable expenses must be paid by Germany—has been a source of continuous excitement. Nor have they prevented a growing movement in favor of military training. Even socialists, though opposed to the old system, complain seriously of the lack of discipline among the youthful elements in the country and advocate a system of militia similar to that of the United States. Also, as a reaction against revolution and socialism, the institutions of the old army have gained widely in popularity. There are parades of old soldiers and dedications of monuments for the dead of the Great War. Organizations have been formed to complement the armed forces in case of riots or communistic disorders. On the whole there is a good deal of activity in consequence of the repressive nature of the Treaty of Versailles, and nothing has so furthered the nationalistic movement as this same repression. But on the other hand there is no army except the official Reichswehr, nor is the Reichswehr so armed and equipped as to be able to carry on modern warfare. While our neighbors are armed to the teeth, absolutely up-to-date in all technical details, Germany is practically at the mercy of every invader. The German Government has accepted the demand for a final investigation, but the way in which the French press commented on the news is characteristic of the spirit of mistrust. The investigation will not bring to light anything of importance, nor will it silence the rumors of German armaments. But this chapter must be finally closed; better feeling is sure to follow from the lifting of this humiliating pressure.

Of course all this refers but indirectly to the Dawes Report, yet it explains the atmosphere in which the scheme has to be carried out.

The Roman sentence "*inter arma silent musae*" applies to every kind of free activity. Workmen are not machinery but intelligent and highstrung individuals. Visible and obtrusive occupation presses heavily on the population and takes away their feeling of liberty. The Report wisely recommends the restitution of normal economic and administrative conditions without, however, trespassing on prohibited political ground. But its recommendation implies a fundamental change in the methods hitherto adopted by Messrs. Tirard and de Metz; it implies strict neutrality in everything which does not immediately concern the

occupying forces. Only under such conditions, and by a considerable reduction in the number of troops, can occupation become tolerable, though in any case remaining a heavy and abnormal strain upon the population.

I should like to recount a characteristic episode which took place in Warsaw in 1917 while I was German High Commissioner with the Polish Government following the declaration of a Polish kingdom by the Central Powers. In those days the occupation was intended to be not only peaceful but benevolent. The administration was reformed, self-government introduced, a university and school system instituted with Polish teachers, and if it had not been for the seizure of goods needed for the army, the Poles would have had a comparatively easy time of it. My position brought me into close contact with many Poles—all of them patriots—and I could not help but observe a certain restraint and dissatisfaction not due to our personal relationships. One day I asked a gentleman whom I knew to be reliable and in favor of coöperation with Germany: "What on earth do you advise us to do in order to satisfy the population?" "Get out!" was the heartfelt reply. Comparisons are superfluous.

If the occupation should cease at once the pacification of Europe would be infinitely facilitated. But alas, such a step could probably only be taken by an absolute monarch like the "le bon roi Dagobert." So in spite of the high-flown phrases of enlightened democracy, mistrust will continue to prevail.

The French public believes that Germany has not paid a farthing. One of the reasons why public opinion in France accepted the Dawes Report was the conviction that, once the proposals were put into effect, payments would finally begin. Unfortunately neither of the Commissions dealt with this question. If an official statement of German payments had been published one great element of distrust would have been done away with. Anglo-Saxon experts estimate the total value of such payments in money and kind at about 25 billion gold marks. At the present moment German deliveries under the so-called Micum arrangement, and the receipts under the Franco-Belgian fiscal system, amount to a sum larger by far than the payments proposed by the experts during the transitory period.

Certainly this state of affairs cannot continue without the economic and financial ruin of the debtor. There must be some change, and consequently the majority of the German people

accept the plan proposed by the experts as a basis for a final arrangement. Chancellor Marx and his Government secured a majority of sixty-five votes in the Reichstag in favor of carrying out a policy of acceptance. Even among the opposition not a few were secretly in agreement with such a policy. Only the extremists on both sides are implacable, because Communists and extreme Nationalists are convinced that their ideals can be attained only by war. But every conscientious German cannot but ask: "Is Germany able to carry out the accepted plan?" This question must be faced to avoid evil consequences. If any failure of the plan were to be met with a good-humored "Hell and Maria!" all would be well, but what will happen if the keystone of the plan, the raising of the necessarily huge amount of capital and the "transfer" of German payments into the circulation of the creditor countries, refuses to work properly? Will there be new sanctions, new wreckage?

In business matters it is best to be sincere and outspoken.

"Is Germany able to make the Dawes Plan work?"

A belief in Germany's prosperity is widely spread abroad, especially among her creditors. And yet there is reason for pessimism. Prosperity must be measured by safer instruments than the superficial impressions of tourists. The experts propose a comparatively sound method of figuring prosperity according to an "index" composed of several standards, namely, commercial development, the budget, railroad traffic, the consumption of certain articles like coal, alcohol, sugar, etc., and the birth-rate. In the last few years most of these figures have become increasingly unfavorable, alarming, in fact, in the case of the birth-rate and the total of exports.¹

Like most industrially active countries before the war, Germany had a surplus of imports over exports, but this was more than compensated for by Germany's receipts from various foreign sources. Since the war these sources of income have dwindled, and consequently not only the commercial but also the eco-

¹Germany's consumption of coal, which for the last three years before the war had reached an average of 1.6 billion metric tons, fell back to an average of 1.15 in the years following the war.

