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NATIONAL SOCIALISM

VS.

INTERNATIONAL CAPITALISM

BY

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Class of 1942 Yale College

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TO MY MOTHER AND FATHER,
WITHOUT WHOM I WOULD NEVER
HAVE WRITTEN THIS

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INTRODUCTION

THIS is the story of the end of international free enterprise. It deals with the conditions rendering a reaction to economic liberty inevitable, with the fettered elements arising in an economy whose survival presupposed freedom. It describes the self-generated maladies whose ravages ate away those self-controlling features which made the capitalist system work across national boundaries. It concerns itself with the revolutionary negation of the tenets of free enterprise by Germany after 1933, largely as a result of her experiences with the system of free enterprise before 1933. This is the tale of the circumstances within international capitalism which made of Germany an unparalleled challenge to its very existence. It has as its subject matter stupidity, lack of foresight, selfishness, blind jealousies, and megalomania. It is, indeed, as unpleasant as our time.

One of the most reasonable Nazi economists writes:

> The external political and economic policies of the Weimar Republic were poisoned by the internal division of the people from the State, by the dissension in the nation caused by the class struggle and political parties, by the weakness and aimlessness of the unstable plurality government. They were ruined by the false belief in international understanding, and the Republic's inglorious military weakness. They were based on fundamental dependence of the national economic life on international economic developments. Therefore, on the outbreak of the international and national economic crisis, they had to give way to despair and to a last hope of a return of all nations to free world trade and intensive international division of labor. Through this lack of strength and direction in Germany's national and international economic policy, through the scourge of unemployment and the general collapse of internal and foreign trade, the German nation would have become the booty of Marxism, if there had not been born, out of the eternal deeps of German folkways and German history, out of the experiences of World War and post-war times, that revolutionary upheaval which became a liberating and creative political reality through the thought of Adolf Hitler. In Hitler the German people found the way to its own soul, and the strength and will to master its destiny.[1]

1. Theodor Puetz, *Die deutsche Aussenwirtschaft im Engpass der Jahre 1933–1937* (Berlin, 1938), p. 103.

We shall be much concerned over that "destiny" for the next few years. We are now forced to admit that we should have been a good deal more concerned in the *past* few years. Soon, it is to be hoped, we will have to face the problem of preventing that "destiny" from ever cropping up again.

To do so, we shall have to recognize the lessons the enemy can teach, not only in the use of tanks and of dive-bombers, but also in the reappraisal of our whole system of life. Unfortunately, much of the quotation is true of Germany, as well as of Italy, and Japan. We are faced with the problem of deciding how much is true, what the results were, and what to do about it.

THE SYSTEM

I

THE NAZI ECONOMY

FROM 1933 on, the German economy tended to pass through three fundamental changes. In 1933 and 1934 power was vested in the lower middle class, the rank and file of the victorious National Socialist German Worker's Party. From 1934 to 1937 nominal control of the economy returned to the traditional directors, the capitalists and entrepreneurs. Finally, the economy passed into the hands of a classless military caste. Foreign economic policy of the Reich developed in three analogous stages. During the first two years of Nazism, protective tariffs and quotas multiplied. Later an attempt was made to return to the greatest possible trade under private direction, always subservient to the thorough State control made necessary by the condition of Germany's commercial relations with the rest of the world. Finally, foreign trade became a monopoly of the State, used exclusively to satisfy the requirements of rearmament and military strategy.

National Socialism came to power as a movement of protest, appealing to the nation as a whole by its belligerent condemnation of German international inferiority, but addressing itself particularly to the "little man," to the masses who had died and starved during the war, who had lost their security during inflation, who had gone hungry and unemployed during the depression. To them it offered a scapegoat, the Jews, and a promise of social reform, the program of the Party and its propaganda of work and plenty.

But whatever his propaganda promises, Hitler had only one object: the restoration of Germany's national power. He recognized that its achievement would be interrupted, perhaps prevented, by schemes of social reform incurring the danger of inflation or interfering with private property rights. The radical elements of the Party, who had taken too seriously the "National Bolshevism" of the Party program, were effectively suppressed by the Blood Purge of June 1934.[1]

Hitler required a practical Minister of Economics, able to use recognized methods to make possible the unprecedented ends of the Na-

1. Norbert Muhlen, *Schacht, Hitler's Magician* (New York, 1939), p. 159.

tional Socialist revolution. The logical choice was Dr. Hjalmur Horace Greeley Schacht, known as the "man who saved the Mark" because of his direction of the financial program which restored a stable currency to Germany in 1924. In March 1933 Dr. Schacht was appointed President of the Reichsbank by Hitler.[2] Before him lay the immediate task of again rescuing the Reichsmark. Signs of inflation were beginning to appear out of the turmoil and extravagance introduced by the victory of National Socialism.

The mere association of his name with the new rulers had a soothing effect on the fears of business and the people for the safety of the currency.[3] Confidence in the internal stability of the Reichsmark was no longer questioned. There remained, however, the growing danger of a fall in the value of the mark abroad, which would have reawakened the inflationary psychosis in Germany.

During May, June, and July of 1934 rumors of devaluation of the Reichsmark grew.[4] On 30 July 1934 Dr. Schacht was appointed Acting Minister of Economics, with almost complete control over the economy of Nazi Germany, under Hitler.[5] In power, Dr. Schacht labored mightily to hold the German economic system together. He was ever the restraining influence, advising caution and a return to normal methods. His high reputation in foreign financial circles, especially in England, gave promise that he might be able to gain financial and commercial concessions from the Western Powers.[6] On the other hand, he was uncommonly able in devising the new and often weird mechanisms needed to keep going in the face of the extraordinary demands made on the economy by Nazi policy.

As representative of the orthodox business element, Dr. Schacht was open in his criticism of the ideas of the radicals. Goering, previously conservative and one of Schacht's supporters, joined with the radicals in 1935 because of his own ambition to replace Dr. Schacht as economic dictator, and because of the plan he was formulating for the conversion of Reich production to a status of wartime self-sufficiency.[7]

Dr. Schacht's public reference to the "hideous bureaucratization of

2. *Idem*, p. 34.
3. *Economist*, 25 March 1933, p. 648.
4. *New York Times*, 10 May 1934; 13 May 1934; 14 May 1934; 10 July 1934. *New York Evening Post*, 6 May 1934.
5. Muhlen, *op. cit.*, p. 158. *Economist*, 11 August 1934, p. 265.
6. *New York Times*, 21 January 1939.
7. William E. Dodd, *Ambassador Dodd's Diary* (New York, 1940), p. 260.

our economy"[8] and inspired articles calling for a rapprochement with the other states of Europe—including Russia[9]—increased the breach between him and the radical party leaders. Privately he expressed fears of the growing "bolshevization" of Germany, and sought to obtain British support in his struggle against Goering's growing power.[10]

Confidential memoranda circulated by German business groups seemed to carry his approval, if not his own thoughts.[11] One, issued by the world-famous Institute for International Economics of Kiel[12] as a "confidential report for restricted circulation," declared:

> The frequently invoked danger of inflation, which it has so far been possible to avoid thanks to the extremely able policies of Dr. Schacht, seems now actually too close for comfort. . . . We consider the situation as very serious.

Pointing to the decline of German exports in the first half of 1938, the Institute stated that:

> It is our impression, confirmed by many of our foreign representatives who are in close contact with the German consulates, that the offensive political activities of various semi-official Germans who have intervened far too deeply in internal political problems of various countries with the help of resident Germans, have harmed us significantly. . . .
>
> . . . Our profits decrease, management is increasingly complicated by the rise of bureaucratization, the flexibility necessary for profitable operation is constantly narrowed by the lack of raw materials—and no ray of hope illuminates the future, because the further forcing of armaments production can only result in a further intensification of the problem.
>
> We must realize clearly that if we do not wish to be ruined, a new policy must be decided on both in internal and foreign affairs. . . . Only a slowing-down of the tempo of rearmament can (1) remove the danger of inflation and guarantee the internal stability of the currency (2) ameliorate the raw materials problem so that the production of consumer goods and housing does not decrease further.
>
> A second point which has become very disturbing is the bold aggressiveness of our foreign policy. . . . As favorable as it may be for us to have minorities in case of war, it is just as unfavorable if these minorities in

8. *Economist*, 26 June 1937, p. 730.
9. *Idem*, 11 April 1936, p. 75.
10. Source confidential.
11. Martin Fuchs, *Showdown in Vienna* (New York, 1939), pp. 80–85.
12. "Probleme der deutschen Exportindustrie, Sonderheft des Instituts für Weltwirtschaft," Kiel, 1938(?), mimeographed. In the possession of the author.

time of peace demonstrate far too often and tactlessly their close connections with the Reich.

The practical Dr. Schacht had outlived his usefulness when practical methods of restoring the functioning of the old system gave way to the reconstruction of the economy along new lines with new standards. This turning point in the direction of the German economy was but a reflection of a fundamental change in German economic conditions.

Some time in 1937 substantially full employment was reached in Germany. By the beginning of 1938 all of the six million who were unemployed in 1933 were completely absorbed in armaments, public works, and "investment goods" production, while the increase in the working population from 1933–1938 was occupied by the expansion of the armed forces and a moderate rise in consumption goods production.[13]

A pronounced shortage of labor developed, not merely as a lack of certain skills, but as a general insufficiency in all fields including agriculture. Some of the most highly vaunted social measures of the National Socialist regime were reversed to meet it.

At the end of 1938 the eight-hour day, compulsory in Germany since 1919, was suspended by provisions for up to fourteen hours of work per day in "important State-political tasks."[14] Dr. Robert Ley, head of the Labor Front, stated that the "thoroughgoing eight-hour day forced on Germany by the United States at Versailles proved no blessing to humanity,"[15] adding one more to the impressive list of "crimes" attributed to the Peace Treaty by the Nazis.

In the long run, the achievement of full employment by the German economy meant that Germany had reached the highest possible strength in her production of armaments (except insofar as a shift from consumption goods to military goods production was possible). If she intended to use her military machine, or to risk having to use it, this was the time. The year 1938, in fact, *was* the time when Germany's aggressive intentions were allowed to come into the open, first in Austria, then in Czechoslovakia, then more and more openly as the world turned into the year 1939.

Immediately, the economic problem in Germany was that of paying

13. *New York Times (Magazine)*, 21 May 1938. *Economist*, 28 January 1939.
14. *New York Times*, 31 December 1938.
15. *Idem*, 7 November 1938.

for the ever-growing State orders, when unemployed resources no longer existed. Once there were no more idle resources, production of goods for the State could only be increased through a decrease in production of consumer goods. If no active steps were taken to decrease the money volume of consumer spending by increased taxation, and direct restriction of consumer production were not instituted, the only way to accomplish this was by decreasing the physical value of consumer spending, by causing the consumer's Reichsmark to be worth less goods through an inflationary rise in prices.

This would have come about inevitably if unchecked government spending had been allowed to compete freely with uncurbed consumer spending for the physically limited resources of fully-employed Germany. Dr. Schacht, seeing the danger vividly, called upon the government to slacken the pace of armament expenditure and to increase taxation to cut down consumption. Rationing of consumer goods would leave funds free in the hands of the public, which, even if absorbed by government borrowing, would eventually lead to inflation when repayment was undertaken. Dr. Schacht was, taking the long-range view, afraid that the process would end up with the repudiation of property rights of those who lent to the government.

But taxation was inexpedient for the Nazi regime, since it affects the German consumer directly. There seemed to be an easier, though short-run alternative. This was to reinforce the system of government control already developed.

The German people would be forced to spend their money according to the desires of the State, to save their money as the State demanded. Their property rights were rendered worthless for the time being, in exchange for promises of future repayment.[16] Some German economists were beginning to talk frankly of drastic capital levies, to be applied whenever retirement of the mountainous debt became necessary. As one said:

> If there must be crises, then let us have planned and limited crises, a catastrophe in which the government immediately should alleviate hardships by increasing expenditures, and starting the process of debt making and later confiscation all over again.[17]

16. Nazi leaders now hope to repay the excess purchasing power frozen in armaments with the flood of consumer goods they will squeeze out of the conquered countries after the end of the war, according to Dr. Funk. (*New York Times*, 14 November 1941; William L. Shirer, *Berlin Diary* [New York, 1941], p. 460.)
17. *New York Times*, 22 November, 1937.

Dr. Schacht and his followers, on the other hand, sought to return to private initiative. They regarded the armament program as having accomplished its major purpose, the restitution of German defenses and sovereignty.[18] They saw no reason for continuing the emergency measures, because they did not share in dreams of world conquest. On 26 November 1937 Dr. Schacht resigned as Minister of Economics.

On 17 January 1936, Goering had made his famous "guns not butter" speech. "We can well do without butter," he had said, "but not without guns, because butter could not help us if we were attacked one day."[19] Hitler became convinced of the necessity for a gigantic planned effort to make Germany's economy blockade-proof.

Unlike previous talk of autarchy, this was to be no mere effort to alleviate the foreign exchange situation. In the words of a German economist:

> . . . (from 1933 to 1937) the need for raw materials was made especially pressing by the fact that during the very years of the passage of our foreign trade through a bottleneck military needs holding priority positions in the national economy were extraordinarily strong.
>
> These are the most important facts and causes which led to isolated measures for increasing the home production of raw materials from the very beginning of the Nazi regime, and which, as a result of the further development of our foreign trade and foreign policy towards the end of 1936, made necessary a *total* economic policy of increased raw material self-sufficiency—the Second Four Year Plan.[20]

A "Four-Year Plan Bureau" was established, and began to arrogate to itself powers over foreign exchange and prices previously held by Dr. Schacht.[21] Significantly, the army was in control of the new Bureau. Major-General Fritz Loeb, Goering's Chief of Staff, actually conceived and directed the Four-Year Plan, with the aid of Major-General Georg Thomas, head of the Economics Section of the War Ministry, of Major-General Hermann von Hanneken, placed in charge of the Iron Mining and Power Division of the Economics Ministry, and of

18. See particularly a speech by State Secretary Brinckmann of the Ministry of Economics, *New York Times*, 7 September 1938, and conversations between Dr. Schacht and M. Paul van Zeeland, *Economist*, 17 April 1937.

19. *Economist*, 25 January 1936, p. 176.

20. Theodor Puetz, *Die deutsche Aussenwirtschaft im Engpass der Jahre 1933–1937* (Berlin, 1938), p. 66.

21. Muhlen, *op. cit.*, pp. 173, 183.

Major Eberhard von Jagwitz, detailed to foreign trade promotion.[22] Experts taken over from Schacht's Ministry of Economics were placed under military oath, as were certain key industrial executives commissioned as *Wehrwirtschaftsführer* (War Economy Leaders).[23]

In November 1937, when Dr. Schacht resigned as Minister of Economics, the Four-Year Plan organization took over the Ministry, with Dr. Funk as the eventual nominal holder of the title of Minister.[24] In fact, Germany now had an army-controlled war economy. Dr. Funk's activities were largely confined to foreign trade. When war came in September 1939 almost nothing had to be added to the system of control in order to set it on a full emergency footing.

In the field of foreign trade, the transfer of nominal power from Dr. Schacht to Dr. Funk was accompanied by significant changes. Dr. Schacht had continually stressed the desirability of abandoning exchange control, self-sufficiency, clearing agreements, and bilateralism for a return to reasonable freedom of trade. Circumstances, however, had forced him to conduct Germany's foreign trade along the very lines he deplored.

Under Dr. Funk, this necessity became a virtue. In her foreign trade, Germany no longer practiced barter because she was forced to, but rather used it consciously as a tool and a weapon to accomplish definite State purposes. One of the keenest German observers of the Third Reich's foreign trade policy writes that "the observable changes during the years 1933–37 are almost entirely the result of 'externally coercive' pressure on German foreign trade." By 1937, however, ". . . the shifting of German trade has become a constructive means in the German foreign trade policy."[25]

From 1938 on the conformity to compulsion from outside was replaced by deliberate policy. The change, another German notes, was not purely economic by any means:

> Enduring cooperation and enduring organization of foreign trade are only conceivable when the cooperating States possess political power in the world, such that they do not have to fear interference with their aims by other powers. Planned ordering of foreign trade is by its very nature only possible on the basis of political power-territory.[26]

22. Otto Tolischus, *They Wanted War* (New York, 1940), pp. 160–161.

23. Muhlen, *op. cit.*, p. 193.

24. *New York Times*, 1 December 1937; 12 February 1938.

25. Puetz, *op. cit.*, p. 25.

26. *Weltwirtschaftliches Archiv*, 48. Band (Kiel, 1938), p. 38.

II

FOREIGN TRADE UNDER NATIONAL SOCIALISM

A. *The Struggle for Devisen*

NATIONAL Socialist Germany needed desperately the ability to purchase huge quantities of foodstuffs and raw materials abroad. In addition to the normal requirements of the German people, the Third Reich felt it imperative to satisfy the insatiable thirst of its war machine for rearmament and the creation of stocks of strategic commodities. The first guiding principle of National Socialism in dealing with its international economic problems was to *satisfy the unlimited desires evoked by its grandiose ambitions despite the comparatively meager resources available from its foreign trade.*

National Socialism took over from the Weimar Republic an exchange control system designed to safeguard the financial structure and the currency of Germany from the destructive threat of mass flight of capital. It inherited the compulsion to prevent the foreign exchange value of the Reichsmark from depreciating. The first signs of weakening would crystallize in the German people the pervading fear psychosis acquired during inflation, only nine insecure years before, and would lead to an uncontrollable loss of confidence in the economic system. The second guiding principle of National Socialism in its economic relations with the rest of the world was its *fear of giving the signal for inflation within Germany.*

The strain of meeting payments on Germany's foreign debt seemed too great to be carried. Little benefit was to be obtained from maintenance of her credit standing abroad, because international lending had virtually disappeared. The third principle of National Socialist exchange control was the *repudiation of Germany's foreign obligations as a debtor.*

Germany's economy became the antithesis of international capitalism, the outstanding contradiction in international trade of the atomistic principles of the free market. The interplay of individuals in the bargaining process of the capitalistic market system yielded to the

concentration of economic bargaining power in the State. Germany's internal economy was ruled by the principles of government control and political pressures. She found it difficult in her international commerce to deal in terms of free trade and market-determined prices and sales. The fourth principle of National Socialism in international economics derived from the authoritarian character of her internal institutions: *bilateralism, the use of the power of the State in economic negotiations with separate foreign countries.*

The active balance of trade attained in 1933 by Germany was reversed in the first five months of 1934.[1] The Reichsbank's reserve ratio fell steadily, to 5.4 per cent on 7 May, 3.7 per cent on 31 May. Rumors of devaluation and stricter exchange control caused the mark's value to fall sharply.[2] Fear for the future of the mark spread within Germany. The public began stocking up on imported products in anticipation of new restrictions or a devaluatory rise in the prices of goods coming from abroad.[3] This was the development which Germany's economic leaders feared above all else.

