

DERNBURG'S GLOOMY FORECAST

THE political revolution of November 9, 1918, found the German economic system in a far less sound position than in peace time. The economic war had seriously injured it in all its branches. German foreign trade, which had always before the war shown a large credit balance, was for the most part destroyed. Even the offer of an armistice based upon President Wilson's points brought no alleviation, but rather the contrary. The over-hasty demobilization and the territorial measures of her enemies caused Germany's economic system to suffer still further. By the handing over of 5,000 locomotives and the surrender of the mercantile marine to an international pool, the German economic system was deprived of its most important means of communication. It lacked not only Luxemburg ores, the coal of the Saar district, and the potash of Alsace-Lorraine, but even the means of communication, the arteries of its economic life, were taken away. Accordingly, the industrial catastrophes that have occurred are not so much the direct consequences of the war as the result of the armistice conditions.

This state of affairs has been rendered more acute by the duration of the blockade.

Another result of the sudden end of the war was that over 8,000,000 men had to be demobilized, and at the present moment over 1,000,000 unemployed have to be supported by the Treasuries of the States and the Empire. The requisite funds can only be obtained by continual credits.

Up to the date of the political revolution, Germany's war burdens, apart from her liabilities as regards pensions for those disabled in the war and soldiers' dependents, had increased to

the enormous sum of 135,000,000,000 marks. The armistice, indeed, caused Germany's economic system to stand still, but did not put an end to her expenditure. Considerable outlay was necessitated by the enemy occupation of the left bank of the Rhine. More than 5,000,000,000 marks in army material have been swallowed up and lost to the Empire. To that sum must be added the current outlay on the war-disabled and the dependents of soldiers to an amount of 4,500,000,000 marks per annum.

What assets are there to balance these débits? The enemy relies on the well-known estimates of Dr. Helfferich of the national wealth, which he placed in 1913 at between 310,000,000,000 and 315,000,000,000 marks. But he forgets one thing, *viz.*, that these figures related to a country in a flourishing condition, but that since that date these figures have been criticized as being too high. Moreover, the enemy overlooks the decisive factor, *viz.*, that the estimates of the national wealth must always be interpreted from the standpoint that all portions of this wealth are only of value so long as they are backed by the productive efforts of the workers. By the removal of the rolling-stock and the destruction of the country's domestic and foreign trade, the value of the nation's wealth has been everywhere reduced. For example, numbers of Hamburg commercial firms, and the shipping companies, have been mulcted of the value of their property. In peace time the Prussian railways showed a credit balance of 6,000,000,000 marks, but now they are working at a loss of over 2,000,000,000 marks. Not only in money values, but in material values, has Germany suffered enormous losses. With 1,600,000 men fallen in the war, the labor value of 8 per cent of the population and of 16 per cent of the males has been lost,

and this loss has occurred among the most efficient portion of the population. Moreover, more than 800,000 soldiers or civilians are retained in foreign countries, millions of men disabled in the war are prevented from the further use of their full working strength, and the efficiency of the entire population has been reduced to a minimum by years of under-feeding.

The soil of Germany has been farmed down to the utmost possible limit and the capacity of output of her agriculture has been reduced to 75 per cent. Farm buildings are in an utterly neglected condition. The stock of cattle has been for the most part slaughtered. The forests are devastated. In the domain of industry the transformation of works necessary for the production of munitions has caused vast losses, the industrial concerns have also been worked to death and their machinery and tools have been used until they are practically worn out. The railways, the rolling stock and the rails, the roads, important means of national production, are all in a hopeless condition. The formerly well-stocked warehouses of the commercial world to-day stand empty — a tragic spectacle! In any case, it is absolutely impossible to-day to say any longer that Germany's national wealth, after the unfortunate end to the war, amounts to 310,000,000,000 marks or anything like that sum. Taking into consideration the increased prices, it may be possible to assume higher nominal values and to state that the property of the individual businesses assessed in marks may show higher figures. But if the actual property of the nation is assessed in the old gold marks, there can be no doubt but that the national wealth of Germany has been sensibly reduced.