While in 1913 the exports were valued at 10 billion gold marks, the imports were a little above 12. In the first three months of 1924 only 1.5 billion were exported and 2.1 imported, which would amount to exports valued at only 6 billion gold marks and imports valued at 8.4 billion for the whole year.

In 1913, for every one thousand inhabitants 27 were born and 15 died; in 1923, these figures fell to 15 and 13, showing that births and deaths are now almost even. Since the middle of 1923 the birth-rate has been continuously decreasing.

nomic balance remained unfavorable, a situation which must bring economic disaster if it is not soon changed. Germany suffers from the loss of large agricultural areas, which means the increased necessity of importing food-stuffs; and her foreign property, according to the McKenna Report, is reduced to nearly one-fifth of its pre-war value. If the foreign mark speculation had not contributed over six billions toward the recuperation of German finances, there would have been no way to buy the necessary raw materials abroad,—one of the most striking examples of the irony of fate, as Mr. Keynes remarks.

The period of inflation was marked by large German sales; but it meant dumping on foreign markets and selling out at home. Germany became the world's favorite department store until the German business world abandoned the mark and calculated in foreign exchanges. When the Rentenmark appeared and stopped her runaway sister in the fabulous relation of 1:1,000,000,000, the prices of German products were higher than those prevailing in any other world markets. The paper mark still remains in circulation, though a monetary outcast, and the value of German property, real estate, bonds, mortgages, and obligations of all kind is adrift on the flood of uncertainty. In fact, circulating capital has been greatly decreased, while the value of real estate is depressed by the daily increasing scarcity of ready money. Interest on cash loans has risen to the rate of five percent a month. The difficulties of carrying on business become more and more pressing. The stock market lags hopelessly. The labor market shows a steady decline.

This is the real situation. That even now crowds fill watering places and pleasure resorts is largely due to the fact that the old spirit of frugality and saving has not yet returned and that too many people follow old Horace's advice: "*Carpe diem, quam minimum credula postero!*"

Will the sum stipulated in the Dawes Report be raised?

During the transitory period of four years the chief payments are to be made from foreign pockets. Germany, though willing to attract alien capital, will find it very difficult to finance the experts' scheme, and will herself hardly be able to contribute materially to the billions of capital required. This is due to the alarming scarcity of her circulating capital, even if with returning confidence the general public should begin once more to save and invest. The first loan of 800 million gold marks will be a

comparatively easy affair. Labelled a "Solidarity Loan," it ought to appeal to the American spirit. But this loan is only a small item compared with the capitalization of the railroads and industrial property, and it is doubtful whether even free competition in the international money market, extended over a period of many years will attract the necessary number of subscribers which this will require. Once the loans are started, to pay interest and sinking fund charges will prove less difficult, provided normal conditions are restored.

After the transitory period Germany's internal revenue will become the important factor. There is no doubt that indirect taxation will yield sufficient sums to cover the $1\frac{1}{4}$ billion required. But this has one great drawback. The German budget is largely based on this taxation, and when the income from the latter is diverted it will prove extremely difficult to raise the necessary funds from other sources. Indirect taxation, like direct taxation, has its natural limits. And the German budget must balance in order to assure the stability of the German currency, which stability is the basis of the entire Dawes scheme.

Let us recapitulate. There has been a deadlock on the question of reparations in consequence of years of futile conferences, and because of the warfare on the Rhine and in the Ruhr. Due to centuries of bad neighborly relations a deep-rooted mistrust poisons all dealings between France and Germany. Now a final effort is to be made to solve the great pending problem. The experts who took up the question were not entirely neutral, since they belong to the several belligerent nations, but they spoke as men trained in business methods with the firm conviction that some workable settlement *must* be achieved. They did not and could not give a verdict on the problem as a whole, and they were not allowed to announce any political opinions. Neither the sum total of reparations nor the final term for their fulfilment has been fixed, though the very silence of the experts on these points demonstrates the absurdity of the former demand for 132 billion gold marks. But some agreement must be reached on this important question, for reparations mean neither an eternal mortgage nor a tribute to be paid by the vanquished to the victor through all time.

The experts believe that after a period of transition Germany will regain, to a great degree, her former prosperity, but in this they seem too optimistic. Germany's losses have crippled her,

and she is excluded from normal commercial relations with a large and important part of the world's markets. War and revolution, social conflicts and political disturbances, have created general unrest throughout Germany and have so affected the moral balance of the people as to seriously hamper economic activity. The extremists of the Right and the Left have dangerously undermined general public recognition of state authority. Only the unexpected change in the situation caused by the introduction of the Rentenmark prevented an explosion which would have disastrously affected the whole of Europe, but this improvement will prove to be only temporary and artificial unless energetic steps are taken towards settlement and pacification.

These steps for the present can only consist, in addition to adopting the proposed scheme (in good-will and without political reservations), of such additional measures as are necessary to guarantee its working smoothly and to ensure the impartial settlement of conflicts arising in the course of its application. Such conflicts must be removed into the purer sphere of *arbitration*.