The Reichsbank reserves had fallen to *RM* 100 million by July,[4] when Dr. Schacht was appointed virtual economic dictator as Acting Minister of Economics and President of the Reichsbank. Importers' foreign exchange quotas were cut to 5 per cent temporarily, until full exchange control could be put into effect. His first acts were the introduction of a full moratorium on the transfer of German foreign debt payments and full exchange control over imports, on the "pay as you go" principle that imports would be permitted only to the amount of foreign exchange made available by exports. The "New Plan," setting up 25 control boards over branches of industry engaged in importing, was decreed in September 1934.

From 1934 on German imports increased steadily. The rearmament program made huge demands on the German economy for imports. From 1934 to 1937 the imports of ores rose 132 per cent, of petroleum 116 per cent, of grains 102 per cent, of rubber 71 per cent.[5] A favorable balance of trade was nevertheless achieved in all the years up to 1938. But in the controlled economy of Germany, the balance of trade had a

1. *New York Times,* 14 June 1934. 2. *Idem,* 21 May 1934; 6 June 1934.
3. Paul Einzig, *World Finance, 1914–1935* (New York, 1935), p. 322.
4. Wirtschaft und Statistik, Sonderheft Nr. 14, *Die deutsche Zahlungsbilanz der Jahre 1924–1933* (Berlin, 1934), p. 34.
5. Friends of Europe Publications, No. 71, *Germany's Economic Situation in 1939 and Her Challenge to the World* (London, March 1939), p. 7.

German Foreign Trade
(In *RM*, 000,000 omitted)

	Imports	Exports	Balance Plus	Balance Minus
1933	4,202	4,871	667	
1934	4,451	4,167		284
1935	4,159	4,270	111	
1936	4,218	4,768	550	
1937	5,468	5,911	443	
Old Reich 1938	5,449	5,257		192
Greater Germany incl. Austria				432
1939 First seven months			182	

meaning different from that assigned it in free international trade. Germany bought as much as she could with the income from exports, after payment of "invisible imports," so that the "favorable" or "unfavorable" balances were important only as indications of the size of the income contributed by exports to the maintenance of imports, and not as a sign of deep-rooted changes in the constitution of her international trade. "Invisible imports," for travel, interest, and propaganda expenditures abroad, amounted to about *RM* 500 million in each year, which was approximately balanced by the net income from shipping, amounting in 1937 to *RM* 413 million and in 1938 to 453 million.[6]

The year 1937, the best in the foreign trade history of the Third Reich, nevertheless was far behind the record of German trade in 1930. The percentage of the national industrial production exported amounted to only 17 per cent at the end of 1937, compared with from 25–33 per cent before 1931.[7] And the rise in internal industrial production was greater than the rise in imports, intensifying Germany's raw material difficulties.[8] Germany had in 1937 only 8.9 per cent of world export trade, and 7.8 per cent of world imports, compared with 11.1 per cent and 8.7 per cent in 1930.[9]

From 1938 on the last stage of the struggle for devisen developed. The favorable balance of trade in 1937 was succeeded by an almost

6. *Deutsche Volkswirt* (organ of Dr. Schacht and conservative business elements in the Third Reich), 23 June 1939, p. 1877.
7. *New York Times*, 22 January 1938.
8. *Idem*, 19 September 1937.
9. *Idem*, 22 January 1938.

equally unfavorable balance in 1938. The world recession cut international trade, while fear and resentment of Germany grew, fanned by the occupation of Austria, the Sudeten crisis, and the Jewish pogroms in November. The United States, England, and France began their export offensives in Latin America and Central Europe, aimed directly at Germany, while growing difficulties with the barter system caused Latin American nations in particular to reduce their trade with Germany. German export prices rose from 10–15 per cent under the influence of the domestic armaments boom.[10]

The tendency of German firms to avoid the export market because of the difficulties of foreign trade under the restrictions of the Nazi Reich became pronounced. Only large firms able to employ full-time experts in foreign exchange law could master the intricacies of the system.[11] Discouragement of private exporters by the increasing direct competition from semi-official organizations became so profound that Dr. Funk, the Minister of Economics, found it necessary to issue a pacifying declaration recognizing private initiative's role as salesman for Germany (under the direction of the Government). Nevertheless, the Government continued combination and control of individual foreign trade firms to limit competition and prevent Germans from underbidding each other in foreign markets.

In December 1938 export orders were given priority over all domestic demand except armaments. The Government threatened, in September 1938, to withdraw its huge orders from those firms not showing sufficient enthusiasm for the burdensome foreign trade. In the words of Dr. Funk, failure to devote the utmost effort to exports was a "grave violation of duty to the nation."[12] Exchange restrictions were relaxed to help the German entrepreneur disentangle himself from red tape, and on the other hand, the local Gauleiters of the Nazi Party were made personally responsible to Goering for the complete utilization of the export potentialities of their districts.[13]

The emphasis placed on autarchy from 1936 under the Four-Year Plan was completely reversed by the famous "export or die" speech by Hitler. As late as the Nuremberg Party Congress of 6 September 1938, Hitler had boasted that Germany had become "completely independent of other countries, standing on her own feet." In his speech

10. *Idem*, 1 May 1938.
11. *Völkischer Beobachter*, 22 February 1939.
12. *New York Times*, 24 October 1938.
13. *Frankfurter Zeitung*, 11 December 1938.

before the Reichstag on 30 January 1939, however, the tone had changed:

We must export in order to be able to buy food. This need is the most compelling that a people can experience, that is, the provision of its daily bread. . . . The Reich is willing even to carry through an economic war of desperation, because the motive for our economic war would be very simple: the necessity of preserving the life of the German people, that means: export or die!

The decrease in exports continued through April 1939, under the pressure of the "economic white war" taken up by the democracies, of the American countervailing duties placed on subsidized German exports, and of similar reactions in other countries. A paper export surplus of *RM* 182 million was achieved for the first seven months of 1939 by drastic reductions in imports,[14] either an indication that Germany was unable because of the shortage of free foreign exchange to continue importing vital strategic materials to add to her war stocks, or that the published statistics did not report the true totals.[15]

The proportion of exports to total production fell to 10.9 per cent in 1939, though an export of at least 20 per cent seemed necessary to maintain even the low standard of living which the German economy provided.[16] On the eve of the war, Germany stood as far away from a permanent correction of her place in the international economy as ever in the years after 1919. Her predicament in 1939, however, was more her own responsibility than the result of the attitudes of the international capitalist powers. Germany had taken the draconic measures of adjustment which were necessary in 1933, but had evoked new maladjustments by the armaments boom and the destruction of foreign confidence and good-will.

By 1935 the published gold and foreign exchange reserves of the Reichsbank had fallen to *RM* 83 million. They remained near that level in all the years ensuing, with the reserve ratio fluctuating between 2 per cent and 0.92 per cent.[17] Obviously, reserves were but a formality, hardly above the day-to-day requirements for meeting discrepancies between the foreign exchange permits granted by the exchange control authorities and the actual income in foreign exchange

14. *New York Times*, 19 February 1939; 19 August 1939.
15. *Idem*, 26 June 1939.
16. *Idem*, 5 August 1939.
17. *Idem*, 26 April 1939.

from exports. The value of the Reichsmark abroad did not depend on the willingness of the Reichsbank to sell gold or equivalent foreign exchange at a fixed rate, as in the classical theory, but rather on the artificial limitation of the foreign supply of Reichsmarks to the foreign demand for Reichsmarks. Dr. Schacht, whose influence played a large part in building up the system, said: "The stabilization of our currency, which we have today, is thoroughly unnatural. . . . Our currency is held stable by artificially preventing comparison with foreign moneys, our currency is stabilized by emergency administrative decree."[18]

But despite the announced poverty of the Reichsbank, signs were not lacking that secret reserves of gold and foreign exchange were being accumulated. Four hundred million Reichsmarks of Russian gold imported in 1934 seemed to vanish, once within the country.[19] Large net imports of gold appear in German foreign trade statistics in several other years. With complete control over statistical and other information, and over dealings in foreign exchange, Germany could accumulate or dispose of gold at will, without the knowledge of the rest of the world. There is a good basis for believing that secret reserves of gold were held by such firms as I. G. Farben, on orders of the Government.[20]

The secret reserve was maintained as a war chest, to be used in time of hostilities for the purchase of raw materials from neutrals. It was reported in April 1939 as *RM* 1,000 million,[21] including that part of the gold obtained from Austria and Czechoslovakia not already spent at the time. Resources of foreign exchange added perhaps *RM* 300 million. In addition, *RM* 5,000 million of foreign securities were officially reported still held in the Reich, despite the huge reductions made from 1933 to 1939 to pay for current imports.[22]

During its first years, the economic effort of the Nazi regime had been concentrated on the elimination of unemployment and the prevention of cyclical disturbances to German industry from abroad. But, despite the boast of National Socialism that it had isolated Germany from cyclical waste of resources, the greatest ill of international capi-

18. Hjalmur Schacht, *Grundsätze der Wirtschaftspolitik*, pp. 41–42.
19. *New York Times*, 22 January 1935.
20. M. S. Reiser, *Germanskii Khimicheskii Trest I. G. Farben Industri* (Moscow, 1935).
21. *New York Times*, 1 July 1939, estimate of Tolischus.
22. *Idem*, 1 June 1939.

talism, the German economy remained linked to the fortunes of world prosperity through its export trade.

Thus, the slump on the controlled stock exchange in 1938 was due to the unfavorable trend of German foreign trade that year, caused largely by the world-wide recession.[23]

By the struggle for devisen Germany tacitly admitted that she still depended on the outside world. This was a highly unsatisfactory state of affairs for the rulers who had sworn to free Germany of the control of outside powers. They found they could not have their way as long as they lived on more or less normal terms with their neighbors.

B. *The System of Control*

Never able to accumulate a significant reserve, always under pressure to utilize every resource for the importation of foreign goods for consumption and war purposes, fearing financial breakdown, Germany felt compelled to develop control of her foreign trade to an almost unearthly degree of thoroughness. Every conceivable transaction involving Germany's economic relations with the rest of the world came under one or more of the organs of the State set up for the purpose.

At the top, advised by the Minister of Food Supply and Agriculture, and the Minister of Finance, stood the Minister of Economics, above whom, from 1936 on, was placed the Kommissar of the Four Year Plan, Goering. Ordinances deemed necessary by them after consultation became law merely on the strength of signature. Decisions of the Minister of Economics and the control authorities appointed by him were final, with no appeal.

Under the Ministry of Economics were the main controlling offices, the 27 Ueberwachungsstellen (Supervisory Offices), with up to 300 employees apiece, set up over the major branches of Germany's industry and commerce engaged in foreign trade, and the 32 local Devisenstellen (Foreign Exchange Offices), attached to the provincial tax bureaux throughout Germany.[24] The Reichsbank, once in complete control of Germany's foreign commerce, had only a subsidiary position after the fall from power of Dr. Schacht.

23. *Idem*, 14 August 1938.

24. Wolfgang Flad, Gerhard Berghold, and Helmuth Fabricius, *Das neue Devisenrecht* (2. Auflage, Berlin 1939), pp. 4, D2–5. This is the most accessible collection of the foreign exchange laws of Germany. References to this loose-leaf service, except those with page numbers in Roman numerals, are to the laws themselves, as printed in full context. A. D. Gayer (ed.), *The Lessons of Monetary Experience* (New York, 1937), p. 225.

Foreign exchange resources were distributed in accordance with the comparative national importance assigned to the good or service involved:

> The purpose of the law on foreign exchange and the administrative ordinances, is to dispose of the present and future resources of devisen to best satisfy the needs of the German people in the order of their urgency, to raise the income in devisen, and to prevent every unnecessary requirement for devisen from arising.[25]

"Devisen" was defined as anything which was, or could be converted into, credits abroad.[26]

A permit from the authority having jurisdiction (usually the Ueberwachungsstelle) was required for all imports of goods to be paid for in free foreign exchange or the many substitute means created by Germany: ASKI marks, clearing marks, blocked marks, private barter, and acceptance credits under the Standstill Agreements. Foreign exchange and other available means of payment were apportioned by the Ueberwachungsstelle under general instructions on priority of national need received from the Minister of Economics and the Minister of Agriculture, administered by the Devisen Apportionment Commission (Devisenzuteilungskommission).[27]

With the power to force individuals and firms to supply any desired information, the Ueberwachungsstelle kept close watch on every phase of Germany's imports. Their executives and employees were sworn to their duty and to *eternal* secrecy,[28] because of their strategic position in the control and observation of the German economy's weakness and strength.

The Devisenstelle had jurisdiction over most financial transactions not involving imports or exports of goods, such as tourist travel, the purchase of magazine subscriptions, dealings in securities, etc. From 1937 on, the Reichsbank's part in foreign exchange control was mainly administrative. Through the subsidiary Konversionskasse (Conversion Office), appointed by its Board of Directors and controlled by the Minister of Economics, it carried out the moratoria concerning foreign creditors. The "Tredafina" offices, also under the Reichsbank's

25. Flad, *op. cit.*, p. 48.

26. *Idem*, p. 14.

27. *Idem*, p. 87.

28. *Idem*, p. C27.

administration, took over the various Standstill Agreements with foreign short-term creditors. Clearing agreements were administered by the Verrechnungskasse (Clearing Account) of the Bank.

The Reichsbank was given a monopoly on all foreign exchange dealings and transactions involving foreign credit instruments within the German borders. To facilitate its operations as sole recipient and source of supply of devisen, it delegated authority to banks and travel agencies to act as its agent in carrying out foreign exchange operations.[29]

Exporters had to declare all income from foreign customers to their Reichsbank branch and deliver the resulting foreign exchange, or report other means of settlement, when payment arrived from abroad. Imports were not allowed to pass through the customs without proper certification from the exchange authorities that foreign exchange had been set aside for the transaction.

Every loophole through which the law could be violated was closed as soon as discovered. To prevent collusion between Germans and their foreign customers to withhold abroad for the German exporter part of the proceeds from the sale of goods, reports of the value of outgoing shipments were delivered by the Customs Service to the Reichsbank branch in the locality of the sender.

Complete control over dealings in securities was maintained to prevent leakage of foreign exchange and the flight of capital. Germans were under obligation to offer foreign securities for sale to the Reichsbank at the time of purchase, and to surrender them on demand even if permission were once given to hold them. Most securities held in large amounts in Germany were taken over by the Reichsbank at the end of 1936,[30] some to meet the pressure for foreign exchange, others, like stocks of the pre-war German colonial companies and of certain foreign affiliates of leading German industries, for obviously political purposes.[31]

Special measures against the flight of capital prevented wealth from leaving the country, except for that of the desperate Jewish emigration. Permission was required for sending any goods permanently out of the country. Jews had to obtain special permission to take with them other than strictly personal effects, and had to have a Customs Agent present while packing their belongings. A "Flight Tax" took

29. *Idem*, p. C6.
30. *Idem*, pp. C33b–i.
31. *Idem*, p. 39.

25 per cent of the total property of the emigrant in Germany. Yielding *RM* 313 million from 1933 to September 1938, this became one of the major items in the Reich budget. Another large part of the property was taken as "Transfer Tax," while most of the remainder was placed in "blocked mark" accounts from which almost nothing could be recovered.[32] German currency could not be taken abroad or imported from abroad without special permission.

To prevent inklings of the real depreciation of the German currency from reaching the people, only official quotations of exchange rates and prices of foreign securities could be published or used as purchasing and selling prices. The Berlin Bourse supplied the official figures,[33] doubtless with the help of the economic authorities.

A fantastic array of special categories of currency was created in Germany's strivings to utilize every possible source of payment for foreign obligations. Four general categories may be noted:

(1) "Blocked marks" arising mainly out of the Standstill Agreements and moratoria on foreign debt payments, to be described in II-C below
(2) ASKI marks, to be dealt with in II-D below
(3) Clearing Accounts, to be dealt with in II-D below
(4) "Free Reichsmarks," the vestigial remains of free currency in Germany, sold foreigners in return for devisen.

Harsh penalties under criminal law were enforced against violators of the exchange regulations. The Devisenstelle had the authority to sequester property of a resident or foreigner merely on the suspicion of intent to violate the foreign exchange law.[34] Failure to make the requisite innumerable reports to the authorities, without illegal intent, was punishable by a fine of ten times the amount of money involved. Corporations and partnerships implicated in conscious violations of the laws were fined up to *RM* 300,000 or could be dissolved, while the individual members of the management were subject to further punishments. Individuals could be fined ten times the amount of money involved, in conscious violations, and could be sentenced to up to ten years in prison.[35] German citizens who, by sending property abroad illegally, caused significant damage to the German econ-

32. *New York Times*, 15 September 1938. *Manchester Guardian*, 7 June 1939.
33. Flad, *op. cit.*, pp. 7–8.
34. *Idem*, p. 18.
35. *Idem*, pp. 20, C38.

omy, were subject to confiscation of their property and the death sentence![36] Only by measures such as these did the authoritarian economy succeed in twisting the processes of trade and production to suit its needs.

Exchange control, by its inevitable bureaucratic nature, became a serious burden on German business. Besides the losses inherent in bilateral trade, there were long delays, protracted technicalities, arbitrary changes, and mountains of paperwork. Stories of inefficiency and overefficiency were rife:

In order to save on devisen, the government control apparatus ordered imports of hides for leather to be cut down in the Fall of 1935. The shortage of leather which resulted caused the price to rise in Germany. Whereas 15 per cent of the output of leather was exported in 1935, only 8 per cent could be sold abroad in 1937. Domestic shoe manufacturers found it necessary to import twice as much finished leather from abroad as before the restriction on the import of hides. Since leather cost more than hides, 50 per cent more foreign exchange was needed than if adequate allowances for foreign hides had been granted in the first place. The example was typical of the train of events in many fields.[37]

A wholesale firm dealing in watch and clock replacement parts found that:

> It is not so very simple to be an exporter today in a specialized trade, which stretches out into the most varied classifications of its products as a result of its great assortments, each with its complicated provisions, contingents, export regulations and required permissions. Separate deliveries are often very small, but nevertheless require conformation with all export and devisen rules, just like any large order. The clerical work is often more expensive than the gross receipts.[38]

Openly critical of the devisen regulations, a German economist writes:

> The continual change of regulations, the "hush-hush" methods with which regulations and subsidies are carried out, the negative and positive lists, which must also be kept secret, the repeated alterations of laws and administrative provisions, all this makes totally impossible not only untroubled work, but also any long-term planning . . . *the confidence of foreign customers in German exports is strongly shaken.*[39]

36. *Idem*, p. C1. 37. *Frankfurter Zeitung*, 1 February 1938.
38. *Deutsche Volkswirtschaft* (organ of the more radical National Socialists, not to be confused with the *Deutsche Volkswirt*), 1 July 1939, p. 729.