What means then are there at Germany's disposal to enable her to pay

foreign countries? Since she has surrendered locomotives, ships, securities, and foreign capital, the answer to this question can only be: she no longer has the means. The blame for the position in which Germany finds herself to-day attaches not so much to the war as to the war methods of her enemies directed against her trade and her economic system, measures which have struck her to the heart. Germany to-day is like a tree whose roots have all been cut away. How is it possible to cause this tree to blossom and bear fruits? How is the country to create new values when all the prerequisites, raw materials, foodstuffs, labor, and credit are lacking? Germany has bound herself to accept President Wilson's Fourteen Points and to make good all the damage in the occupied territories. This promise will be kept in spite of all difficulties that may arise, but no further promise has been made and no further promise could be kept.

The liabilities we have assumed we can only wipe out by our labors. We have divided the estimated current annual expenditure, including outlay that only will occur once, into four categories without considering payments to our enemies:

- (a) Outlay on the civil service.
- (b) Outlay on the army and colonies.
- (c) Outlay connected with the Imperial debts.
- (d) Various other expenses.

Taking an average of the years 1913 to 1917, the expenditure under the first heading was formerly budgeted for at the ludicrously small figure of 200,000,000 marks. This is exclusive of the expenditure on the post office. That department has ceased to show a credit balance. The civil service estimates will have to be doubled and will, therefore, amount to 400,000,000 marks.

Now we come to the army, navy, and colonies. The tendency to force us to

keep up a professional army is very marked. We have, however, assumed that we must start by counting upon an expenditure of 2,000,000,000 marks, the outlay in peace time; we shall hardly be able to spend less on this item. That in spite of the League of Nations, of which we are the most zealous advocates, we must think of a defensive force is not the fault of our special circumstances only — for every government in times of uncertainty and excitement requires the means of executing the will of the nation — but also especially of our geographical position. The German Army is to-day the only sentinel guarding all Europe from the disturbing forces of the Eastern lunacy. By keeping that army intact we are serving not only our own ends, but those of the entire civilized world. That this outpost duty is not made impossible by the destruction of our efficiency is a special interest of our enemies; it is an insurance premium on their part as well that they will have to make good to us in some form or other.

We now come to the extraordinarily heavy item of the relief expenditure occasioned by the war from 1914 to 1919. In the present budget we have only put it down as 1,500,000,000 marks. But we know from experience that objective consequences of the ravages of war will by degrees become apparent in an extraordinarily high percentage of ex-soldiers. Before I entered office the War Ministry estimated that a sum amounting to 4,250,000,000 marks would be required. It may be large enough for the moment, but I am unable to say how soon the upward tendency will cease. The estimate was made before the increase of December and before we promised that the increase of 40 per cent granted should be extended to all relief payments to those disabled in the war. We may put the

sum at 4,250,000,000 marks with a good conscience, and must expect it to amount to that, since the French have put down their outlay at exactly 4,250,000,000 francs. It would appear, then, that there is no need to quarrel with our opponents with respect to that item.

The interest payable on the Empire's peace debt amounts to 230,000,000 marks per annum. To that must be added the war debt. The outlay occasioned by the war must be set down at the extraordinarily high figure of 185,000,000,000 marks. By December 31, 1918, we had received 146,000,000,000 marks. In January we required 3,500,000,000 marks; in February, 2,700,000,000 marks; in March, 2,000,000,000 marks; and we shall require for the next twelve months of the current year at least 1,500,000,000 marks per month for winding up the war. The war debt is the most dangerous item in our finances, the item which imposes the heaviest burden on our accounts.

In addition to the war expenditure which has already increased and may be expected still to remain over, we must add the following: The outlay on acquiring land by virtue of the War Services Act (*Kriegsleistungsgesetz*) is an item amounting to 500,000,000 marks. The expenditure on indemnities for the district devastated by the war amounts to 4,500,000,000 marks. The cost of indemnifying German shipping firms is estimated at 1,500,000,000 marks, and the cost of grants still outstanding to the Federal States for 'families' relief' is at the moment 6,000,000,000 marks. That makes in all an additional 12,500,000,000 marks. The debt of 185,000,000,000 marks without redemption requires an annual sum of 9,248,000,000 marks.

Then, too, the contemplated unification of the railways during the next few years will cost money. Last year the

Prussian railways showed a loss of 2,000,000,000 marks, unless I am mistaken. In short, before matters are once more normal and the deficit has become a surplus, a considerable time must elapse, and even then it will be necessary to take over the Prussian debt. The sum of 14,000,000,000 marks, as estimated for the Empire's debts in my predecessor's memorandum of December 31 last, has, as I have shown, been further increased.

