

NEW OUTLOOK

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THE ECONOMIC REPORT from GERMANY

BY ALL ODDS the most important event in the economic field in a long while is the declaration of a transfer moratorium on German external debt. This step, the climax of all of the Hitler policies, has set going economic waves that will lap many a shore, far and near, before they are stilled. The action was necessary, if one looked only at the gold and foreign exchange reserves of the Reichsbank; it was necessary, if one considered the unscalable walls that have been erected against foreign trade since the war. But it was unnecessary, if one realized that to the natural difficulties all countries now encounter in foreign trade the Nazis have added a fresh set of obstacles in the shape of a singularly unenlightened foreign policy and racial animosities. Resentment against the debt service holiday has flared high in France, Britain and the United States, and mechanisms of retaliation are being thrown up which must serve to hamstring foreign trade still further. Germany has had to put herself on a war time basis, so far as restriction of imports are concerned. Substitutes of all kinds are being devised for raw materials, and new ways are being thought up for fashioning manufactured goods. German imports are said to be even lower than during the blockade days of the World War. The supplies of raw materials in Germany hardly would suffice for more than a few months. Exports of some goods which might be used in Germany have been forbidden. The standard of living has been falling rapidly, and the drought promises to make for a food shortage. Germany has remained confident that she can bring the world to terms by clamping down on imports of goods from other countries. It is a desperate game. World trade may be profoundly changed by the experiment.

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IN NAZI GERMANY there has been a still more visible connection established between debt service and trade. When Dr. Schacht announced that he was suspending service on the Dawes and Young loans (along with all other medium and long term German debts), he was setting up a base from which he could retreat strategically. It is significant that he has relented in this moratorium only in the case of those countries which buy more from than they sell to Germany. First, Britain virtually forced the Reich to resume service on the debts by threatening to impound the payments due on German imports; and then Holland persuaded the German authorities to retract their moratorium decree on the Dawes and Young issues, and finally France reached an advanced stage in the negotiations for similar treatment. To the United States, though, Germany has turned the cold shoulder, hoping to win from this country some trade concessions in return for the restoration of service. Meanwhile, Germany has cut her purchases more than half from the United States, partly in answer to the American boycott against German goods, partly through lack of the means of payment for exports.

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THERE IS SOMETHING STRANGE about the German trade position for which an adequate explanation is wanting. Germany has pleaded poverty and has discontinued nearly all payments on its external debt. German exports have suffered heavily, and the Reichsbank's reserves have fallen. Yet Germany has kept importing goods from abroad at a rate in excess of that for 1933. In the first six months of this year, for instance, exports declined 12 per cent, but imports rose 10 per cent. It would appear that Germany has been building up its supplies of raw materials for some reason. One German economist says that "raw material stocks are in most essential branches of industry sufficient to guarantee a further half year's employment." It is curious that German imports should be holding up so well when the visible means of payment were decreasing. In neighboring France exports decreased only $2\frac{1}{2}$ per cent in the first five months, but imports were reduced 16 per cent. One theory is that Germany has been building up supplies of material necessary in war, and the imports of metals and nitrates would tend to bear out this view. German exports to the United States in the first half year declined 35 per cent, and sales to Russia dropped 80 per cent. It is now freely predicted that the German government will have to look to Soviet Russia for industrial succor, granting the demanded long term credits in return for orders. The export industries are given by Dr. Schacht first call on the supplies of raw materials. The crop shortage has made it necessary for the government to abolish prohibitive tariffs on grain imports.

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THE DEVELOPMENTS in the German trade situation in recent weeks are best summed up in the following newspaper headline of recent date: "Reich to Glorify Hunger as Virtue." Germany has installed the most rigid system of control over trade, both foreign and domestic, ever imposed by a state professing to adhere to the capitalistic system. Dr. Hjalmar Schacht is being given an opportunity to translate some of his blustery, man-eating words into actions in the Ministry of Economics. No imports are to be permitted without permission of the state, except those which can be arranged on credit, and the nation is fostering the negotiation of barter arrangements. Coffee is being brought in from Brazil on barter contracts, and an agreement has been concluded with Bulgaria to take tobacco in exchange for German industrial products worth 19,000,000 marks. Discussions are being held with Guatemala and Mexico for barter deals. The Hamburg Chamber of Commerce, in an effort to stimulate and attract foreign trade its way, has established a special division to help German importers and exporters to arrange barter agreements. But, in spite of the multi-form import barriers, German takings of foreign goods decreased only 6 per cent in August, while exports, in spite of the bending of every national energy toward their increase, were higher by only 4 per cent. The glorifying of hunger is to be the sugar coating for the array of substitute foods to be foisted on German nationals this winter owing to the shortage of foreign exchange. Clothing, automobile tires, coffee, gasoline and butter, among a hundred other things, are to be adulterated, and prohibitions have been raised against the use of many of the common metals. Even wedding rings cannot be of gold.

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NOVEMBER, 1934 : P. 45

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DEVELOPMENTS AFFECTING GERMAN TRADE come as fast as acts in a three-ring circus. The most significant feature of the recent trend is the denunciation by Germany of its nine-year-old commercial treaty with the United States and the failure of Germany to treat American holders of Dawes bonds as well as those of other countries were treated. The extent of the cash payment on the October 15 Dawes bonds coupons in the United States was 50 per cent, but in other countries the full cash payment was made. The discount on registered marks has fallen to 55 per cent, though, owing to new restrictions, this very cheap mark is not allowed to help exports of German goods but must confine its stimulation to the export trade. German foreign trade, now degenerated to a war of reprisals, was less adverse in September, the excess of imports over exports being only 2,000,000 marks, against 9,000,000 in August and 41,500,000 in July. A special committee has been appointed by the American Chamber of Commerce in Germany to promote barter trade and liquidation of American blocked mark accounts through delivery of German goods. Amusingly enough, German exports to Palestine have risen more than 60 per cent under the anti-Semitic Hitler regime. A roundabout plan has been devised for the purchase by Germany of about \$3,000,000 of Jaffa oranges, involving London as an intermediary in the plan. Germany has succeeded in winning away a diamond cutting factory from Antwerp. It will locate in Hanau. Germany has for some time been trying to get some of the diamond business for Hanau and Idar-Oberstein.

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GERMANY HAS BEEN PURSUING what appears to be the vaccination principle with respect to trade with the United States. The Reich has been trying, in other words, to make that trade much worse at first in the hope that it will be better off afterward. In addition to discriminating against American holders of Dawes and Young plan bond coupons (the only holders who are not receiving full interest in the proper currency), Germany has now issued a decree which would have the effect of virtually boycotting American automobiles. The regulation of the Ministry of Economics would admit \$1 worth of American automobiles for every \$10 worth of German goods which the United States bought. In 1933 Germany imported about 2,000 American automobiles, whereas in the first ten months of this year the number was more than 3,000. By this strict control of imports the Reich succeeded in October in rolling up the first favorable trade balance since March, the surplus of exports over imports amounting to 16,400,000 marks. The October exports were the highest but one for the year and the imports the lowest but one. Exports were in larger volume to Italy, Russia, Austria, France, Denmark, Japan and Argentina. Germany has approached the United States with a scheme to take 500,000 bales of American cotton on a barter deal for a like value of German goods. The difficulties standing in the way of consummation of this deal are many, including especially the one of finding a market here for \$30,000,000 of German manufactures. Germany has signed a comprehensive trade and debt agreement with Britain in which so many concessions have been given to the latter as to make it seem that politics was involved.