Each new regulation brought on further needs for extension of administrative direction of the economy. Thus, for example, the persevering effort to artificially isolate the German economy from the rest of the world brought a wide discrepancy between internal demand and the supply allowed in from the outside. In order to prevent importers from profiteering on the difference between foreign and domestic prices, strict price control was introduced under the Four-Year Plan.[40] In order to prevent economic forces from flowing around the dam raised by State control the system of enforcement had to be extended around the whole of the economic process. What began in 1931 as a restriction on exports of gold became successively a restriction on imports of commodities, on internal production, on internal prices, then on internal consumption. State dictation spread from isolated sectors to the roots of the German economic system, by the principle of contagion inherent in totalitarian control.

C. *Moratorium*

Many considerations urged Germany to abandon payment of her obligations to foreign creditors. Prospects of renewed private lending to Germany seemed slim in view of the universal distrust engendered by the moratorium in 1931 and the financial condition of Germany. The huge interest and amortization payments to foreigners were a heavy drain on Germany's available resources in international trade. Most of her debt seemed to the National Socialists directly or indirectly linked with the hated reparations burden, from which they had promised to free Germany.

Full moratorium, however, was not enforced until the summer of 1934. The real emergency in Germany's foreign trade was then exaggerated by the Reich, to present to the foreign creditors the picture of a country on the verge of financial collapse. Published reserves of the Reichsbank were allowed to decline, while the issuance of Registermarks under the Standstill Agreement was made in a manner causing the foreign exchange rate for the free Reichsmark to depreciate.[41]

39. Albrecht Forstmann, *Der Kampf um den internationalen Handel* (Berlin, 1935), p. 245.
40. Flad, *op. cit.*, p. C40.
41. This policy was reversed after the institution of the moratorium: "The new re-

At the end of June the German Government announced a full moratorium without the consent of her creditors: in plain English, she defaulted. Yet a complete cessation of transfer of financial obligations could not be envisaged by Germany. Treatment of short-term debts had to be differentiated from that provided for long-term debts because of the intimate connection between the foreign short-term creditors and the financing of Germany's foreign trade. Long-term creditors of some nationalities had to be distinguished from those of others, because of the ability of some countries to retaliate against Germany's foreign trade.

Short-term debts came under the "Standstill Agreements" made with foreign States and creditor banks. In order to preserve for Germany the normal procedure of financing imports and receiving payment for exports through bills of exchange drawn on foreign banks, the latter were promised regular interest payment and gradual liquidation of their frozen assets in Germany. Hope was held out at first that repayment would be in full, but under the Registermark system, large losses were sustained by creditors in those countries not given preferential treatment, especially the United States. In return, the foreign banks agreed not to reduce the amount of "lines of credit" granted to German importers, and not to discontinue collection of acceptances drawn by German exporters on their foreign customers. The German Government agreed with those banks accepting the "Standstill" arrangement that no other class of creditors would receive better treatment. Special treatment of foreign banks was part of Dr. Schacht's policy looking to eventual renewal of international lending to Germany and her return to some limited form of laissez-faire.[42]

Liquidation of the original credits placed under the Standstill Agreements after 1933 was made in the form of blocked Registermarks. In the Spring of 1934, 843 million Registermarks were held in German banks, which may be stated for the sake of comparison as one-fourth of the total Reichsmark banknote circulation.[43] Registermarks could be used within Germany in a manner similar to other

strictions placed upon the Registermark were evidently based upon the decision of German authorities to manipulate the German currencies with a view towards acquiring gold rather than pushing exports. While the subject of German indebtedness was under discussion during the Spring months, the opposite policy had been followed, so that the Reichsbank, week after week, showed a lower gold ratio. This fell as low as 2 per cent." (*Journal of Commerce* [New York], 8 October 1934.)

42. *New York Times*, 4 May 1939.

43. *Idem*, 22 June 1934.

blocked marks (see below), and could be used for tourist travel within Germany, and for payment of 50 per cent of the cost of a limited group of exports. Use for the purchase of goods had little value, since it was limited by law to cases where would-be customers of Germany otherwise were unwilling to purchase because of price and exchange conditions. In addition, prices for goods to be purchased with Registermarks were usually quoted 20 per cent higher than for the same goods if bought with free Reichsmarks.[44] Abroad, Registermarks sold at a 30–40 per cent discount from their nominal value.

Long-term creditors, except those given special preference, fared even worse. The obligations owed to them were placed under the control of the Conversion Office for German Foreign Debts (Konversionskasse für deutsche Auslandsschulden), a subsidiary of the Reichsbank, from 9 June 1933. The German debtor was legally freed of his obligation to foreigners on payment of the Reichsmark amount of it to the Konversionskasse. This then transferred to the foreign creditor only the amount and form of money permitted by law and various special arrangements with creditor countries.[45] Except where special provisions for transfer of debt existed (as in agreements with England, France, Holland, Switzerland and other European countries), and in cases where Germany voluntarily repurchased portions of their foreign debt, virtually none of the credits to foreigners accumulated on the books of the Konversionskasse were of any value after 1934.

The debt moratorium also resulted in the creation of a variety of special "blocked marks," numbering about thirty, and depreciating in value as the terms under which they might be used by their foreign owners became more restricted. The blocked marks were accounts to the credit of the foreigner, held in German banks, under absolute control of the administrative bureaux.

They consisted, in general, of German commercial debts contracted before 1933, interest and amortization on German securities held abroad, and the property of Jewish emigrants or of foreigners living outside Germany. Some types of blocked marks were originally valuable for partial payment for German exports, where the remainder of the sum due was paid in free foreign exchange. Originally important, this provision was later so restricted as to become a nullity. Those blocked marks having *any* value at all were largely limited to use

44. *Idem*, 5 October 1934.

45. Flad, *op. cit.*, pp. 111–112.

within Germany by the original owner for such personal expenses as travel, education, charity, and the payment of German taxes.[46]

The measures described above, however, were actually not applied in full to a large amount of Germany's outstanding foreign debt. Certain countries were in a strategic position to enforce more generous settlement of their claims, by virtue of their heavy passive balances in trade with Germany. They had the power to withhold from the sums due Germany for her exports an amount equal to that owed them for interest and amortization on the German debts to their nationals.

Holland and Switzerland were the first countries to take advantage of this opportunity. Their governments, by threatening to make use of this power, were able to force on Germany special agreements providing for full payment of the debt in devisen, on condition that the Dutch and Swiss purchased "additional exports" from Germany, above their averages in previous years.[47]

After the moratorium of July 1934 only partial payment in devisen was made, even to countries with which special agreements were in force, in varying proportions depending on the country and the class of indebtedness. Determinants in the negotiation of the separate agreements for partial repayment were the size of the creditor country's passive balance compared with the German debt to the country, the degree of depreciation of the creditor country's currency, and the amount of pressure which the various classes of foreign creditors could exercise on their governments.[48] By 1938, England, Switzerland, Holland, France, and Belgium and Norway had obtained this type of preference from Germany, while Italian holders of the Young and Dawes bonds received full payment from October 1934, partly as a political gesture designed to smooth the way for a rapprochement over Austria.[49] Of the major creditor countries, only the United States suffered from the full application of the moratorium on the transfer of debt, since only the United States had the bad luck of selling more to Germany than she bought from Germany.

In order to carry through the discriminatory treatment of her foreign creditors, Germany had to abandon the "most-favored-nations" clauses guaranteeing equal treatment to the commerce of all countries, on which world trade had been built in the preceding decades. The

46. *Idem*, pp. 68–71, 111, 116, 117. *New York Times*, 22 June 1934.
47. *New York Times*, 24 January 1935.
48. *Idem*, 27 September 1938.
49. *Journal of Commerce*, 5 October 1934.

repudiation of her trade treaties based on "most-favored-nation" principles, undertaken in connection with her foreign debt, opened the road to the bilateral system on which Germany's international trade was reconstructed.

D. *The Barter System*

Unable to command sufficient free exchange to satisfy her import needs and desires, Germany created a far-reaching system of barter trade designed to eliminate the necessity of foreign exchange, to substitute an internal method of payment for the international money traditionally used in foreign trade.

Direct private barter transactions were unwieldy, however, requiring the conjunction of two buyers each able to sell what the other wanted, or able to find within his country a market for the other's product. For the German participant, permission of the Ueberwachungsstelle responsible for the imported goods, of the Customs Service keeping check on the exported goods, and of the Ministry of Economics, was required. Authority to undertake the transaction was then sent to the local Devisenstelle offices in whose jurisdictions were the prospective importer and exporter.[50] In all, as many as five government agencies had to be approached before the deal could be completed.

Direct barter was in principle confined by Germany to "Vital Imports" as established by law, mainly raw materials such as non-ferrous metals, cotton, rubber, petroleum, uranium ores, and, unique testimonial to the high idealism of the National Socialist ethos: "Animal sinews, also dried, spinal marrow, gastric glands, brains, livers, kidneys, buttocks, ovaries, thyroids, foetuses, placentas, testes, parathyroids, in a state not susceptible to use for human pleasure."[51]

In private barter deals for commodities not considered vital the foreign participant had to pay from 20–100 per cent in foreign exchange. German newspapers, the Leipzig Fair, and Chambers of Commerce (including the American Chamber of Commerce in Berlin) established special barter bureaux to facilitate what was at best a difficult method of trade.[52] Direct barter, especially important in 1934 when the confusion caused by the introduction of new exchange control measures made it virtually the only means of trading with Germany,

50. Flad, *op. cit.*, p. 93.
51. *Idem*, pp. D43–45, D58.
52. *New York Times*, 1 October 1934.

declined in significance after 1935. Barter as such became more and more an instrument of the Nazi Government in transactions with other States, used to fill special needs and dispose of particular surpluses, and especially in large capital goods transactions. It was largely replaced by clearing and ASKI marks in ordinary trade.

Use of clearing and ASKI marks by German importers was limited by quotas and priorities in the same way as any other forms of foreign credits. The ASKI-mark system, under which German imports were paid for in blocked marks available only for purchase of certain German exports, gave a greater degree of flexibility than pure barter. Trade in ASKI marks in 1938 was used mainly for Bolivia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Salvador, Venezuela, Albania, British colonies and mandates, Palestine, Iraq, Portuguese colonies, and Asia,[53] usually countries to which Germany owed money because of a passive balance of trade.

The foreign exporter might use ASKI credits for direct import of goods from Germany, or might sell them to another foreigner desirous of buying German goods. Usually, ASKI marks sold at a discount from their nominal value, because of the restrictions placed on their use. Only certain German exports could be bought with ASKI marks. These, generally, were goods in which Germany's competitive advantage was not great enough to permit her to demand payment in free exchange. The list varied from region to region and from country to country according to the circumstances of Germany's foreign trade position.[54]

The most important means of payment in Germany's foreign trade were payment agreements (Zahlungsabkommen), usually with countries operating under free exchange, and clearing agreements (Verrechnungsabkommen) with countries having foreign exchange control. Payment and clearing agreements allowed imports and exports to flow simultaneously, rather than restricting payment for Germany's imports to the achievement of previous export sales, as the ASKI and barter systems did in theory. The clearing and payment agreements, besides, removed the emphasis on direct exchange between individuals.

Payment agreements, made to forestall retaliation against Ger-

53. Institut für Konjunkturforschungen, *Wochenbericht* (Berlin), 7 June 1939.
54. Flad, *op. cit.*, pp. D46–49.

many's strict exchange control, were in force in 1937 with Belgium (and her colonies and Luxembourg), England, Eire, France (and her colonies), Canada, Syria, Japan and Manchukuo, and South Africa. New Zealand was added to the list in 1938.[55] The payment agreements were confined to countries with which Germany had a particularly active balance of trade, since these were able to confiscate sums due by them to Germany if Germany did not pay her debts in devisen. Canada, New Zealand, and South Africa, which did not have passive balances in trade with Germany, were allowed to make payment agreements in order to gain their acquiescence to the German export drive.

Payment agreements provided for the use of free exchange in settlement of trade debts between Germany and the country involved, and for prohibition of ASKI, private barter, and blocked mark methods. Germany made the amount of her purchases from the agreeing country dependent on the amount it purchased from her. Passive balances were not allowed to develop against Germany, while some agreements provided that Germany would be allowed an active balance of a certain size, to be paid in free exchange, or that the agreeing country would import a specified amount from Germany yearly.[56] Special settlements of German debts to the countries concerned were often included in the agreements.

A clearing agreement provided for mutual balancing of debits and credits in trade between the two countries by bookkeeping entries, without the intervention of foreign exchange. Clearing agreements developed as the logical fulfillment of Germany's bilateral policy and as the only means of continuing economic relations between two controlled economies. By 1939 Germany had agreements of this nature with Afghanistan, Argentina, Brazil, Bulgaria, Chile, Colombia, Bohemia-Moravian Protectorate and Slovakia (formerly Czechoslovakia), Denmark, Estonia, Finland, Greece, Hungary, Japan, Iran, Iceland, Italy (and colonies), Yugoslavia, Latvia, Lithuania, Manchukuo, Netherlands, Norway, Poland (and Danzig), Portugal, Rumania, the Soviet Union, Spain, Sweden, Switzerland, Turkey, and Uruguay.[57]

Germany set up special accounts, in the name of the foreign central

55. Institut für Konjunkturforschungen, *op. cit.*
56. Flad, *op. cit.*, p. XL.
57. *Idem*, pp. D70–115.

bank or government of the agreeing country, in the Verrechnungskasse (Clearing Office) of the Reichsbank, and similar accounts in the name of the Verrechnungskasse were established abroad in the central bank of the country party to the agreement. The German importer made payment in Reichsmarks to the Verrechnungskasse's account for the country from which he bought, and the German exporter to that country received payment from the sums built up in this manner. In the foreign country, the process was the same for the foreign importer and exporter dealing with Germany. Payment was made in each country according to chronological order of the exports, from the available credits to the other country arising out of the latter's exports. In theory, an exact balance was struck between the exports and imports of the two countries.

In 1933 and 1934, however, German importers took advantage of the agreements to pile up huge import surpluses outside their devisen quotas. This tendency was not opposed by the control authorities, who paid no attention to the probabilities of being able to repay through exports.[58] Later, when all transactions through the clearing agreements came under control of the exchange authorities, Germany actually encouraged an excess of imports over current exports to the country concerned. The result was the piling up of German clearing debts.

Foreign exporters, particularly in the Balkans, suffered from the long wait between the sale of their goods to Germany and the accumulation of sufficient credits from German exports to their countries to permit repayment. They attempted to relieve the strain on their finances by borrowing money against the German Clearing Account bills, usually at heavy interest charges which wiped out their profits. But so desperate was the pressure of unsaleable surpluses in their countries that the exporters were willing to make the sacrifice, attempting to compensate for it by charging their German customers higher prices. The national central banks came to their relief, taking over large amounts of the German debits frozen under the clearing agreements, in effect lending to Germany the money to buy what she wanted from their countries.

When Germany was pressed for increased exports to clear off her debts, she replied by restricting the types of exports allowed against

58. Paul Einzig, *Bloodless Invasion* (London, 1935), pp. 18–20.

her clearing debts, limiting them to those goods not readily salable for foreign exchange in the free international markets. Thus, Yugoslavia was forced to accept a ten years' supply of aspirin tablets, in part payment of the German clearing obligation.[59]

In 1937 and 1938, when the recovery of world trade made the Balkans even less willing to deal with Germany on her own terms, she evolved an ingenious plan for pushing exports—at the expense of the customer. In addition to the low prices made possible by export subsidies, Germany offered long credits for capital and consumption goods purchases from her, on ridiculously easy terms. Installment selling of German consumer goods appeared in the Balkans for the first time, with bicycles available at a down payment of $1.25, small automobiles on deposit of $5.00. The purchase price of every sale by Germany, whether for cash or on credit, was added immediately to the German account under the clearing system, and could be used for her imports under the monthly quota system. The foreign central bank, however, had to wait until its nationals repaid the "easy credits" granted by Germany before the money it had laid out for Germany's imports came back.

The foreign central bank thus provided German export credit to its own market. The Rumanian National Bank, for example, had to collect itself the bad debts so blithely allowed by Germany's exporters, in order to obtain the money due to Rumanian exporters to Germany. Even the Rumanian Government bought large amounts from Germany on credit, not comprehending that it was in reality borrowing from itself through its central bank.[60]

The German exporter discounted with his German bank his credit to foreigners for goods sold through clearing. The German bank could rediscount it, if necessary with the Reichsbank. The Reichsbank, through its Verrechnungskasse, on the other hand, received immediately the price paid by the German importer, who made use of the clearing balance created abroad by the export on "credit." The Reichsbank thus had the money available internally to meet the exporter's need for "loans" to the foreign customer.

In 1938 only Cuba, Panama, Canada, the United States (and the Philippines), Australia, Egypt, Anglo-Egyptian Soudan, British India, British Malaya, Ceylon, China, and Thailand continued to deal

59. *Idem*, pp. 21–26.

60. *Idem*, pp. 37–45.

with Germany in free foreign exchange.[61] In general, ASKI and barter deals with these countries were forbidden, from 1 July 1937.

The addition of new countries to the list trading with Germany under the payment and clearing systems, and the pronounced tendency on Germany's part to shift her trade to countries with which she was able to deal bilaterally through clearing, caused the percentage of her trade covered by payment and clearing treaties to rise to 77.6 per cent for imports and 84 per cent for exports in 1938. In that year 6.4 per cent of Germany's import trade and 6.2 per cent of her export trade was with countries whose dealings with her were mostly through the ASKI system, and only 15.8 per cent of her import orders and 9.7 per cent of her exports went to countries not having bilateral arrangements with her and presumably operating under free exchange.[62]

German trade with the free foreign exchange group was predominantly passive. In addition, some countries with which Germany had clearing agreements took advantage of their monopolistic situation to force her to pay in free exchange for the most pressing of her raw material purchases. Against this, she had only the exchange allowed her under payments agreements with Belgium (and Luxembourg), France, Syria, Great Britain, and Eire, under semi-clearing arrangements with the Netherlands, Switzerland, Denmark, Norway, Sweden, and Finland, and the revenue from her shipping services to foreigners.

E. *The Double Standard*

Three factors made Germany unwilling and unable to devalue her currency formally, despite the grave damage done to her export trade by the general lowering of world prices through the devaluation of other countries:

(1) Of first importance, at least in the earlier years of the Nazi regime, was the fear of inflation. Devaluation, besides increasing the internal prices for goods imported from abroad, would have directly alarmed the German public, which was highly sensitive to fears of monetary instability after the disastrous experiences of 1919–1924.

(2) Of secondary importance was the compulsion felt by Germany to reduce her foreign debt burden. Devaluation by foreign creditor countries had automatically cut Germany's obligation by the amount

61. Institut für Konjunkturforschungen, *op. cit.*
62. *Ibid.*

of the fall in the exchange value of the foreign currencies; devaluation by Germany would automatically restore her foreign indebtedness to its full value.