This idea is neither new nor difficult of realization. The Dawes Report itself introduces it into the railroad scheme; equity and justice demand it; it underlies every project to replace violence and the power of the strong with moral forces; it is at the bottom of every effort towards international agreement. There is no other way to fight mistrust, which will always be ready to resort to new sanctions in order to force a one-sided solution. "Discite moniti!" Our generation ought surely to have learned its lesson by this time.

The Dawes Report, and the spirit in which it was conceived, may open a new day. The sun is not shining yet; daylight is just beginning, and who knows whether we shall have serene or stormy weather.

The tide of imperialism, sweeping all nations before it, making them love power for power's sake, was responsible for the World War. Each nation, according to Bismarck's vivid picture, was like a journeyman traveling through a trackless forest who unexpectedly stumbles upon another traveler and fires his pistol, for fear the other fellow might shoot first. Mistrust, more or less justifiable, is at the bottom of all international relations. Can it be removed?

When I spoke in Philadelphia in 1923 on "The European Problem," I called the League of Nations an imperfect instru-

ment because it represented the existing balance of power and lacked real moral authority. Could not a body of highly deserving and competent men, such as are to be found in every nation as representatives of its highest moral forces—a kind of Areopagus—meet to give decisions on highly important contested matters? Could not a council be formed whose high judgment and impartiality would be taken for granted, and which would guide public opinion all over the world? This body and the World Court would coöperate, each working within its own sphere. Other matters of international importance, such as social legislation, sanitary protection, scientific investigation and the like could be allotted to special commissions of experts, as in the present League.

Democracy does not seem to render the world more peaceful. The masses are emotional by nature, skilled propaganda will always succeed in arousing their feelings. Democracy must be tempered by careful political education and by an aristocratic element of leadership. Institutions of the highest moral standards, dealing with problems not in a narrow way but rather in a broad humanitarian sense, will open the minds both of the leaders and the led.

The truth of this statement seems well illustrated by Germany's present international situation, which threatens to dislocate Europe if adequate remedies are not applied. Germany is vitally interested in the solution of several open questions. By the Treaty of Versailles she was forced to acknowledge her responsibility for the World War and was denied the right to form a national state at the very time that other national states were being formed and even augmented by large national minorities. Germany smarts severely under these verdicts, which she cannot acknowledge to be just as long as the verdicts are rendered by a partial tribunal. Such an international body as I propose would be able to investigate, to open the archives, to deliberate and render decisions of universal weight. As long as reparations are generally regarded as an expiatory measure, and the provisions of Versailles considered a punishment for crime, there will be no sound settlement of the peace problem. The German people of good-will want their case tried.

We are living through an extremely strange and uncertain period of human history. There is no idea too preposterous for conception, no theory which is not defended, no solution which is

not advocated, no ideal which is not disputed. When civilization seemed to have reached its summit and humanity boasted of the achievements of its culture, the greatest of catastrophes shook the world to its very foundations. Now, after marvelous technical accomplishments, and after the reign of skepticism and materialism, a period of spirituality seems to be opening out before us. We live on the threshold of a new epoch; we are the framers of our destiny; out of many possibilities the one we chose will become reality. Seen from this view the Dawes Report becomes symbolic. Dawn—not yet daylight. But hope is the best gift of God to his creation.

CAN AMERICA EXPORT WHEAT?

By Theodore D. Hammatt

THE wheat growers of the United States, like those of other countries where production is in excess of domestic requirements, are subjected to forces of supply and demand world-wide in origin. That was the situation before the war, and it is the situation today. In the interval, however, changes in competitive conditions, decidedly adverse to American farmers, have taken place. In order to set forth the more important of these changes clearly, certain factors in the world's trade in wheat during the decade ending with the year 1913 must be sketched in as background.

During the decade 1904-1913 the annual wheat crop of the world amounted, in round numbers, to from 3,000 million to 4,000 million bushels. Of the total production during those ten years Europe (excluding Russia) produced 34 percent, Russia and the United States 20 percent each, India $9\frac{1}{2}$ percent, Canada and the Argentine $4\frac{1}{2}$ percent each, Australia $2\frac{1}{2}$ percent, and other countries together 5 percent.

The general trend in world production was upward, due mainly to increased crops in the exporting countries. A nation-by-nation comparison of the average crops of the first five years of the decade with those of the last five years shows that Canada and Australia (figuring in percentages) effected the greatest increases. Russia also made substantial progress. In the United States, the gain in production about kept pace with the increase in population. Argentina's production, on the other hand, decreased, owing to unfavorable seasons. But the underlying trend of wheat production is indicated less surely by the quantities of wheat harvested, which are largely affected by conditions beyond the farmers' control, than by the areas devoted to the crop in different countries. During these ten years the Canadian acreage was expanded by more than 100 percent, and the acreages of Argentina and Australia by upwards of 40 percent. By comparison, the United States and Russia made slow progress. In western Europe the acreage remained practically constant. Thus even before the war the disposition to go more largely into wheat-growing was most apparent in those countries which have since become our strongest competitors.