GERMANY'S BLACK FUTURE

Professor Tocker *outlines the* Economics *of the* German Crisis

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In order to outline the main features of the present economic crisis in Germany, one must first fill in the background. Before the War, Germany had become economically the most important country on the mainland of Europe. The population of Germany alone was 68 millions, while the population of Germany and Austria-Hungary combined was about equal to that of the whole of North America.

Now the population of Germany is about 63 millions, while the Austria-Hungarian empire, which was formerly very closely linked with Germany, has been dismembered. But Germany still holds a very important position in the Economy of Europe, and Europe's prosperity is closely linked with hers.

Under the conditions laid down in the Treaty of Versailles, reparations payable by Germany were fixed at £6,600,000,000 plus the amount of the Belgian War debt. At 5 per cent. this amount would involve a payment of £330,000,000 per annum, a burden which events proved it impossible for Germany to bear. The attempt to collect reparations on this scale led to the extraordinary period of 1920-23, during which the Ruhr district was occupied, the German currency was inflated until it became practically worthless, and the economic and financial organisation of Germany reached a stage of collapse.

In 1924 the Dawes Committee evolved a plan for the rehabilitation of Germany, which included an international loan for the restoration of sound currency, and a scaling-down of reparation payments, which were to start afresh at a low figure and rise gradually to a maximum of £125,000,000 per annum. In 1929 the Young Plan again revised reparation payments, and again set a new scale extending over 58 years, beginning with £85,000,000 and reaching a maximum of £120,000,000 per annum.

PROFESSOR TOCKER.

Few are more fitted to talk on Germany's present crisis than Professor Tocker, who occupies the chair of Economics at Canterbury College. The professor was a New Zealand delegate to the International Labour Conference held in Geneva during 1930, and whilst there gained a first-hand knowledge of European affairs. Since then he has followed the trend of events of that continent in detail. His article makes interesting reading.

During the years between 1924 and 1929, Germany made great economic progress. Much of her industry was reorganised and rationalised, her production and trade increased, unemployment was reduced to low levels, and though wages and standards of living were low, it began to appear that a fair measure of prosperity and stability had been attained.

Much of the appearance of prosperity, however, was due to factors that did not appear on the surface. A survey of trade returns and capital movements shows that between 1924 and 1928, when the average payments made by Germany on account of reparations were well below £100,000,000 a year, the average import of capital from loans raised abroad averaged about £180,000,000 a year. The broad conclusion is, therefore, that Germany was not only paying her reparations out of loans raised overseas, but she was getting in addition a very substantial net import of overseas capital. These imports of foreign capital made a substantial addition to the purchasing power and the internal prosperity of Germany, and the prosperity and purchasing power so created attracted further imports of capital for investment in German industry. A secondary effect was that a political debt to foreign Governments was being replaced by a greater commercial debt due to private foreign citizens, of whom the bulk were in America. There was always some chance that the political debts to Governments might be cancelled or reduced, but it would be difficult to secure cancellation or reduction where the debt contracts existed between private citizens of different countries. As a result, therefore, Germany was increasing both the amount and the certainty of her external liability.

At the same time, Germany invested to some extent abroad, but during the seven years, 1924-1930, her net foreign indebtedness to other countries increased by £900,000,000. Against this inflow of capital she paid reparations amounting to about £500,000,000 paid for a surplus of imports over exports amounting to £300,000,000, paid interest on her net indebtedness abroad, and accumulated certain funds in foreign centres for financing her overseas trade.

Her general economic organisation, however, had become accustomed to a very heavy inflow of overseas capital, and this inflow not only enabled her to pay reparations, but to enjoy a substantial measure of increased prosperity. With the development of heavy stock speculation in America in 1928 and later of the stock exchange collapses and falling prices which ushered in world-wide depression, foreign loans to Germany declined very greatly. The position is now that she can no longer expect to borrow large sums from abroad. On the other hand, she has to find in the future for reparations round about £100,000,000 per year, and, in addition, an amount probably exceeding £50,000,000 per year in order to pay interest on private debts accumulated during the last seven years and held overseas.

It follows that where Germany has enjoyed for some years past a net import on capital account in the neighbourhood of £100,000,000 per annum, she will have in the future to find a net export of at least £150,000,000 per annum, unless conditions change in some unexpected fashion.

The only way in which this change can be effected is by increase of exports or decrease of imports. In 1929, a prosperous year, her exports and imports balanced at about £680,000,000 each. It has been estimated in Germany that she can secure the balance of exports necessary to pay overseas obligations under present conditions only by reducing her imports by more than half. Owing to the fall in general world prices and present depressed conditions, it is considered that the maximum total she can secure for her exports is about £450,000,000. In order to achieve the necessary surplus of exports, her imports would have to be reduced to about £300,000,000. But it is very uncertain whether such a surplus can be secured, particularly under present depressed conditions. Even under normal trade conditions it has been suggested that a substantial expansion of German exports could be obtained only at the expense of a fall in export prices so severe that the total value of the greater volume of exports might possibly be less than the total value of a smaller volume. With a national income (*Concluded on page 8.*)