(3) Of growing importance was the desire to take advantage of the cheapening of foreign imported goods brought about by the devaluation in the countries from which Germany bought. Insofar as foreign internal prices did not rise, Germany benefited by a reduction in the cost of her purchases in the international market exactly equal to the depreciation of foreign exchange in terms of the mark. Since the rise in internal prices in the devaluing countries for a long time lagged behind the devaluatory rise in the number of units of foreign currency Germany could obtain for the Reichsmark, the benefit from maintenance of the mark at the old parity was real and considerable.

On the other hand, Germany suffered from the reverse corollary to the fall in the Reichsmark prices of foreign goods. For, while the price of imports to Germany fell, devaluation caused the price of German exports to rise, directly in the devaluing countries, and by comparison with the prices of *their* exports, in those countries whose currency was not depreciated. Devaluation abroad was thus one of the major causes of the stricture of German exports.

By 1935 virtually every country in the world had depreciated its currency in foreign exchange by approximately 40 per cent. Two courses remained open to Germany for the maintenance, without devaluing her currency, of the export trade on which she depended:

She could decrease her internal prices by deflation. This policy not only had been proved impossible in the period from 1931 during which it was attempted, but clashed with the internal measures of National Socialism's recovery plans. Indeed, internal prices rose steadily, even alarmingly, under the influence of Germany's rearmament boom.

Or, Germany could go on the "double standard." She chose the latter.

The "double standard," often called differential exchange depreciation, involved maintenance of the old exchange rate for the mark as far as imports and the foreign debt were concerned. Thus the advantages of not devaluing were retained. On the other hand, in order to prevent exports from being cut off, the prices to foreigners of German goods had to be decreased. For imports and internal circulation the mark was not devalued, for exports and circulation abroad the mark was devalued.

Not all German exports, however, were hit to the same degree by the reduction of export prices of foreign countries. For some, German industry held a quasi-monopolistic position on the basis of quality. And Germany had greater sway over the foreign trade of some countries than over the purchases of others, in consequence of custom, geographical proximity, and political influence. From the point of view of immediate gain, Germany stood to lose much if she reduced prices to every customer, on each of her exports, to the lowest common denominator required to maintain trade with all customers, for every export.

Monetary measures of devaluation would reduce export prices indiscriminately and automatically. Germany, therefore, applied other than monetary measures in the depreciation of the export side of her foreign exchange, discriminatory measures calculated to bring the greatest total return. She utilized to the fullest the marginal potentialities of each separate market, rather than lumping all markets into one.

The mechanism of the double standard in the first years was intimately linked to the partial moratorium on the German foreign debt, and operated at the expense of the foreign creditors. Limitations on the use of blocked marks issued to foreign creditors caused them to be sold abroad at discounts from 25–50 per cent, making the prices of German goods purchased with blocked marks that much cheaper to the foreign importer. Registermarks, the only form of blocked marks having value throughout the period, sold at market discounts of 30–40 per cent.[63] (The restrictions in later years, limiting use of Registermarks to payment of half the price of certain German exports, reduced the effective saving in importing to about 18 per cent.)

Germans unable to compete in world markets were given permission by the Government to purchase German bonds or blocked marks abroad, at the depreciated prices prevalent in foreign markets, with the devisen they obtained for their exports. The bonds and blocked marks were then brought home and sold or retired at the high official rates on the domestic market. The proceeds within Germany went to the German exporter in Reichsmarks as a subsidy of his sales abroad.

63. *New York Times*, 22 June 1934; 5 October 1934.

ASKI and clearing marks also depreciated abroad in consequence of the difficulties placed in the way of their use for purchase of German exports. The fall in their value in foreign countries, when not checked by special arrangements with the foreign governments concerned, was in direct proportion to the difference between German imports and German exports in trade with the particular country, i.e. between supply and demand of clearing and ASKI marks. This, in turn, developed from the relative attractiveness of the country's exports to Germany and of purchases from Germany to the country's importers. In 1936 the discount at which ASKI marks sold was 15 per cent in British India, 18 per cent in China, 25 per cent in Mexico, and up to 33 per cent in the United States.[64]

The double standard often came into existence without the intervention or even the desire of the German State, where the discount on export marks was limited by agreement to maintain nominal exchange rates made with foreign countries. Forstmann, a German economist, complains that:

> The foreign exporters increase the prices of the goods they sell Germany by a certain amount, in order to be able to grant a certain discount on the goods bought from Germany by the importers of their country. Thus in practice the "cheap" imports of raw materials have a singular appearance. The restitution of purchasing power parity, the execution of which (by devaluation) has been refused, is carried through by the rest of the world in its own way.[65]

As the resistance of foreign exporters to payment in ASKI and clearing marks grew, however, such methods became insufficient. Direct subsidization of German exports became imperative to maintain Germany's income from abroad. When first introduced in 1935 by Dr. Schacht, subsidization was "voluntary," similar in many respects to some of the practices of cartels under the Weimar Republic.[66] From 1936 on, *RM* 1,000 million a year was provided by a turnover tax on industry. In addition, the government added *RM* 100 million or more, raising the total subsidy to 1,200 million and the proportion to the total value of Germany's exports to 30 per cent in some years.

Since some exports did not require help, the average subsidy, in

64. Gayer, *op. cit.*, p. 220.
65. Forstmann, *op. cit.*, p. 239.
66. *New York Times*, 6 May 1935.

individual cases from 25–75 per cent, amounted to about 30 per cent.[67] In the export drive undertaken in 1939 the average subsidy on individual sales was raised to 40 per cent, equalizing completely the degree of foreign devaluation.[68] Indirect support of exporters, having the same effect as the granting of direct subsidies in reducing internal prices for export purposes, took the form of special credits granted by the Reichsbank and partial exemption from taxation.[69]

The application of the double standard is vividly seen in a comparison of internal and export prices for certain German goods:

(In *RM* per metric ton—end of 1938)[70]

	Export prices	*Internal prices*
Coal	11.43	14.00
Coke	17.40	22.00
Potash	43.06	50.60
Raw steel	87.63	110.00
Paper and paper pulp	153.80	211.00

The difference was paid out of the pockets of the German people, since the turnover tax on industry from which most of the subsidy came was shifted to the home consumers. But the scheme as such was of great benefit to Germany, compared with possible alternative actions. The equal direct loss to the rest of the world could hardly be protested by countries who found the weapon they had taken up—competitive devaluation—used against them with a skill greater than their own.

While preserving her monetary stability, the double standard reduced Germany's huge foreign debt by somewhat less than 40 per cent. The gain and loss in her foreign trade probably balanced approximately. Her imports were up to 40 per cent cheaper in Reichsmark terms than if she had devalued directly. From this saving must be subtracted the subsidy to exports, which found its way out of the German economy in the form of additional goods above what foreign countries paid for according to internal prices. The loss through subsidy amounted to only 20 per cent of total exports in the first years, rising to 30 per cent about 1937, and to the full 40 per cent of the possible gain from devalued foreign prices of imports only in 1939. The difference between the possible gain in imports and the actual loss in exports for the period as a whole, however, was probably wiped out by the rise in foreign prices and the premium which Germany had to pay to induce foreign purchasers and sellers to deal through her cumbersome controlled trading system, insofar as the adoption of that system was due to differential exchange depreciation.

67. *Neue Zuercher Zeitung* (Zürich), 31 May 1938. *New York Times*, 31 October 1938.

68. *New York Times*, 19 February 1939.

69. *Idem*, 13 February 1939; 2 March 1939. *Economist* (London), 19 May 1939, p. 370.

70. *Wirtschaftsdienst der Deutsche Informationen* (Paris), 4 February 1939.

The world as a whole, however, lost more than Germany gained by the double standard. The uncertainty and discrimination, the political pressure and dislocation of trade which were concomitant with the differential exchange system proved a potent force in retarding international recovery.

F. *Bilateralism*

The nemesis of international capitalism lies in the bilateral system. Bilateralism is essentially barter, the most primitive form of exchange. Carried to its ultimate development, it constricts trade between nations to the barest necessities. International capitalism is predicated on the utmost freedom and refinement of exchange, linking the world by the flow of goods and services. Bilateralism presses toward the development of state interference in productive relations, since the State becomes the medium through which exchange between countries is undertaken. International capitalism's major contribution was the full freedom it allowed to individual initiative.

Bilateral systems are founded on discrimination between nations. Granting discriminatory treatment to the exports of one country is tantamount to granting a monopoly on the market of the conceding country. International capitalism was based on the recognition of equal rights to the trade of all nations, and on the fullest possible competition between them.

When the free counterbalancing of economic forces in the price system of equilibrium, open to pressures of demand and supply from all directions, is replaced in the bilateral system by political forces, with only two pressures—State power on the two sides—there results a concentration of focus and a restriction of the channels of trade. The bilateral system, predicated on the equalization of purchases and sales between each country, allows no scope for the interchange of individual balances of trade, through which is made possible the full division of labor and the greatest exchange of goods. In trade with each country, the active balance disappears and the passive balance cannot be permitted. The total trade between two countries is reduced to the lowest common denominator of the least interested customer country or the least capable producer. Entangled as it is with political pressure, discrimination results in constant wrangling between the larger nations, with the smaller countries either shut out completely, or included on suffrance under the domination of the more powerful.

Germany's bilateral trade nevertheless seemed to offer to countries faced with the problem of surplus production the hope of a partial solution of their difficulties. Germany promised in her overtures for bilateral trade treaties "stable prices and guaranteed volume." She promised to buy more than before and repay, if not in free exchange, at least in goods. She emphasized that the volume of her imports from any country depended on the willingness of that country to buy from her. "Germany buys from her customers," she stressed, with every means of propaganda at her command, varying the appeal from country to country to play on national interests: "Buying from Germany means selling Canadian goods," "Germany buys half the Greek tobacco crop," etc.[71]

One of the most significant effects of the German system was the impetus given by it to the introduction of totalitarian principles of economics in other countries. Germany found it difficult to deal in import and export quota terms with countries operating under a free economy, yet the foundations of bilateralism and her planned economy drove inexorably to the need for assurance of a definite market and a definite supply. The contagion principle, by which the internal controls she established brought the need for more internal controls, operated in her international economic relations as well. Dr. Raimund Koehler, President of the Leipzig Fair Association, admitted this openly in 1935 when he said:

> Not only Germany, with her new plan, but all other countries, are on the way to revolutionize their foreign trade. The idea of the most-favored nation clause, which ruled world trade for years, has been replaced by the principle of reciprocity. Agreements over the quantities and price of goods to be purchased have been arranged.
>
> As the responsible agent for such agreements, official bureaus of the State come more into the foreground. The prerequisites for signature of such agreements is far-reaching control over the economy of the various nations by their respective governments.[72]

71. *Deutsche Volkswirtschaft*, 1 July 1939, p. 722.

Indeed, nations with more or less close economic ties to Germany were forced to adopt the bilateral policy in self-protection. They had to concentrate their bargaining power to prevent exclusion from all trade with Germany by the preferences granted their competitors. And, as the proportion of international trade under State control grew, the adjustment under the traditional monetary mechanism became ever more insupportable for those States still allowing freedom of movement for goods and gold,[73] still adhering to international capitalism. All the strains in the international economy, all the unsaleable surpluses and all the unpaid-for deficits were poured into the laps of the free economic areas in the form of dumping, reduction of trade, and inability of former customers to find foreign exchange.

Increasingly, the bilateral nature of Germany's foreign economic relations, imposed by the intervention of the State in the processes of trade, led to further intervention of the State. Most of Germany's exports came directly under the control of the Government, to avoid underbidding of Germans by other Germans, and to utilize to the utmost the bargaining power of monopoly in her foreign trade.[74] By 1938 the Ueberwachungsstelle and semi-official commercial organizations had begun directly importing and exporting for the account of private business in Germany as well as for the government, usurping the functions of the private trading firms. In addition, some private exporters were given monopolies on German trade with certain countries, to the exclusion of former competitors.[75]

Most textile machinery exporters, for example, were united in the "Vereinigung Deutscher Textilmaschinenfabriken 'Comifex,'" while the majority of German imports of grain were made through the semi-official "Agrarimport G.m.b.H.," dealing particularly with State export monopolies of the Balkan area through branches in Zurich, Belgrade, Bucharest, and Rotterdam. Cotton importers of Bremen were combined in the "'Brebag' Bremer Baumwoll A.G."[76]

72. *New York Times*, 4 March 1935.

73. Gottfried Haberler and Stephan Verosta, *Liberale und Planwirtschaftliche Handelspolitik* (Berlin, 1934), pp. 107–108.

74. *New York Times*, 19 February 1939.

75. *Frankfurter Zeitung*, 25 December 1938.

76. *Neue Zuercher Zeitung*, 2 March 1939. *Deutsche Volkswirt*, 10 March 1939.

The extension of pure bilateralism was limited by Germany's absorption capacity for staples. Conclusion of a barter arrangement for Brazilian coffee could fill the needs of Germany's domestic market to the exclusion of trade with Colombia. Yet by the nature of bilateralism, Germany could sell to a country only by buying directly from that country.

In attempting to find some substitute for the triangular feature of laissez-faire economy Germany proceeded to enter into agreements with countries having large surpluses of international staples, particularly in the Balkans and Latin America, to purchase a large part of their exportable crops against ASKI or clearing marks, at first paying prices somewhat above the world level. She then dumped the excess on the world market, at a price below that she paid, to obtain free exchange with which to carry out triangular purchases. The result was that the country engaging in the agreement could not sell the remainder of its production, became dependent on Germany as its only buyer in the succeeding year, and was forced to sell to Germany (in real price terms) at or near the artificially low level to which the world price was depressed by the German action. No longer able to obtain foreign exchange for its products, it became unable to purchase from any country but Germany, and its economic encirclement thus became an inescapable reality. Brazil and Colombia, dependent on their one cash crop—coffee—fell victim to this method to such an extent that their ability to import from the United States was seriously impaired.[77]

This was one aspect of the economic war with which National Socialism fought the multilateral system of international capitalism, and the most striking proof of the chimeric nature of the professions of a new order of justice in international trade promised by the more emotional adherents of bilateralism. Bilateralism, in the long run, results either in the ascendancy of one party as the concentrated source of the directive energy without which the system cannot run, or in its self-destruction by the uncontrolled centrifugal elements of opposing sovereign self-interests. In the case of Germany, it took the former path.

The other weapon of economic war was political pressure. By her discriminatory system, Germany played class against class within each country, country against country, and, in the last analysis, pitted her

77. *New York Times*, 2 December 1938; 21 March 1939. *New York Herald Tribune*, 15 April 1939.

united political strength against the divided world economy. No nation developed to such a high degree the art of appealing to separate interests, of using foreign pressure groups to its own advantage.

The first influential group to come under the influence of the German economic machine were the creditors of Germany. They were informed by Dr. Schacht that "We want to pay, but your governments must not hinder us," and that creditors were the only ones who could further "the campaign in your countries so markets will be opened to Germany," permitting repayment of their frozen credits.[78] Pressure was put on foreign banks, particularly British and American, to act as agents for German export in order to realize something on their assets in Germany.[79] For similar reasons the Rotterdam Chamber of Commerce in 1934 appealed to its members to buy more German goods and sell less to Germany, to ensure continuance of repayment through the creation of a large passive balance in German trade with Holland.[80] The appeal lost its effectiveness as Germany reduced her total foreign indebtedness, and as the hope of eventual repayment in foreign exchange in anything approaching full measure declined, yet reports of the renewal of the pressure on creditors persisted into 1939.[81]

Industry was turned against industry, farmer bloc against manufacturing bloc. Thus, the Lancashire Cotton Corporation, a British trade association, circularized buyers of certain goods in which German and British industry competed, offering to act as the importer from Germany and arguing that:

> Purchases made possible are solely intended for the purpose of increasing exports of cotton textiles to Germany. Being large producers, we are desirous from an employment point of view to cultivate a means of greater exports.[82]

78. *Journal of Commerce*, 30 October 1934.

79. Joint Boycott Council files. The Joint Boycott Council has been active in boycotting Germany since the advent of Hitlerism. Certain material from its files, some of it of a confidential nature, has been made available to me. My personal acquaintance with most of the sources (my father, Dr. Joseph Tenenbaum, was its Chairman) leads me to believe that much of the material is of a nature deserving credence. The files are at present in the New York Public Library, but will not be available for the general public in the near future.

80. *New York Times*, 2 December 1938; 21 March 1939. *New York Herald Tribune*, 15 April 1939.

81. *Economist*, 18 February 1939, p. 341.

82. *Manchester Guardian*, 8 February 1939.

Direct political pressure proved most fruitful in relations with the small states bordering on Germany to the Southeast. This was the German Lebensraum (living space), in the words of Dr. Darré, Minister of Agriculture, the German "hunting preserve."[83] Dr. Darré pointed to the example of the Hanseatic League, which ". . . had its own market, in a specifically delimited region to which it sold through its own establishments, which it held under strict and thorough control, and defended against every encroachment from other groups, if necessary by force."

To a lesser extent South America, and to some extent all countries, were considered by Germany according to the same conception of the role of politics in economics. The methods and results of political and economic pressure in German relations with some of the countries of the world, the record of the Nazi foreign trade system in action, will be the subject of the next section of this essay. Limitations of space and time have made it impossible to deal with more than a selection of countries representing important aspects of the Nazi system.

83. Address to the Munich meeting of the Commission for Economic Policy of the NSDAP, 26 January 1939, *Zukunft* (Paris), February 1939.

ECONOMICS AND POLITICS: NAZI BILATERALISM IN ACTION

I

CENTRAL AND SOUTHEASTERN EUROPE— THE *DRANG NACH OSTEN*

A. *Troubled Waters*

WHAT Nazi Germany seeks through trade appears most clearly in her relations with Central and Southeastern Europe. There Germany gained the power to act as she wished, and did so. If and when National Socialism again is in a position to undertake the conquest of similar commercial power, it will be done in the same way. If and when National Socialism gains similar power elsewhere, the same results can be expected.

As a whole, Southeastern Europe was primarily agricultural. While Austria and Czechoslovakia in Central Europe were important industrial States, they were deeply involved in the destiny of agriculture in the Danube, politically because of their dependence on the region as a whole, economically because their manufactured goods remained largely dependent for a market on their neighbors.

Southeastern Europe suffered heavily from the long-term trend to the expansion of foodstuff production in the overseas granaries of the Americas and Australia. Particularly in the East, the region was culturally backward, partly as a result of centuries of alien rule under the Turks and Hapsburgs, but largely because of the ever-present poverty of its peoples. The cultural lag, in turn, prevented the development of modern industry and more productive forms of agriculture, which might have given the countries more equal political and economic strength.