We arrive, therefore, at an absolutely necessary Imperial requirement of 17,429,000,000 marks, of which, in any case, as far as I can see, 12,000,000,000 marks are still to be obtained and covered by taxation.

Now the taxable resources of the Empire are unified, and so in order to estimate the total indebtedness of the German Empire we must, of course, include all items of expenditure arising in the State and the Communes. These amounted before the war to 3,300,000,000 marks, and may now from data at our disposal be placed at 5,600,000,000 or 6,000,000,000 marks.

The total estimate, in which everything is included, is, as I have already said, 13,164,000,000 marks. The certain expenditure is 17,429,000,000 marks. There remain, therefore, 4,500,000,000 or 5,000,000,000 marks to be covered. These are sums of unprecedented size. The deficit is considerably greater for the Empire than for all the incomes of assessable individuals in Prussia, if those having an income less than 2,100 marks are deducted. With the deduction of these small incomes, there remain only 14,500,000,000 marks. The total income of all Prussians, if those are excluded who have the minimum income of 900 marks, amounted on the assessment for 1917 to 19,000,000,000 marks. With our future taxes we slice into capital and income, according to my scale, to the

extent of from 60 to 70 per cent in the case of large capital and income—in Saxony at the present day the existing taxation rises to 50 per cent—and proportionately in the case of small incomes. This is all the harder, as now a large part of this expenditure, not merely indirectly but directly, must be borne by the workers. It is not feasible to release a man with 5,000 to 6,000 marks a year from the income tax. The more the pyramid is reduced, the more the large fortunes disappear, and the masses become prosperous, the more must taxes be laid on the shoulders of the masses. That cannot be helped, and the obvious source for taxation is that which we wish to utilize on democratic principles.

These large sums we are obtaining at the moment, since a regulated financial system is non-existent, entirely by credits. The sums required are granted as credits by the legislative bodies, and based on these credits, notes are printed which are, unfortunately, counter-balanced by no increase of the Empire's wealth, since for the most part they have to be expended on unproductive objects.

That the Imperial credit at home and abroad must be seriously impaired is obvious. There is actually an uncovered credit account of nearly 7,000,000,000 marks in the ordinary budget, and of 24,000,000,000 marks in the extraordinary, and the accounts can only be placed on a satisfactory basis when the expenditure in the extraordinary budget ceases and all current expenses are placed to the ordinary account and balanced by the corresponding receipts from taxation. The Empire can only in this way attempt to deserve the credit which it demands. So long as that is not the case our exchange in foreign countries cannot rise, our capacity to fulfill our obligations to our opponents cannot be increased; it is, therefore, en-

tirely to their interests not to interrupt or render difficult our very earnest endeavors to place our finances on a sound footing.

For what would happen if our enemies were now to say, if you can raise 14,000,000,000 marks and more within the Empire, why do you not pay us this amount to begin with? Simply strike off the main items of expenditure! The 4,500,000,000 marks which we have to pay to the war-disabled cannot be struck off. Hundreds of thousands require their grants to enable them to obtain a bare livelihood; otherwise they would be homeless and would have to be cared for. For the rest, the French are reckoning on a sum of 4,000,000,000 francs for their war-disabled. In comparison our sum does not appear too large. It is equally impossible to strike off the interest on the war loans. Many holders of war loan stock need the interest to pay for their maintenance; trades and industries have emptied their warehouses to buy war loan, and have invested the reserve funds for reconstructing their businesses in war loan. They count on being able always to turn their war loan stock into money, in order to restore their capacity for production to its old dimensions. But there is another point that is frequently emphasized: a large part of the war loan stock is held by general welfare relief institutions. It forms the sheet-anchor of the entire economic life, since old age, invalidity, and life insurance companies, and, above all, the savings banks, draw a large part of their revenue from the interest on war loans. According to the latest estimates, the savings banks alone have invested 40 per cent of their deposits in war loan.

Accordingly, we are unable to strike off either items of our revenue or of our

taxation receipts. But 23,000,000,000 marks in taxes amounts to more than double the total income of all Prussians receiving over 3,000 marks per annum. If one tries, as would be natural, to impose the burden on the consumption of luxuries, one knows from long experience that the so-called pure luxury taxes do not yield a large profit. The total burden of taxation will amount to not much less than two thirds of the large incomes in the highest classes.