Economic problems presented themselves to the States of Southeastern Europe with the urgency of survival itself. So great was the size of populations in comparison to the productive resources available to sustain them, so narrow was the margin between the normal standard of living of the peasantry and the lowest level of subsistence, that a decline in prosperity brought the prospect of immediate social upheaval. Compared to a population density of 36.6 per hectare in Denmark, the wealthiest predominantly agricultural State in Europe, the population per hectare of arable land in Southeastern European countries was:

Hungary	80
Rumania	100
Slovakia	117
Yugoslavia	160
Turkey	160
Bulgaria	180
Greece	270[1]

Except in Greece and Austria, there was little danger of actual starvation from the shrinkage of trade. On the contrary, tremendous surpluses of agricultural products were piled up from 1929 on. But the most elementary requirements of modern life, from textiles for clothing to lumber for shelter, from medicines to means of transportation, were imported by the agricultural States, while the income of great sections of the population depended on the export of staple crops.

The long-term difficulties of the region were aggravated by the wave of nationalism evoked by the Treaty of Versailles and its consequences. The break-up of the Austro-Hungarian Empire left open sores in the post-war political constellation of Southeastern Europe, Southeastern Europe split into mutually antagonistic non-viable fractional states, unable individually to maintain the integrity of the whole.

Frantic efforts at economic protection were made throughout the region, directed at industrial self-sufficiency as a military measure and as a means of satisfying national pride, as well as at problems of unemployment and social distress. Thus Austria found her outlets for textile manufactures cut by Yugoslavia's attempt to build up its home industry, while Yugoslavia's market for pigs in Austria was decimated by Austria's attempt to increase her own agricultural production.

The world depression of 1929 had a devastating effect on Southeastern Europe. Foodstuff prices fell by as much as two-thirds, while the cost of industrial imports fell only about one-third. Even at these low prices huge agricultural surpluses developed, in part because of the ingrained tendency of agriculturalists to produce more when

1. Hans Zeck, *Die deutsche Wirtschaft und Südosteuropa* (Leipzig and Berlin, 1939), p. 29.

prices fall in order to maintain income, and partly because many Danubian products were not competitive on world markets at *any* price. Many of the exports of the region were ungraded or substandard in quality as a result of the backwardness of the marketing and agricultural systems of the countries. The surpluses produced an almost irresistible pressure on the governments of Southeastern Europe to export on any terms, since agriculture was politically and numerically the most important element in their countries.

In 1932, after exports had fallen off, service due on the foreign debt of the various countries amounted to the following percentages of their total exports:[2]

	Per cent
Hungary	48
Rumania	28
Yugoslavia	29
Greece	49
Bulgaria	16

The governments of Southeastern Europe felt it imperative (a) to increase internal money prices, which depended largely on export prices, and (b) to reduce, somehow, the burden of external debt. Devaluation, however, could not be considered, because in Southeastern Europe as in Germany the memory of post-war inflations still rankled in the consciousness of the populace. As in Germany, therefore, and even before Germany, the countries of Southeastern Europe were forced to impose exchange control. As in Germany, cause, symptoms, and nostrum were products of the same world-wide economic disease.

Perhaps the first clearing agreements in the post-war world were initiated by Czechoslovakia in 1930, followed soon after by Hungary.[3] At a conference of the Central Banks of the region in November 1931 the clearing system was recognized at the instance of Austria as a regular means of trade in the Danube basin, and the Republic of Germany was induced to enter into this type of agreement as a means of keeping some semblance of her normal trade moving despite exchange restrictions.[4]

But instead of solving Southeastern Europe's problems, exchange

2. *Idem*, p. 27.
3. *Economist* (London), 4 August 1934, p. 225.
4. Hans Staudinger, "The Future of Totalitarian Barter Trade," *Social Research*, Vol. VIII (New York, 1940), p. 413.

control and clearing agreements created new ones. The cumbersome nature of bilateral trade contributed in no small measure to the continued shrinkage of international commerce in the region, while the resolve of the governments to hold their currencies at the old parity to gold threw upon them the strain of meeting the decline in world prices in *gold* caused by devaluation of the sterling and dollar blocs.

Here in the traditional storm-center of Europe were troubled waters indeed. The National Socialists of Germany, who specialize in fishing in troubled waters, were quick to take advantage of them. . . .

To Nazi Germany, Southeastern Europe was at first significant as a region susceptible to the successful working of the emergency foreign trade measures of 1933 and 1934. Southeastern Europe was willing to accept barter, discrimination, dumping, and all the uncertainties and inconveniences of the first year and a half of Nazi foreign trade, because Southeastern Europe was already operating under an equally crude bilateral system, and needed markets as much as Germany needed sources of supply.

Later, when difficulties arose in their trade with Germany the Reich held a trump card which the countries of Southeastern Europe could not ignore. The peasant of Southeastern Europe understood nothing of international trade, particularly in the fantastically complex forms adopted under bilateralism. To him, one fact prevailed against all other considerations. Germany was offering high prices for his goods, which meant more money for him. He had never heard of the concept of purchasing power. Nazi Germany's economic leaders, some of whom had, made much of his ignorance.

Under the pressure of mounting internal needs and shrinking trade with other regions, Germany's purchases from Southeastern Europe rose so fast that large debts were created through the clearing agreements. These Germany later used as a lever for economic and political bargaining, threatening or actually refusing to redeem her clearing debts in goods, except under special conditions which became progressively more unfavorable to the unwilling creditors. Or, as one German source so euphemistically put it:

Where Germany increased her purchases from individual countries having clearing agreements and exchange control, their willingness to favor imports from Germany in return was thus increased. This connection is especially clear in our trade with Southeastern Europe. . . . Through the active balances built up in favor of these countries in the Clearing Account of the German Reichsbank, the receptiveness (Aufnahmebereitschaft) of these markets for German goods was increased.[5]

The clearing debts run up by Germany were by no means indications of a normal tendency toward passive balances of trade with the region. Previous to 1933, Germany's accounts in the Danube had historically been on the other side of the ledger. Except for small import surpluses in her trade with Bulgaria, Germany had almost constantly sold more than she bought in Southeastern Europe.[6]

The development of the German trade drive was favorably affected by the institution of government trading monopolies in the countries of Southeastern Europe, created especially to deal with the agricultural surpluses. The official trading monopolies and exchange control schemes adopted by the governments of the region made it possible for Germany to enter into long-term bilateral commitments with the assurance that the governments of Southeastern Europe could be held responsible for their fulfillment. Germany, whose foreign trade was under complete government control, benefited from the economic law governing bargaining between two monopolies, which gives to the trader in the strongest economic and political position indeterminate advantages likely to be limited only by its own desires and its own relative strength. Trading between two individuals or two monopolies, where no independent market evaluatory mechanism exists, becomes always a question of which side can exercise the most noneconomic pressure on the other.

That Germany held the upper hand is evident from trade statistics alone:

Exports of Southeastern European Countries to Germany in 1937[7]

Country	*Per cent of total exports of the country*	*Per cent of total German imports from all countries*
Bulgaria	47	1
Greece	37	1
Hungary	41	3
Yugoslavia	35	3
Rumania	27	4

5. *Weltwirtschaftliches Archiv*, 48. Band (Kiel, 1938), p. 152.
6. *Idem*, 39. Band, p. 276.
7. *Social Research*, Vol. VI, p. 33.

Thus Rumania, which was in the strongest bargaining position of all, could only threaten to deprive Germany of one twenty-fifth of her foreign source of supply, while Germany could, and did, threaten Rumania with the immediate loss of over one-fourth of her exports.

Part of Germany's preponderance in the foreign trade of Southeastern Europe came from her position of natural and geographic advantage in economic relations with the area. The increasing share of Danubian trade obtained by Germany, however, cannot be accounted for solely or even largely in terms of natural advantages. The natural advantages have always existed, yet only under National Socialism did the natural inclination become an overwhelming force.

Not without resistance from the countries concerned, Germany's debtor diplomacy through the clearing agreements resulted in remarkable progress toward the economic conquest of Southeastern Europe. The Battle of Clearings, however, ended in 1937 and 1938, when virtually every country in Southeastern Europe had taken steps to prevent Germany from creating new clearing debts, and had sought to turn their trade back to the free exchange areas of the world. Then began the more sinister Battle of Cold Invasion, the Anschluss of Austria and the engulfment of Czechoslovakia, creating for Germany at last the political prerequisites for the dream of Lebensraum. Into these two phases the story of Southeastern Europe naturally divides.

B. *Grossraumwirtschaft*

In 1937 Germany reached the turning point. Internally, expansion was at an end. But in the dynamic political system of Nazism, movement could not end. Expansion had to continue. From 1937 on it could continue only outwards.

Two objectives presented themselves with inexorable logic, fundamental to the system itself. The first was immediate: the pressure of the expansive forces had to be relieved, the gap had to be closed between internal resources which could no longer be expanded and internal demand which continued to mount under the stimulus of war preparations.

The second was long-term: Germany's natural wealth was insufficient for the conduct of a long mechanized war, while her limited naval power could not assure access to overseas raw materials. Yet war had to be reckoned with. If not inevitable, war was at least something avoidable only by bluff backed up by complete war potential. Germany required some measure of freedom from blockade, not only in case of blockade, but also to make blockade seem useless to the powers capable of maintaining it.

The first objective, solution of the immediate economic problem, was fulfilled in a way which laid the foundation for the attainment of the second. Anschluss and Munich brought a temporary flow of resources (especially gold), and at the same time prepared the ground for the creation of an economic "living space" in blockade-proof Southeastern Europe.

But Germany's long-term objective was not the gold or the industry of her immediate neighbors. There was a kind of diminishing return involved in the capturing of gold reserves, since each new conquest added a permanent burden to the German balance of payments. Besides, Germany needed raw materials far more than she needed additional manufacturing capacity.

Raw materials lay to the southeast, enough raw materials and foodstuffs to give Germany a chance of withstanding blockade, if access to them were once assured. About 20 per cent of Germany's raw material imports could have been provided by Southeastern Europe merely on the basis of a German monopoly of regular exports. Known resources which were not exploited at the time were capable of supplying a large part of Germany's other needs.[8]

But in order to secure for herself the greatest possible supply of the strategic materials which Southeastern Europe could produce, Germany required political control over the individual countries. Coordinated efforts for the encouragement of production were needed, efforts which could succeed only with the closest cooperation from the governments of the Danube region. Long-term plans had to be laid down, communications had to be improved, while the disturbing influence of purchases by free-market countries had to be excluded.

By 1937 it was no longer possible for her to accomplish this by purely economic means. Indeed, Germany had little conscious intention of doing so previous to that time. But after 1937, when Germany turned her economy into full mobilization for war, uninterrupted supply of raw materials in time of war became a paramount objective. The partial recovery of world trade and the unhappy memory of previous

8. *Economist*, 5 November 1938, p. 265.

deals with the Reich, however, made the countries of Southeastern Europe ever more unwilling to tie themselves to the Reich.

Whatever the natural advantages Germany had in trade with the Danube area, however "complementary" her industry might be in commerce with the predominantly agricultural economy to the southeast, Germany could not supply the tropical goods which Southeastern Europe needed, Germany would not supply on acceptably free terms the capital required by the region, and Germany did not conceal the political menace of Nazism to its independence. Already the countries of Southeastern Europe, largely as a result of the increasing share of their exports which went to Germany, were hard pressed to keep up necessary purchases of rubber, cotton, petroleum, coffee, and vegetable oils from free markets, were finding impossible the restoration of free exchanges prerequisite to renewed loans from the West, and were beginning to fear German rearmament and propaganda as threats to their sovereignty.

Already she had been forced to sell them some colonial goods such as cotton and wool through the clearing agreements, in order to keep them from breaking away, though she was able to charge high prices for such sales.[9] Rumania had even demanded and received goods from Italy through the Rumanian-German clearing (bought by the Reich with the Italian clearing debt to Germany).[10] Grossraumwirtschaft was not a natural structure. Virtually every country in Southeastern Europe had begun to oppose the idea that the sole purpose of their foreign trade was to supply German needs.

The Anschluss of Austria and the Municheering of Czechoslovakia made continued resistance to the Nazi advance possible only at the risk of undergoing similar conquest. The partition of Czechoslovakia brought Hungary irrevocably into the Axis camp, making Rumania next on the list. The economic, later military occupation of Rumania placed Bulgaria within reach of the German armies, thus encircling Yugoslavia and Greece. Long before the German armies began to move, economic and political pressures were at work preparing the ground.

The centrally directed nature of National Socialist foreign trade resulted from the beginning in an unconscious adaptation to German

9. Stephan Vassiliev, *L'Allemagne et le commerce extérieure des états balkaniques* (Paris, 1939), p. 58.
10. *Economist*, 31 October 1936, p. 217.

needs of those countries dealing with Germany on her terms. The deliberate policy of Grossraumwirtschaft, later, followed over a path which had been laid down automatically by economic forces, working themselves out under the direction of political conditioning by German needs rather than of an abstract price system.

Vassalage to Germany came in the form of German support against the external pressure of competitive world markets, in the form of German help in avoiding painful readjustments. Germany offered higher prices when world markets demanded a fall, and kept substandard agricultural production alive though its produce was unfit for sale to the free markets. Soya beans grew in Hungary, Bulgaria, and Rumania, bauxite production was developed in Hungary and Yugoslavia, oil prospecting was undertaken in Rumania, magnesite ore was mined in Yugoslavia.[11]

The Anschluss put Germany in the Danube basin, for the first time since 1918. Austria, formerly the funnel through which Southeastern Europe communicated with the West, became the Ostmark, the East frontier colony of Germany. The Reich gained at one swoop an important part of the network of transportation and trade through which the Danube gained access to the rest of Europe. Germany placed a naval flotilla on the Danube and began the construction of a network of canals to draw the trade of the river into the Reich.[12]

The Munich Agreement destroyed not only the bulwark of the Little Entente, but also all the hopes of the region for support from the "collective security" of England and France. Only a few days after Munich Colonel Beck, the Polish dictator, blossomed forth as a popular hero. Dr. Stoyadinovich, the pro-Axis Premier of Yugoslavia, felt powerful enough to call for a new election, which had been put off because of the strength of the pro-Ally democratic opposition. Repercussions of Munich were felt as far away as Palestine, where Arab rioting broke out, and China, where the Japanese felt safe in moving into the British sphere of influence around Hongkong. Russia, too, showed signs of uneasiness at the strange attitude of her capitalist bedfellows.[13]

During and after the Munich crisis, Dr. Funk made a quick trip to Belgrade, Ankara, and Sofia, while German economic negotiators re-

11. Norbert Muhlen, *Schacht, Hitler's Magician* (New York, 1939), p. 135.
12. *Economist*, 14 May 1938, p. 355.
13. *Idem*, 15 October 1938, p. 102.

newed their pressure in every capital of the Danube region.[14] The rising German proportion in the trade of Southeastern Europe increased by the simple addition of trade of Austria and Czechoslovakia to the Reich's share. Very important was the part which Czechoslovakia had played in the rearmament of Rumania and Yugoslavia. The Skoda works and other Czech industrial firms supplied much of the military requirements of the Little Entente. This source of supply now came under German control, while a shifting of purchases to other countries was difficult if not impossible in the face of the adoption of Czech calibers and design in the Yugoslav and Rumanian armies.

Through the use of her political power, Germany was able to demand monopolistic control over the foreign trade of her Danube neighbors, and the linking of their currencies to the Reichsmark by agreement on exchange rates. Pro-Germans were foisted on the commercial ministries of Southeastern Europe with the help of the German propaganda apparatus.[15]

Germany had, or was in the process of obtaining (see below) her Lebensraum. It was the gift of world appeasement.

C. *In Order of Their Disappearance*

1. Austria

The Austrian Government was faced from the beginning of the Hitler regime with the problem of preventing the spread of Nazism. Close cultural relations with Germany (one of the largest Austrian imports from Germany was books and newspapers) and a strong native Grossdeutsch or Anschluss party aided the growth of the Austrian Nazis, who were heavily subsidized by their German brothers. Austria felt compelled to introduce repressive measures against a movement whose avowed aim was the revolutionary destruction of the sovereignty of the State.

Germany retaliated in May 1933 by the imposition of a tax of 1,000 marks on travelers to Austria, which made pleasure trips virtually impossible. The measure was designed to destroy the important Austrian tourist industry, which was largely dependent on German vacationists. (German tourists spent 28 million Austrian *schillings* in 1932 alone.) It was followed by an inspired campaign of Nazi rioting and

14. *Idem.*
15. Elizabeth Wiskemann, *Prologue to War* (New York, 1940), p. 320.

virtual civil war in the Austrian tourist regions, aimed at frightening away tourists from the Western countries as well.[16]

German tourists had been particularly important to the Kärnten and Steiermark provinces, including the Tyrol, Vorarlberg, and Salzburg, where they had numbered 80–100 per cent of the total visitors to many towns.[17] The small *pensions* of the region, with the peasants who supplied them with foodstuffs, were faced with ruin. It was no mere coincidence that these were the very regions where the strength of the Nazis among the Austrian peasantry grew greatest.[18]

In 1934 Austria obtained valuable political and economic support from Italy through the Rome Protocols as Mussolini sought to create a Danubian barrier to the southward thrust of the Reich.[19] But the Rome Protocols arrangement lost most of its value for Austria by 1936. The attempt to build up unity between Austria, Hungary, and Italy went counter to strong economic forces, while the strain placed on the economic system of Italy by the Ethiopian war resulted, in July 1936, in the revocation without warning of the import permit preferences granted to Austria.[20] Austria, which had been promised a favorable balance in her trade with Italy, ended up with a clearing balance of 60 million schillings blocked in Italy.[21]

The course of Austria's goods trade with Germany was even more troubled, made worse by the political tension between the two countries. By the end of 1934, the frozen "favorable" balance of Austria's trade with Germany (German debt to Austria), became so great that Austrian industry was warned by the banks to cease selling to Germany.[22] A clearing agreement was made with the Reich early in 1935, in the hope that normal trade relations could be partially restored on a bilateral basis.

To sustain heavy German purchases of agricultural products, Austria had to agree to divert an increasing proportion of her import orders to Germany in the form of "supplementary compensation" or barter outside the clearing agreement, particularly for coal. The decision to do so was made easier by the passive balances existing in Aus-

16. *Economist*, 17 June 1933, pp. 1269, 1304; 3 June 1933, p. 1182.
17. *Idem*, 12 August 1933, p. 323.
18. Martin Fuchs, *Showdown in Vienna* (New York, 1939), pp. 25, 78.
19. *Economist*, 10 February 1934, p. 298; 24 March 1934, p. 622; 31 March 1934, p. 698; 25 August 1934, p. 349.
20. *Idem*, 25 July 1936, p. 165.
21. *Idem*, 17 January 1936, p. 176.
22. *Idem*, 1 December 1934, p. 1034.

tria's trade with Poland and Czechoslovakia, the chief alternative sources of supply of coal and certain industrial goods.[23] Austria decreased her purchases of Polish coal by 100,000 tons in 1935–36 in order to have a concession available to offer Germany in barter negotiations.[24] By shrewd maneuvering, Germany thus succeeded in widening the economic breach between Austria and her Slav neighbors, while tying Austrian foreign trade closer to herself.

Conversely, Germany's trade drive in other Danubian countries seriously limited Austria's trade prospects and played a large part in arresting the improvement of Austrian foreign trade which took place up to 1936.[25] Nevertheless, Austrian recovery made it possible for her to remove virtually all exchange restrictions after official devaluation of the schilling in 1936 (the possibility of which, in itself, was a sign of the Austrian people's confidence in the country's financial system).

Austria's increasing internal political difficulties with the Nazi movement were partly traceable to the large elements of direct German control over her economy. The Austrian publishing and motion picture industries were forced to conform to a minimum standard of sympathy for Nazism by their dependence on sales to Germany.[26] The Alpine Montan-Gesellschaft, the largest concern in Austria, was in the hands of the German Vereinigte Stahlwerke. After the Nazi putsch of 1934, the Austrian Government took over supervision of the election of the managing directorate because of the refusal by the company of Yugoslav and Rumanian orders, which was intended to divert export trade to Germany and away from Austria.[27] The Vorarlberger Spinnereien, an important textile firm, as well as a host of other companies, were also under the control of German investors, who used their ownership to influence their employees against the Austrian Government.[28]

As in other countries where she exercised some measure of control, Germany made sure that Austrian sales agencies of her firms were placed in fully sympathetic hands.[29] She then demanded virtual extra-territorial rights for her regular business representatives in Austria,

23. *Idem*, 17 July 1935, p. 71; 28 September 1935, p. 609.
24. *Idem*, 25 July 1936.
25. *Idem*, 27 June 1936, p. 727.
26. Fuchs, *op. cit.*, pp. 53–54.
27. *Economist*, 1 May 1937, p. 275.
28. Fuchs, *op. cit.*, p. 220.
29. See list of German firms employing Jewish representatives in Austria, published as a rebuke by the *Essener Nationalzeitung*, 11 June 1937.

and made use of them as a front for subversive activities. The Deutsche Teerfarben- und Chemikalien-Handels A. G. (German Dye and Chemical Trading Corp.), a sales subsidiary of I. G. Farben, became one of the centers for the distribution of the German subsidies to the illegal Austrian Nazi Party. After the assassination of Chancellor Dollfuss in 1934, a Doctor Neubacher became director of the firm (soon after his release from police custody), and continued to act as paymaster for the Nazi underground until the Anschluss. He was then rewarded for his services by appointment as Mayor of Vienna.[30]

At the beginning of 1938, Germany experienced great difficulties in her economic relations with Austria, while finding unexpected resistance to her political demands. The decrease in Austria's purchases of chemicals and machinery endangered the regular flow of timber to Germany,[31] while Austria refused Germany's demand for new barter deals despite the stirring up of her peasantry against the Government's trade policy by Nazi propagandists. Dr. Schuschnigg, the Austrian Chancellor, was willing to give in on minor points, but steadfastly refused to entertain Germany's repeated proposals of linking Austrian economy to the Reich.[32] A direct German offer of Southern Bohemia up to Budovice (Budweiser) as a reward for joining in an attack on Czechoslovakia was refused by Schuschnigg,[33] as was the demand that imports of coal from Poland and Czechoslovakia be halted to make way for an expansion of Austrian trade with Germany, and incidentally for the economic isolation of Austria.[34]

In the middle of January, 1938, Goering is supposed to have told a German industrialist that:

> It is essential that Austria be drawn into the Four-Year Plan. We cannot do without Austrian timber and Austrian ore. But we have not got the necessary cash to pay for these in Schillings as Herr Schuschnigg and Herr Kienboeck (Director of the Austrian National Bank) wish. So by the end of March at the latest another solution must be found which gives us the right to the Austrian mines and forests.

Such, at least, was the information supposed to have been received by the Austrian Government.[35]

On 12 March 1938 Austria was forcibly annexed to the Third Reich.

30. Fuchs, *op. cit.*, p. 53.
31. *Economist*, 26 February 1938, p. 441.
32. Fuchs, *op. cit.*, pp. 70 ff.
33. *Idem*, p. 99.
34. *Economist*, 4 May 1938, p. 355.
35. Fuchs, *op. cit.*, p. 161.

2. Czechoslovakia

The general forces restricting trade in the Danube area after 1929 did not leave Czechoslovakia unscathed. When her favorable balances in trade with countries to the Southeast were destroyed by the drying up of *their* active balances in trade with the West, Czechoslovakia sought to cut down her passive obligations to the West.

The result was a short-lived payments war with Germany, beginning in the Spring of 1933. After Czechoslovakia threatened to stop payment on the excess of her imports from Germany over her exports to Germany, the Third Reich froze the commercial payments due to Czechoslovakia, and cut tourist traffic.[36] The impasse was settled by a victory for Czechoslovakia, when Germany was induced to sign a Clearing Agreement for balanced bilateral trade, on 8 May 1933.[37] The initiative for clearing, it will be noted, came not from Nazi Germany but from Czechoslovakia. Germany was interested in spreading the clearing system only when she owed others for an unfavorable balance of trade, and Germany at the time had not found out in practice the many possibilities offered by clearing for waging economic warfare against those who agreed to it.

Czechoslovakia soon found that Germany was beginning to misuse the agreement to buy up in Czech markets overseas raw materials which had been bought with free exchange out of Czechoslovakia's own limited resources.[38] The Czechoslovak Government was particularly irritated by Germany's concentration of orders on raw materials and semi-manufactured goods, to the exclusion of Czechoslovakia's exports of manufactures. On 20 November 1934, Czechoslovakia obtained a supplementary protocol to the Clearing Agreement, requiring Germany to take a reasonable proportion of manufactured goods in her total purchases, and forbidding the purchase of goods which Czechoslovakia herself had imported.[39]

An extraordinary increase in Czech exports to Germany resulted in the piling up of a large "favorable" balance frozen in Germany. This German clearing debt to Czechoslovakia amounted to:

36. *Economist*, 25 March 1933, pp. 638–639.
37. *Idem*, 27 May 1933, p. 1136.
38. *Idem*, 10 February 1935, p. 362.
39. League of Nations Publications 1935 II B 6, *Enquiry into Clearing Agreements* (Geneva, 1935), p. 113.

(In *RM*, 000,000 omitted)[40]

Year	1934	1935			1936		1937		1938
Month	XII	III	VI	XII	VI	XII	VI	XII	II
Amount	30	34	34	33	26	9	8	20	24

In addition, about *RM* 20 million of Czech capital was normally employed in granting ordinary export credits to Germany.

Numerous attempts were made by Czechoslovakia, acting alone or through the Little Entente, to rally the Danube against German political or economic expansion. The Hodza Plan, in particular, showed promise of an eventual solution of the problem of Danubian Federation, but was shattered by the German invasion of Austria. The Anschluss also placed Czechoslovakia in a perilous position by cutting off the only reasonably direct route to the West. Internally the rise of the Henlein movement among her German minority would have provided no insuperable difficulties, if Germany had not intervened. But Germany did intervene, continuously and increasingly.

With industry in a permanent state of depression, and great unemployment, the region seethed with discontent.[41] Only after the rise of Hitler to power in Germany provided an example and a source of material support, however, did this find expression in a manner dangerous to the Czechoslovak State.

Friction in Czechoslovakia's economic relations with Germany came to a head on 28 May 1938, when Germany suddenly refused to continue negotiations for a new trade treaty, which had been made necessary by the Anschluss.[42] The reason for the breakdown was obviously political, for it came simultaneously with a sudden flare-up of the Sudeten question, both in Czechoslovakia and in the German press. At the end of September 1938, the crisis was ended. With the help of Czechoslovakia's sworn allies, the Munich Agreement solved the German minority question by giving Germany control over Czechoslovakia.

3. Hungary

Internally, Hungary more than any other Danubian power was under pressure from her hungry peasantry. Unlike the other Danubian

40. *Economist*, 3 December 1938, p. 485.
41. *Economist*, 13 August 1938, p. 316.
42. *Economist*, 4 June 1938, p. 536.

countries, Hungary had undertaken no land reform measures after the war; she remained a country of huge feudal estates, while a million peasants were without land, and two million held only small plots barely sufficient to provide the elements of life.[43]

The protected market area of 50 million people which she had enjoyed under the Dual Monarchy was destroyed by self-determination, while emigration, previously a safety valve for the excess population, was cut off by post-war restrictions. When the world depression intensified these difficulties, the competition of the large estates, which were better able to adjust themselves to falling prices, tended to squeeze out the small peasantry.[44] The social problem of concentration of landholdings, which had poisoned Magyar political life from the outset, became an immediate and unavoidable issue.

After breaking off commercial relations with Czechoslovakia in 1930 as the result of the latter's policy of protection for home agriculture, Hungary turned to Germany for a market for her wheat.[45] Dependent on Germany for a large part of her sales of agricultural goods, Hungary was seriously injured during the first few months of the Nazi regime by the introduction of prohibitive German tariffs on foodstuffs and by trade-destroying political tension on both sides.[46] A new clearing agreement was signed to obviate these difficulties, and in August Germany negotiated a barter accord by which she promised to purchase all available Hungarian fruits and vegetables, and began to take large quantities of wheat at a price 40 per cent above the world market level.[47]

Nevertheless, Hungary accepted eagerly the Italian offer of closer economic relations embodied in the Rome Protocols of March 1934, for she began to look with distrust on Germany's commercial progress.

By 1936 the German clearing debt to Hungary had risen to about *RM* 25 million.[48] Huge German purchases drove prices of wheat, livestock, and other commodities needed by the Reich far above world market competitive levels, and, equally important to Germany, out of alignment with the rest of the price level in Hungary.[49] Not only were Hungarian exports diverted from other countries to Germany, but Hungary's internal economy was adapted to German needs by the

43. *Idem*, 14 May 1938, p. 351. 44. *Ibid.*
45. Elizabeth Wiskemann, *Prologue to War* (New York, 1940), p. 39.
46. *Economist*, 24 June 1933, p. 1351; 8 July 1933, p. 74.
47. *Weltwirtschaftliches Archiv*, 39. Band, p. 283.
48. *Economist*, 13 June 1936, p. 598. 49. *Idem*, 27 November 1937, p. 491.

high prices offered for foodstuffs by the Reich. Germany "protected" Hungarian agriculture by paying uneconomically high prices, for reasons of her own.

To combat this undesirable development, the Hungarian authorities limited exports to Germany to the level of imports, arriving at a fair degree of balance for the year 1936.[50]

The improvement in world economic conditions in 1937 was received by Hungary as an opportunity to increase trade with the free-exchange markets, and the Government undertook definite steps favoring exports to the democracies.[51] Hungary's freedom of action was restricted, however, by the rise of a Nazi movement within the country, subsidized by Germany. Led by Major Ferenc Szálasi, the Nazis seized upon the issue of land reform and revisionism to appeal to the discontented peasantry and the lower middle class youth. Pamphlets in Magyar, printed in Germany, flooded the country.[52] The peasantry was repeatedly stirred up against "dark forces" preventing sale of their products to Germany.[53] Anti-Semitism was fostered by the refusal of Germany to do business with Hungarian exporters employing Jews.[54]

In 1938, for the first time in her history, Hungary's exports of manufactured goods exceeded her non-agricultural imports.[55] Thus visible success came to a struggle begun after the World War to develop industry as a counterbalance to the decline of agriculture and as an outlet for the landless population. In 1938 40 per cent of all Hungarian exports were industrial, while the number of industrial workers was double that of 1922. The proportion of the population engaged in agriculture declined from 66 per cent in 1900 to 58 per cent in 1920, 51 per cent in 1930, and 46 per cent in 1938.[56]

Unlike similar attempts by other Danubian countries, which mushroomed unhealthily after the 1931 crisis, Hungary's industrial development was economically sound. In its later years Hungary was able to sustain exports of electrical goods, machinery, steel, and textiles to her

50. *Idem*, 14 November 1936, p. 310.
51. *Economist*, 12 June 1937, p. 614; 9 April 1938, p. 84.
52. *Idem*, 14 May 1938, p. 351. Wiskemann, *op. cit.*, pp. 14–15.
53. Norbert Muhlen, *Schacht, Hitler's Magician* (New York, 1939), p. 134.
54. Paul Einzig, *Bloodless Invasion* (London, 1935), p. 65.
55. *Economist*, 10 December 1938, p. 595.
56. Zeck, *op. cit.*, p. 55.

Balkan neighbors without subsidies or exchange premiums,[57] something Germany could hardly boast of.

Unfortunately for Hungary, Germany did not approve of the development of independent industrial states in her Lebensraum, particularly when these competed successfully with Germany's own trade preponderance in the Danube region. At first the Third Reich manifested its displeasure only by appeals to Hungary's peasants and landowners, declaring that she would be unable to buy their wheat and cattle if Hungary developed its own supply of industrial products.[58] Then more direct pressure was resorted to. Germany refused to continue selling textile machinery to Hungary.[59] Diplomatic pressure and the pro-Nazi faction in the country were successfully mobilized to cause Hungary to promulgate anti-Semitic measures, ostensibly designed to display Hungary's loyalty to the Axis powers. In fact, the result was almost disastrous to Hungarian industrial development, of which between half and three-quarters was owned and managed by Jews.[60] Industrialization, the one promising solution to Hungary's structural problems, one of the few rational steps undertaken by Hungarian statesmen after the first World War, was excluded by definition from the Nazi Continental System.

The annexation of Austria, which ended the Rome Protocols on which Hungarian economic policy had been based, and the Munich Agreement, which put Germany in control of Czechoslovakia, raised the German share in Hungarian trade from about 50 per cent in 1938 to 80 per cent in 1939.[61] In a last show of resistance awakened by the Anschluss, Regent Horthy publicly spoke against German penetration and the Hungarian Government took repressive measures against the local Nazi Party (Major Ferenc Szálasi, its leader, was imprisoned).[62] The German proposal of a customs union, made to Foreign Minister de Kanya during his visit to Berlin in August 1938 and repeated subsequently, was refused.[63] In March 1939, Hungarian troops occupied Ruthenia and southeastern Slovakia against German wishes. For several days there was fierce fighting between the Hungarian Army and "Ukrainian irredentists" who spoke perfect German. Anxious to consolidate her position, Germany made no move.[64]

57. *Economist*, 18 January 1941, p. 72. 58. *Ibid.*
59. *Economist*, 4 March 1939.
60. Wiskemann, *op. cit.*, p. 43. *Economist*, 14 May 1938, p. 352.
61. *Economist*, 18 January 1941, p. 72. 62. Wiskemann, *op. cit.*, pp. 17–20.
63. *Idem*, pp. 42–43. 64. *New York Times*, 4 December 1939.

But under political pressure from the heavily subsidized Nazi element in the country,[65] and economic and military pressure from the mighty Reich now on the northern and western borders, Hungarian independence was dead. The Magyar State became a junior partner in the Axis.

4. Rumania

More fortunate than many of her neighbors, Rumania had as part of her national wealth a commodity which competed freely in international markets—oil. Of her three leading exports, petroleum products were first, accounting in 1937 for 46 per cent of all her sales abroad, followed by wheat, amounting to 16 per cent, and timber, 12 per cent of the total.[66] In this asset lay strength, in bargaining with Germany and in turning to free international markets, but also, as the world approached war, danger. Rumania was to Germany the most highly valued of the Danubian countries; food Germany could forego, guns she could improvise, but oil she had to have, despite the strenuous efforts to develop *Ersatz* production at home.

Yet in internal affairs Rumania was far more concerned with the plight of her peasantry than with the exploitation of her underground wealth, because the majority and most dissatisfied element of her population lived off the soil. As in the other states of the Danube, the Rumanian peasant lived on the verge of starvation, gaining from his toil only one-quarter of the reward obtained by the average French or German farmer.[67]

In addition to this economic pressure preparing the ground for German trade victories, the Reich organized within Rumania political means of directly influencing the Government. The discontent of the Rumanian peasantry, forbidden expression in Socialistic and Communistic movements by brutal government oppression, found an outlet in Rightest extremism, in the anti-Semitic and pro-Fascist Iron Guard. From 1935 on the Iron Guard received large subsidies and important indirect support, such as the dumping of German propaganda and newspapers on Bucharest newsstands, and invitations to Rumanian students to visit Germany at the expense of the Nazis.[68]

Trade relations between the Reich and Rumania began under the

65. Wiskemann, *op. cit.*, p. 25. 66. *Economist*, 20 May 1939, p. 421.
67. *Social Research*, Vol. II (New York, 1935), p. 99.
68. Wiskemann, *op. cit.*, pp. 55–56.

cloud of prohibitive agricultural tariffs introduced by Germany early in 1933.[69] Rumania retaliated with the virtual prohibition of industrial imports from Germany. Germany sought to end the disturbance by granting tariff preferences to Rumanian wheat in June 1933, but was forced to abandon them because of French and American protests under the most-favored-nations principle.

In the fall of 1933, after German-Rumanian trade had been reduced to one-fifth of its previous volume, it was revived by a "private" barter arrangement between I. G. Farben and the Rumanian Government.[70]

But trade difficulties continued, for political reasons. Rumania was none too eager to strengthen her ties with the rejuvenated, revisionist Reich, while the large Jewish element in Rumanian foreign trade sought to boycott commerce with Germany.[71] Germany was, however, developing new methods of trade repudiating the most-favored-nations clause, which were pragmatically designed to meet the particular circumstances of commerce with her weaker neighbors.

In March 1935 Germany succeeded in negotiating a Trade and Navigation Convention which, though not ratified, became provisionally effective. The secret clauses included mutual tariff reductions.[72] The introduction of full exchange control by Rumania in June 1935 was followed by a bilateral trade agreement (signed 7 September 1938) under which the two countries were to allow quotas for each other's exports, and set up clearing as the means of payment between them.[73]

Rumania's attempt despite the devaluation of sterling to maintain the leu at its old parity to gold supported the tendency of her trade away from free-exchange countries to the bilateral powers. The pre-1931 parity of lei 813½ to the pound was replaced by the artificially maintained official parity of lei 490. Since world market prices in gold fell in sympathy with the British devaluation (i.e., London prices did not rise to the full extent that the pound fell) the Rumanian exporter to England received fewer lei for his pounds. If he exported to Germany, which had not devalued, he benefited from the stability of the exchange rate of the Reichsmark, and continued to receive the old

69. *Weltwirtschaftliches Archiv*, 39. Band (1934 I), p. 284.
70. *Idem*, p. 285.
71. *Economist*, 23 December 1933, p. 1225; 9 June 1934, p. 1243.
72. Letter from American Consulate in Bucharest to Joint Boycott Council, dated 21 March 1936.
73. *Ibid.*

number of lei for his Reichsmarks. Thus prices offered by England, when converted into lei, were much lower than the equivalent in Rumania of prices offered by Germany.