From all this it would appear that the payment of a war indemnity of 125,000,000,000 francs, or even in yearly installments of 4,000,000,000 francs is outside the bounds of possibility. We lack the exchange. We can only pay by our labor. In order to re-start this and to make it successful, foodstuffs and, above all, raw materials, are indispensable. Only by our opponents granting us very large exchange credits and giving us time to work will it be possible for us actually to fulfill the obligations laid upon us by President Wilson.

And just as we hope by increased public-mindedness and the elimination of all friction between each other to make good the destruction of property and arrive at an orderly, peaceful existence with a full appreciation of the necessities of our neighbor, so the logic of facts is bound to lead our opponents to the conviction that this principle must also be applied in public life if universal misery is to be avoided. The realization of this fact has already made great progress among the economically minded, especially in leading circles in America. May it also be realized in time by the representatives of the Powers in Paris, so that the splendid picture of a new world based on conciliation and equality may not remain an empty caricature.

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TALK OF EUROPE

UNDER the title 'The Hard Peace,' Herr Maximilian Harden devotes a long article in the *Zukunft* to the Peace Terms. He says:

'No delegate in twenty-three centuries has had such a sorry task as the tragic and dismal duty laid on the German delegation of concluding peace with twenty-three nations in Versailles.' Herr Harden, who remarks of M. Clemenceau that of all the men assembled at Versailles, he assuredly could not deny having willed the war, refuses to believe that M. Clemenceau, like Brennus after victory over the ancient Romans, wishes to show his mortal enemy that the vanquished have no rights, and are to be handed over entirely to the victor's good pleasure.

'Yet,' continues Herr Harden, 'he is not content with the return of Alsace-Lorraine, for which he hardly dared to hope in his wildest dreams. He wants the Sarre Basin; political, or at least economic domination over the left bank of the Rhine; and a mountain of money. Germany cannot pay.' Herr Harden does not believe that the German delegates will present Germany's position in a sensible way. He points to the advice given them, 'to refuse all hard conditions, and to give the proletarian parties of the Western Powers time for agitation in our favor, and save what seems capable of being saved.' This advice, in Herr Harden's view, is the explanation of the 'manifestoes issued at the Foreign Ministry's request by all kinds of associations of traders, professors, and preachers,' of the Pan-German memorandum, and the attacks on President Wilson.

'President Wilson would have been able to achieve much more,' says Herr Harden, 'if you and others like you had not remained stubbornly on the side of unreason and injustice. Had you uttered only one energetic word against the devastation of Belgium, the deportation of men and girls, the rough and greedy destruction of factories and machinery in Belgium and Northern France; had Germany, who de-

clared herself to be a newly-constituted State, given expression in her government organs, or at least through her public bodies, of repentance for these crimes and repudiated the guilty persons, then President Wilson would have had a weapon against Belgian and French hatred, which is the most understandable of any in history.' Germany can only proclaim her own rights when she has with courageous dignity confessed the wrong committed by her. Because not a word of regret or of readiness to atone came from the head of our Republic, the Peace will now be hard. He who rejects it stands before the judgment seat of the nations. A clear answer is due from him to the question: 'What has he done to prove to the world the birth of a new spirit in his Fatherland?'

Herr Harden incidentally remarks that the naval blockade, which is given the disgusting name of hunger blockade, is, as everybody must know, and even the war jurist Kriege always admitted it, a military method permitted by international law, the mildest ever applied, and one the application of which was always regarded as inevitable, and which Great Britain was willing in 1907 to renounce. It only remained applicable in 1914 because, seven years previously at The Hague, Germany secured the defeat of the motion for its abolition.

GERMAN newspaper advertisements indicate that the month of June is likely to be a heavy one for German readers, besides providing a great quantity of new material for historians. Thus the *Memoirs* of Ludendorff are announced; so are those of Admiral von Tirpitz. There are, besides, a volume of *Recollections* by Herr von Bethmann-Hollweg and a three-volume edition of the *Reminiscences* of Count von Hertling which latter, if they are brought down to the Count's period of office, seem likely to be of special interest and importance. To this literature which is due to be issued there must be added the books which have