This was an overvaluation of the Reichsmark compared to the pound. The result should have been an increase in Rumanian exports to Germany and a decrease in imports, while exports to England should have fallen and imports from her increased. The increase in British sales which should have resulted from the cheapening of the price in lei of the pound, however, was prevented by the Rumanian exchange control authorities, who were faced with an extreme shortage of sterling as a result of the decline in exports to England. Germany, on the other hand, used barter and clearing to force Rumania to buy as much as she sold, on pain of leaving the difference frozen in Germany.[74]

Rumanian economic leaders, worried by the separation of their country from the free-exchange markets of the world, and by the diversion of trade to Germany, began a concealed devaluation of the lei. Exporters of most products were required to sell their receipts of free exchange to the National Bank, but were paid at a premium of 38 per cent above the nominal gold parity rates, while importers were charged the 38 per cent higher rate for remittances to their foreign suppliers. This brought the effective sterling rate up to lei 680 = £ 1.

Exporters of certain other Rumanian products, which required a greater degree of exchange subsidization in order to compete in free markets, were allowed to sell their foreign exchange on the "grey" or semi-legal market. Their "compensation sterling" sold at about lei 700–1,000 per pound from 1937 on. "Special compensation trade," or direct barter, was permitted for some products at officially determined rates between lei 850–1,000 to the pound.[75] (The process, as outlined for sterling, applied to all the free currencies.)

Only Germany, Austria, and Greece were excluded from this concealed devaluation, ostensibly because of the large blocked holdings of their currency in the accounts of the National Bank. German Reichsmark clearing credits had to be surrendered to the National Bank at the official (non-devalued) rate from 31 March 1936 on.

With the official clearing agreement rate for the Reichsmark at lei 39 = *RM* 1, the official rates for Reichsmark and sterling approxi-

74. *Economist*, 18 February 1939, p. 349.
75. Letter from American Consulate, *op. cit. Economist*, 18 February 1939, p. 349.

mated the London gold parity, with *RM* 11.65 equal in Rumania to one pound. According to the leu-pound *compensation* rate, however, the pound equaled *RM* 18–28. Since the purchasing power parity of the Reichsmark for the pound (i.e., the exchange rate which probably would have resulted if the Reichsmark had been free) was about *RM* 17 = £ 1, there was now a definite undervaluation of the Reichsmark by the Rumanian authorities in favor of the pound, designed to make exports to Britain more attractive than sales to Germany.

German importers immediately countered this by paying higher Reichsmark prices for Rumanian exports through the clearing agreement. Rumanian petroleum was purchased by Germany at a price 20 per cent above the proceeds from Rumanian exports to free markets, resulting in a shift in sales which raised Germany from third to first place among countries purchasing Rumanian oil in the period from 1936 to 1937.[76] German exporters were incidentally favored by the higher cost of sterling to Rumanian importers under the "compensation" and "export premium" arrangements.[77]

The higher prices paid by Germany resulted in a further rise in the Rumanian price level, which eventually rendered nugatory the attempt by the Rumanian authorities to achieve a concealed devaluation of their currency, and left the country still isolated from the world markets. Whatever Rumania did, Germany's bag of tricks contained some means of preventing escape from the growth of Nazi economic control.

Under the forced draft of German purchases the Rumanian clearing "credit" in trade with Germany (German clearing debt), which was kept secret, rose to an estimated *RM* 18 million by the middle of 1936, and a maximum of *RM* 20 million.[78] In May 1936, M. Titulesco, the pro-Ally Premier of Rumania, sought a substitute for rising German purchases by an agreement with France to increase oil exports to free-market countries.[79] In November, Rumania required Germany to pay partly in devisen for all purchases of petroleum above 25 per cent of her total imports from Rumania.[80]

The reverse protectionism practised by the German foreign trade system resulted in prices in Bucharest rising by 18.5 per cent from

76. Einzig, *op. cit.*, p. 48. 77. *Economist*, 18 February 1939, p. 349.
78. Stephan Vassiliev, *L'Allemagne et le commerce extérieur des états balkaniques* (Paris, 1939), p. 56.
79. *Economist*, 13 June 1936, p. 598. 80. Vassiliev, *op. cit.*, p. 58.

July 1934 to February 1937, and by 49 per cent from July 1934 to February 1939.[81] The result of the rising prices for foodstuffs was to increase the purchasing power of the peasantry at the expense of the cities. In effect redistribution of *Rumania's* national income by *German* economic intervention, this was in keeping with the Rumanian government's desire to still agricultural discontent at all costs. Germany later recouped some of the extra expense by raising the prices of her industrial exports to Rumania.

Development of soya bean production in Rumania represents another example of the extraterritorial protection exercised by Germany. As in Bulgaria (see below), the introduction of soya bean culture was undertaken by I. G. Farben, the German chemical trust. In 1935 I. G. Farben found itself the possessor of a blocked account in Rumania amounting to lei 600 million. The Rumanian Government refused to allow it to be unfrozen, except for investment within Rumania. After attempts to grow peas and beans failed, I. G. Farben began experiments with soya beans. In 1936 a Rumanian subsidiary, Soya S. A. R., was formed to obtain the cooperation of Rumanian farmers by advancing money where necessary and providing seed and instructions. Two hundred thousand Rumanian farmers were induced to add the soya bean to their crops. Since the whole of the Rumanian production went to Germany, I. G. Farben's money was quickly unfrozen.[82]

The Reich, realizing the significance of what had begun almost accidentally, as a venture in blocked currency manipulation, continued to encourage the expansion of Rumanian soya bean production by payment of the high prices necessary to keep it alive. Rumanian production, going exclusively to Germany, rose from 424 thousand bushels (of 27.2 kilograms) in 1935 to 2,548 thousand in 1937, 1,803 in 1938, and 3,532 in 1939. For Germany's later policy of *Grossraumwirtschaft* (large-scale regional economics) in preparation for war, this addition to the supply of oleaginous crops within her control proved of great importance.

Dismissal of Titulescu as Premier in August 1936 marked a turning point in Rumanian foreign policy. Opposition to the German advance fell into disgrace during an interval which lasted into the first months of 1938.[83] Under the anti-Semitic Goga government it seemed

81. *Economist*, 3 June 1939, p. 538.
82. *Idem*, 21 October 1936, p. 217; 24 September 1938, p. 591.
83. Wiskemann, *op. cit.*, p. 56.

as if Germany's ambitions in Rumania might be fulfilled. For a time, Rumania turned her purchases of armaments from Schneider-Creuzot and Skoda to Germany, though she had previously resisted Germany's entreaties for a share in the supply of her military needs.[84]

By this time Germany had gained control over some bureaux of the Ministry of Economics in Bucharest, largely by methods traditionally used to influence the corrupt and venal bureaucracy of Rumania.[85] The Jewish boycott against German goods, formerly strong in Rumania, was suppressed by the Government and the local Nazis. By bribery and intimidation many of the economic and customs officials were induced to put every possible difficulty in the way of commerce with the democratic powers, while favoring trade with Germany.

In one case, exports of sheepskins to the United States valued at $18,000,000 annually, were diverted through Leipzig with the connivance of Rumanian officials. The Ministry of Economics refused to grant export permits for direct purchase from Rumania. German agents then offered the American importers the identical sheepskins, purchased from Rumania through the clearing agreement, at a discount of 15 per cent from the price which would have been paid to Rumania. The dollar resources of Rumania were decreased, while Germany gained a welcome addition to her foreign exchange supply, at the cost of an increase in her unpaid clearing debt to Rumania.

In February 1938 King Carol succeeded in ousting Goga and regained control of the government. The Anschluss of Austria caused Rumania to return to a policy of resistance to German economic and political expansion, alone with Czechoslovakia among Danubian States in her determination to oppose the Nazi advance.[86] A sincere effort was made to purge the government of graft and bureaucrats in the pay of Germany,[87] while the link with Czechoslovakia in the sadly shaken Little Entente was strengthened. The Foreign Trade Department of the Ministry of National Economy was instructed to refuse permits for barter deals with the "weak currency countries" (Germany and Italy) as far as possible. It was hoped that Rumania would be able to escape from the increased dependence on German purchases brought on by the evanescent "high German prices."

84. Einzig, *op. cit.*, p. 35.

85. What follows is based on a confidential memorandum from a European correspondent of the Joint Boycott Council, dated September 1937, which the author believes to be reliable.

86. *New York Times*, 16 October 1938.

87. *Economist*, 4 June 1938, p. 536.

Unfortunately, France was unable to increase her imports from Rumania because of the chaotic economic conditions at the inception of the Front Populaire, while Great Britain cut her purchases from Rumania by giving Canada renewed timber preferences early in 1938. The indifference of the Western powers left Rumanian foreign trade in a seriously weakened condition, at the mercy of the renewed German trade drive in October 1938.[88]

Even after the Munich surrender, Rumania continued her resistance to German economic and political demands. Rumania's position was complicated by the fact that German purchases of her agricultural products had already pushed her prices up so far that an unresolvable maladjustment existed. In order to be able to sell goods to the British market, the Rumanian exporter had to receive lei 1,200 to the pound. But in order that British manufactured goods might be competitive on the Rumanian market, they had to be available at a rate of at the most lei 800 to the pound.[89] Both rates could not exist simultaneously, except with subsidization on one side or the other. But the Rumanian government's subsidies on wheat exports were inadequate, while appeasement England took little interest in the matter, looking with positive horror on the suggestion that subsidization of trade with Rumania be undertaken in imitation of Germany.

Taking advantage of Rumania's problem, Germany began to demand an increase of the leu rate for the Reichsmark, to reduce the cost to her of paying high lei prices for Rumanian goods. She did not need to fear the rise in the lei prices of her exports which would result. Germany had no particular interest in exporting more than was required to keep Rumania from jettisoning the clearing agreement. In any case, free-market exports were simply not available to Rumania because of the lack of foreign exchange and the impossibility of expanding trade with the democracies at the price and exchange rate configuration existing in Rumania.

On 10 December 1938, Germany obtained a new trade treaty. Negotiations had begun in October, soon after Munich. The new treaty provided for a rise in Germany's share of Rumania's imports from about 40 per cent (in 1937) to 50 per cent, in order to balance fully trade between the two, while Germany's share of Rumania's exports were to rise from 27 per cent to 33 per cent. Rumania was allowed to

88. *Idem*, 24 December 1938, p. 658.

89. *Economist*, 20 May 1939, p. 420.

continue arms purchases through the clearing, rather than in foreign exchange as originally demanded by Germany. The leu rate for the Reichsmark, written into the clearing agreement, was raised from 38 to 40½–41½ (buying and selling).[90] Germany, however, had demanded a rise to lei 55 to the mark, and had given in only after tenacious refusal by Rumania. Considering that the treaty followed shortly after Germany's great success at Munich, it was hardly favorable to the Reich.[91]

In the middle of February 1939, Dr. Helmuth Wohlthat arrived in Bucharest to seek greater concessions. Threatening to cut off the flow of arms from the Skoda and Bren plants (which remained in ostensibly independent Czechoslovakia), the German negotiator demanded a virtual monopoly on Rumania's foreign trade, with complete priority for German needs in Rumanian production.[92] Unwillingly, Rumania was on the point of agreement with the maximum German demands, when the Germans occupied Prague, shifting the bulk of their troops to the east several days later as a threat against Rumania. At last Rumania was able to stir England into action, for the appeasement policy was finally discredited by the German move into rump Czechoslovakia.

With the British support which was now forthcoming, Rumania was able to refuse the most extreme German demands in signing a new treaty on 23 March. An economic plan was laid down,[93] extending over the life of the agreement, under which Rumanian grain and fodder, oil seed, textile fiber, petroleum, and timber output was to be increased with the aid of German capital goods supplied through the Clearing Agreement. German-Rumanian joint companies were to be formed to exploit the petroleum, copper sulfate pyrites, chromium, manganese, and bauxite deposits of Rumania, and to develop communications and marketing facilities.[94] Rumania granted to Germany the right to set up "free zones" or extraterritorial enclaves around the new industries to be built up by the Reich.[95]

90. This should have given Western currencies an advantage of 6½ per cent over the Reichsmark, as some observers thought (e.g. *New York Times*, 19 December 1938). But here again, the German system upset international economic laws, so that only the Reich benefited by the change.

91. *Economist*, 24 December 1938, pp. 653, 658. Wiskemann, *op. cit.*, p. 99. *New York Times*, 13 December 1938.

92. Wiskemann, *op. cit.*, pp. 65–66. *Economist*, 25 March 1939, p. 608.

93. *Economist*, 1 April 1939, p. 16.

94. *Ibid.*

95. Wiskemann, *op. cit.*, p. 92.

Official Germany greeted the signing of the agreement as a turning point in the Reich's foreign trade policy. The comment of one German newspaper, typical of the general tenor, was that:

> The conclusion of the economic agreement between Germany and Rumania far exceeds the ordinary limits of an economic or commercial agreement in its scope and consequences. The agreement itself speaks expressly of economic planning. The planning is to be directed in particular to the satisfaction of German needs for imports. *The direction of the Rumanian economy to the German needs for imports, provided for in the agreement,* may be directly characterized as an *extension of the National Socialist Four Year Plan to the Rumanian economy,* since Germany's import needs are entirely dominated by the provisions of the Four Year Plan.[96]

Falling back on the time-honored Balkan refuge of delay, Rumania laid every possible difficulty in the way of Nazi economic expansion. Nevertheless, Germany was able to undertake exploratory drilling for oil and minerals throughout the country, and established artificial textile works, flour mills, silos, and marketing agencies.[97] German capital had begun to flow into the country under the Goga regime, when Jewish interests were forced out of their predominant position in Rumanian industry. German pressure had some success in evicting the Jews from their control of Rumanian foreign trade as well.[98]

Though the Rumanian government was able, as late as the middle of August 1939, to manifest its freedom by refusing to accept payment from Germany through the clearing for oil above the 25 per cent quota based on total exports,[99] economic dependence on Germany was in fact virtually complete. For the first six months of 1939, Greater Germany and the Bohemia-Moravia Protectorate supplied 56 per cent of Rumanian imports and took 47.6 per cent of her exports.[100] In Rumania, too, the "Bolshevist danger" was well on the way to elimination.

5. Yugoslavia

Between 1930 and 1932 the price of Yugoslavian wheat fell from 205 dinars per double centner to 130 dinars, the price of corn from 104 to 70, the price of pigs from 1,340 to 635. To a country in which

96. *Essener Nationalzeitung*, 25 March 1939.

97. *Economist*, 3 June 1939.

98. *Der Angriff*, 19 February 1939.

99. *Economist*, 26 August 1939, p. 392.

100. *New York Herald-Tribune*, 17 July 1939.

114 persons were supported by agriculture on every hectare of arable land (compared to 84 in France, where productivity per hectare was double that of Yugoslavia),[101] this fall in prices represented virtual economic collapse.

The decline in Yugoslavia's export trade, which was predominantly agricultural, was almost exclusively responsible for the fall in farm produce prices. Part of her trouble resulted from the low quality of her farm products. The export of wheat was made a monopoly of the government-owned Franchised Company for the Exportation of Agricultural Products[102] in an effort to correct this condition.

To make matters worse, a trade war broke out between Yugoslavia and one of her largest customers, Germany. The advent of belligerent Nazism and the introduction of prohibitive tariffs on agricultural products had the same effect on Yugoslavia as on Hungary, Rumania, and other Danubian countries. Retaliatory tariffs on German industrial exports were imposed.

The Rome Protocols agreement between Italy, Austria, and Hungary, which squeezed Yugoslavia out of trade with Italy and Austria, made her ready to receive favorably the proposals of Germany. As a preferential agreement, the Rome Protocols defeated its own purpose by cutting off Italy's trade with the rest of Southeastern Europe, making the German commercial advance around Austria and Hungary that much easier. In the Spring of 1934, after a visit to Belgrade by Captain Roehm (purged several weeks later), a trade agreement was signed which began the process of drawing the Yugoslav economy closer to the German. Clearing was introduced between Yugoslavia and Germany, and preferential tariffs were granted for most of Yugoslavia's agricultural exports.[103]

When sanctions were declared against Italy the failure of France to give adequate assistance as promised left the vacuum created by the complete exclusion of Italy open for Germany. When Laval attempted to put through his scheme for cooperation with Mussolini, thus betraying the League, disgusted Yugoslavia reacted in the direction of even greater economic cooperation with Germany.[104] Though Yugoslav public opinion remained definitely opposed to the Nazi Reich, the Government had begun to break away from its iron-bound adherence to French policy, especially after the cessation of French loans in 1931 and the assassination of King Alexander.

101. *Social Research*, Vol. II (1935), p. 99.
102. Vassiliev, *op. cit.*, p. 28.
103. *Economist*, 2 June 1934, p. 1194.
104. *Idem*, 30 May 1936, p. 487.

Germany bought up the large surpluses of export goods created by the application of sanctions to Italy, paying through the clearing mechanism at prices from 25–30 per cent above those offered by the world market. So great was the influence of increasing German purchases that the Yugoslavian price level rose steadily from its over-high level in relation to world markets, at a rate faster than the recovery of the international price level from 1933 on.[105]

A large clearing debt developed, amounting to some 500 million Yugoslav dinars at its maximum. The Yugoslav National Bank was forced to come to the rescue of the country's exporters, lending them money against the clearing credits due from Germany.[106] Alarmed by the growth of the German clearing debt, the Yugoslav Government diverted purchases to Germany wherever possible in order to liquidate it. The contract for the construction of the State munitions works at Zenica was awarded to Krupp, while other German firms received orders for railroad material and similar government needs. In April 1936 Yugoslav imports of coal, machinery, yarns, electrical apparatus, etc., were placed under a licensing scheme designed to divert orders to Germany, in order to ameliorate the export-loaded clearing.[107] Payment for exports of iron ore was required in free exchange to prevent Germany from obtaining this product, freely competitive on the international market, in return for more "clearing credit."[108]

In the summer of 1936 Dr. Schacht visited Belgrade, seeking to overcome the Yugoslav Government's remaining resistance by offering to supply German armaments and railroad equipment against exports of Yugoslav agricultural produce. Though Yugoslavia was reluctant to accept, German propaganda stirred up the peasantry of Serbia, putting pressure on Belgrade which eventually forced agreement with the German proposition. After the Yugoslav goods had been shipped to Germany, a delegation was sent to Germany to order the materials promised by Dr. Schacht. Not one bid was received. The conclusion that the German Government had purposely discouraged German firms from bidding is obvious. One million dinars were added to the German clearing debt by this contretemps alone, while

105. Wiskemann, *op. cit.*, p. 163.
106. *Economist*, 30 May 1936, p. 487.
107. *Ibid.*
108. Vassiliev, *op. cit.*, p. 59.

Yugoslavia was finally forced to purchase the needed equipment from free-exchange sources of supply.[109]

Another ingenious scheme was used by Germany to pay for her heavy "ideological export" to Yugoslavia by increasing her precious clearing debt rather than reducing it. Germany approached the manager of a peasant cooperative, offering to purchase 500 truckloads of plums. This was contingent on the acceptance of a price of dinars 2.3 per kilogram, rather than the market price of dinars 1.4, the difference to be secretly remitted to the "Zbor," a Nazi organization in Yugoslavia. When the transaction went through, the clearing debt to Yugoslavia was, of course, calculated on the basis of the higher price. In effect, the Yugoslav Government unwittingly loaned Germany the money for subversive propaganda within its own country.[110]

As the Yugoslav pressure for liquidation of the debt grew, Germany raised her prices for exports through the clearing by about one-quarter.[111] This was the last straw. Yugoslavia retaliated in October 1936 by reducing the flow of exports allowed Germany, and demanded prompt payment of the clearing balance due to her.[112]

The first round in her Battle of the Clearings with Germany was won by Yugoslavia. In December 1936 a Yugoslav Commission meeting with German representatives at Dresden succeeded in forcing on Germany revision of the agreement to prohibit any excess of German imports over her exports.[113] The exchange rate of the dinar for the Reichsmark, fixed in the original agreement in a manner favoring exports to Germany, was abolished, after Germany had forced it up by gradual increases with each renewal of the clearing agreement in order to recompense herself for the higher prices she paid in the Yugoslav market.[114] Germany also promised to pay better prices for Yugoslav goods, a trap the significance of which was not yet realized in Belgrade.

Payment through the clearing account of the rent of shooting boxes in Yugoslavia was forbidden. Yugoslavia had found that Germany used the privilege to conduct lavish entertainments on her soil, eventually at her expense by an increase in the clearing debt, to which foreign politicians whom the Reich was desirous of cultivating had been frequently invited by Goering.[115]

109. Muhlen, *op. cit.*, pp. 132, 134.
110. *Ibid.*
111. *Economist*, 13 June 1936, p. 598.
112. *Idem*, 17 October 1936, p. 101.
113. *Idem*, 19 December 1936, p. 585.
114. Wiskemann, *op. cit.*, p. 163.
115. Einzig, *op. cit.*, p. 49.

Like Rumania and the other countries of Southeastern Europe, Yugoslavia sought to return to contact with the free-exchange markets by a hidden devaluation of her currency. After 1931 the official dinar rate for the pound was reduced from 247½ dinars to 210, a drop of only 23½ per cent, which meant that Yugoslavia had allowed the gold value of her currency to slide downward by the difference between the 30–40 per cent devaluation of sterling and the official Yugoslav recognition of it as amounting to only 23½ per cent. Since even this did not suffice to make export against free currency profitable, most trade with Britain was permitted the "free market" rate of 262 dinars to the pound.[116]

In 1937 Yugoslavia's general trading position improved. The proportion of her exports going to free-market countries increased, permitting the reduction of the percentage of foreign exchange which had to be surrendered to the National Bank, from 80 per cent in 1934 and 33 per cent in February 1936, to 25 per cent in the spring of 1938.[117] This made exports to the free-exchange markets more attractive by increasing the proportion of the proceeds which could be converted into dinars at the higher free-market rate.

But Germany was already engaged in reselling Yugoslav produce in free-exchange markets, undermining the possibility of a return of Yugoslavia to closer commercial relations directly with the democracies. In September 1936, for example, German enterprises made an agreement with French purchasers of hemp to supply them, in return for free exchange, with 80 per cent of the Yugoslav output, which was bought through the German clearing agreement.[118] Yugoslav timber also began to appear on the world market under German auspices, at ruinously low prices in competition with the country's own sales.[119]

The clearing difficulties with Germany were far from solved by the Dresden Agreement. The course of Germany's clearing debt was as follows:

(In *RM*, 000,000 omitted)[120]

Year	1934	1935			1936		1937				1938		1939		
Month	XII	III	VI	XII	VI	XII	II	IV	VI	XII	VI	XII	VI	VII	VIII
Amount	13	15	16	22	21	23	38	36	23	13	10	27	13	10	12

116. *Economist*, 18 February 1939, p. 350.
117. *Idem*, 16 April 1939, p. 140.
118. Vassiliev, *op. cit.*, p. 52.
119. Einzig, *op. cit.*, p. 27.
120. *Economist*, 10 July 1937, p. 79; 3 December 1938, p. 485; 30 December 1939, p. 512.

The decrease in the clearing debt at the end of 1937 was made possible in part by the acceptance of German chemicals, among which was a supply of aspirin tablets sufficient for ten years of normal Yugoslav consumption. Apart from the unforeseen increase in headaches which the future held in store, the Yugoslavs could find no use for the goods with which Germany condescended to pay her debt, and were forced to dispose of them to Austria and Italy at losses ranging from 45–75 per cent.[121]

Attempting to counterbalance Germany's economic position, Yugoslavia took steps to restore to Italy its former position in her foreign trade, which had deteriorated sharply. The conclusion of the Italo-Yugoslav Pact in 1937 by the Stoyadinovich Government, whatever its political significance in the light of the previous creation of the Rome-Berlin Axis, was followed in May by a highly favorable trade agreement with Italy, which did much to nullify the preferences granted by Italy to Austria and Hungary under the Rome Protocols.[122] Yugoslavia refused to conclude a treaty with Germany similar to that with Italy, despite Von Neurath's request during his visit in June,[123] a further indication that Yugoslavia had undertaken closer relations with Italy mainly as a defense against penetration from the North.

An examination of trade statistics for previous years shows how artificial was the development from 1933 on:

Germany's Participation in Yugoslavia's Foreign Trade, 1927–1931[124]

	In per cent of total		In millions of dinars	
	Imports	*Exports*	*Imports*	*Exports*
1927	12.34	10.60	898	678
1928	13.61	12.10	1,066	779
1929	15.64	8.52	1,138	675
1930	17.55	11.66	1,221	791
1931	19.28	11.31	925	543

A *passive* balance characterized the trade from 1927 to 1931, averaging one-half of the total export to Germany. Only after the Nazi regime came to power did the balance become active, or, rather, did an excess

121. Muhlen, *op. cit.*, p. 132.
122. *Economist*, 22 May 1937, p. 448.
123. *Idem*, 20 June 1937, p. 727.
124. *Weltwirtschaftliches Archiv*, 37. Band (1933 I), pp. 115, 122.

of exports over imports appear and assume the state of suspended animation characteristic of Germany's clearing debts.

Huge German purchases made at high prices saved the Yugoslav economy in the early years. In return for agricultural surpluses, useless and even dangerous, Germany delivered a modicum of useful industrial goods. Trade with Germany served the purposes of public works and agricultural surplus disposal programs for Yugoslavia. Once instituted, termination became a political impossibility, despite the obvious and increasingly heavy cost of doing business with National Socialism, because of the vested interest in high prices built up among the peasantry.

The most striking change in Germany's economic relations with Yugoslavia to be brought about by the conquest of Austria and Czechoslovakia was the increase in the control of Yugoslav industry by German capital. In 1937 foreign investment in Yugoslavia, one-third of the total capital invested in the country, was as follows:[125]

France	dinars 1,056 million
Great Britain	874
Czechoslovakia	741
Switzerland	707
Austria	366
Hungary	247
Germany	55
Total	4,046
Total for Germany, Austria, and Czechoslovakia	1,162

On the basis of these figures alone, Germany by 1939 held more than any other nation. But Germany's investment had increased since 1937. In 1937 a company capitalized at *RM* 500,000 was formed in Berlin to undertake mining operations in Yugoslavia. An important antimony mine was purchased from French interest, and oil exploration was undertaken in Croatia.[126] In 1939 Krupp and I. G. Farben established, out of profits tied up in Yugoslavia, a company for the exploitation of mineral wealth into which the profits of all other German subsidiaries in Yugoslavia were concentrated. This reinvestment of profits was undertaken despite the fact that Germany owed money to

125. Wiskemann, *op. cit.*, p. 156.
126. *Ibid.*

Yugoslavia on her clearing debt. One German firm actually violated the clearing agreement by exporting machinery outside the clearing and then investing the proceeds in Yugoslavia, rather than turn them over to the Yugoslav Central Bank.[127]

By March 1939 the Reich held about dinars 1,500 million of investments, one-fifth of the total foreign capital in the country. In addition, the German minority in Slovenia controlled important industrial establishments.[128] Purchase of land in the strategic territory between the Danube and the frontier, by members of the German minority, proceeded at so fast a pace that it was banned for a time by the Government.[129]

From September 1938, Dr. Funk insisted on a new long-term trade agreement with Yugoslavia, in line with the principle of contractual relationship in foreign trade advanced by German representatives elsewhere in Southeastern Europe. During his visit to Belgrade after Munich, Dr. Funk proposed that Germany take half of Yugoslavia's total exports, in return for German goods.[130] The suggestion was not greeted sympathetically. Defying Germany, Dr. Stoyadinovich's government ordered a cut of 50 per cent in Yugoslav exports to Germany, with the hope of restoring freedom of movement to the country's trade, while closer relations with Italy were undertaken to hamper Germany's gains.[131] When Stoyadinovich fell, in February 1939, he was engaged in scheming with Italian representatives for a new Rome Protocol involving his country, Rumania, and Hungary, without German knowledge.[132]

But Dr. Funk's visit nevertheless bore fruit in a new economic agreement (25 October 1938) establishing a fixed dinar rate for the Reichsmark after four years of repeated German demands. The clearing mark was henceforth to be bought and sold within the narrow range of dinars 14.30–14.70, thus eliminating exchange risks for the German trader, and preventing the tendency in the exchange market to sell blocked clearing credits cheaply and recoup the difference by charging higher prices to Germany.[133]

In 1939, after Munich, Hitler had given public assurances that the German frontier with Yugoslavia was "determined forever."[134] With

127. *Economist*, 25 February 1939, p. 394.
128. Wiskemann, *op. cit.*, pp. 157–158.
129. *Idem*, pp. 159–160.
130. *Economist*, 22 October 1938, p. 168.
131. *Idem*, 28 January 1939, p. 169.
132. *New York Times*, 11 February 1939.
133. *Idem*, 26 October 1938.
134. *Economist*, 10 June 1939, p. 592.

reason, Germany's word was suspect. Though a "loan" of *RM* 160 million was accepted from Germany in June 1939, to be used for armaments,[135] the Government took special measures soon after to cut German trade and divert Yugoslav exports to free markets. Its action, in effect, raised the average dinar rate for the pound from dinars 245 to dinars 285, while the discount rate for exports to free-exchange countries was lowered from the 7–9 per cent market rate to 3 per cent.[136] This action was partially successful in relieving the acute shortage of foreign exchange caused by the increasing share of Yugoslav trade going to Germany. Nevertheless, German trade remained an important influence on the political decisions of the government.

The extent to which Yugoslavia was dependent on Germany may be illustrated by the consequence of the stoppage of German purchases of plums from Croatia after the outbreak of the war in September 1939. Only one use remained for the crop: the production of Schlivovitz, or plum brandy. The price of this potent beverage fell to 16 cents a gallon, and a shortage of bottles and barrels developed because of the great increase in production. The whole province of Croatia joined in sopping up the excess. The result was general drunkenness, twenty murders, the mutiny of 3,000 reservists, and a national hangover which provided at last a use for some of the aspirin dumped on Yugoslavia through the clearing agreement.[137]

6. Turkey

The success of Turkish resistance to German economic penetration is to be ascribed to a combination of fortuitous geographical and political factors. Turkey was furthest removed from Germany of all the countries of Southeastern Europe, her economic life oriented toward the Mediterranean rather than the Danube Basin. Politically, under the strong paternalism of Kemal Atatürk, Turkey was fast taking a place among the nations of the West. It had experienced enough of foreign intervention in its young history to penetrate quickly to the true meaning of the Reich's simultaneous conduct of economic-political war and juridical peace.

Under the clearing agreement negotiated in October 1933, Germany's trade with Turkey at first expanded rapidly. Germany offered high prices for Turkish goods, practicing the usual methods to run up

135. *Idem*, 24 June 1939, p. 708.
136. *Idem*, 2 September 1939, p. 449.
137. *New York Times*, 25 October 1939.

a large clearing debt. Products she did not choose to use herself, such as raisins, she dumped on world markets.[138] Conversely, Germany devoted much economic energy to encourage in Turkey the production of goods which she could not purchase easily elsewhere. Turkish cotton-growing, especially, was literally multiplied under the stimulus of German buying at high prices. Exports of cotton, which amounted to 9,142,000 metric tons in 1932, valued at Turkish pounds 2,740,000 rose to 22,785,000 metric tons valued at £ T 6,650,000 by 1936, of which Germany took more than two-thirds.[139] The new producers of cotton became staunch supporters of continued economic relations with Germany, their attitude analogous to that of all protected uneconomic producers.

Increasing trade with Germany caused Turkish prices to rise far above world levels, so accentuating the maladjustment caused by adherence to the old gold parity of the Turkish pound that Turkey seemed on the way to exclusion from trade with all countries but Germany. Turkey attempted to regain contact with the British market by the introduction of a "private compensation" system. Sterling credits arising through barter transactions could be sold in a free market at a premium of from 15–90 per cent over the official rate. This, however, made British exports so expensive that few transactions were possible.

With the competition of British exports effectively removed from the Turkish market, while the exports of the other democracies remained relatively insignificant for similar reasons, Germany began to raise her prices in sales to Turkey.[140] At one time Germany exported at prices about 30 per cent above those of competing countries, while importing at prices as much as 60 per cent above world market levels.[141]

The German colony in Ankara became open in its belief that economic and political victory over Turkey lay within its grasp.[142] Germany had already sought to press on Turkey the acceptance of an offer by Krupp's to refortify the Dardanelles at a price far below that asked by British firms. Though in this case Germany was willing to accept payment out of the frozen clearing balance, the Turkish Government refused, preferring to pay the higher British price charged in

138. Einzig, *op. cit.*, p. 27.
139. *Economist*, 10 July 1937, p. 70.
140. *Idem*, 21 March 1937, p. 700.
141. *Idem*, 20 May 1939, p. 431.
142. *Idem*, 12 November 1938, p. 361.

free exchange, rather than become dependent on a German source of supply for her military requirements, with all the political implications of such dependence.[143] The German clearing debt became so large that patriotic appeals were made in the Turkish press at the end of 1936 for increased purchases of German automobiles to aid the Central Bank in unfreezing its credit in Germany.[144]

In the spring of 1937 the Turkish Central Bank, which had borne the burden of financing the continuation of exports to Germany in the face of the clearing debt, announced that it would no longer discount clearing bills against Germany. Immediately exports to Germany decreased, while the price of Turkish export staples soon fell to levels making possible access to the international market.[145] A political rapprochement with England was undertaken at the same time, followed by economic agreements designed to aid Turkey in preventing a restoration of German control.[146]

The German clearing debt fell from the high of *RM* 60–80 million to *RM* 40 million in December 1937, despite the German attempt to maintain imports from Turkey by offering price increases of 12 per cent to compensate Turkish exporters for the loss of interest through the tying up of their funds in Germany.[147]

German Clearing Debt to Turkey[148]

(In *RM*, 000,000 omitted)

Year	1936	1937	1938		1939			
Month	I	XII	VI	XII	VI	VII	VIII	IX
Amount	60–80	35–40	7	0–11	2	—2	—2	—7

(Minus sign indicates Turkish clearing debt to Germany)

The development of a Turkish clearing debt to Germany was a positive indication that the country had escaped from economic domination by the Reich. It was one of the few instances in the history of the Nazi trade system in which the clearing debt trick backfired.

Only Turkey remained more or less independent economically in

143. Einzig, *op. cit.*, pp. 34–35. *Economist*, 5 December 1936, p. 462; 12 November 1938, p. 361.
144. Muhlen, *op. cit.*, p. 130.
145. *Economist*, 27 March 1937, p. 700.
146. *Idem*, 12 November 1938, p. 361.
147. *Idem*, 25 December 1937, pp. 640–641.
148. *Idem*, 25 December 1937, p. 640; 3 December 1938, p. 486; 30 December 1939, p. 512.

the face of the German advance into Southeastern Europe after Munich, and this was largely for political reasons. Germany made undeniable gains in her trade with Turkey through the annexation of Austria and Czechoslovakia. Soon after the Anschluss regular German shipping services to Turkey and the Near East began from the port of Trieste, in competition with the long-established Italian lines.[149] The Munich Agreement was followed by a visit by Dr. Funk to Ankara, after which Germany granted a credit of *RM* 150 million to be used for industrial and military goods, and offered to buy unlimited amounts of chrome ore, currants, and tobacco.[150] The German loan, amounting to a year's trade between the Reich and Turkey, bore the condition that German engineers were to be employed if foreign technical assistance was required, and that goods were to be transported in German ships.

The German share of Turkish exports rose from 35.6 per cent in the first five months of 1938 to 50.2 per cent for the corresponding period of 1939, her share of Turkish imports from 43 per cent to 52.6 per cent.[151] Nevertheless, though German goods sold in Turkey at prices from 30–60 per cent below those of competing nations,[152] because of the renewed interest in Turkish trade taken by Germany and the small size of Turkish trade with free markets, though the relative economic strength of the two countries in trade with each other was highly unequal (while Germany had 50 per cent of Turkey's trade, Turkey had only about 2 per cent of Germany's),[153] Turkey held the upper hand. In the summer of 1939 Germany attempted to extort better terms from a renewal of her trade treaty with Turkey, by cutting down on her exports to Turkey and threatening to stop importing luxuries such as tobacco, figs, grapes, and nuts. Turkey refused to be impressed, particularly since Allied economic support was at last an adequate reality.

Turkey's policy, in the words of her foreign minister, Shukru Saracoglou, was that

> . . . economics are merely a consequence of politics. We have deliberately chosen the liberal powers as associates not only for political reasons but also because we would like in some more or less near future to see currencies again unrestricted by exchange control.

149. *Idem*, 2 August 1938.
150. *Economist*, 12 November 1938, p. 361.
151. *Idem*, 9 September 1939, p. 491.
152. *Idem*, 5 August 1939, p. 263.
153. *Idem*, 29 July 1939.

> We would like to come into a normal trade circuit. We can accomplish this only by substituting, as far as it can be done, for our German trade, formerly up to 50 per cent of our total foreign commerce, British and French trade.[154]

At last one country of Southeastern Europe, having received the political support of the democratic powers, no longer feared German economic pressure. The lesson to be drawn from Germany's success in Southeastern Europe is clearly pointed by her failure in Turkey: Nazi "economic" victories were possible in the long run only because of political circumstances, and were successfully combatted only by political force. Political force is understood in one way alone in a world dominated by the fear of war: military potential. The first country that British and French armed power was effectively pledged to defend, Turkey was the only country to carry out the desire of all Southeastern European countries, by defying Germany's economic war.

154. *New York Times*, 24 November 1939.

II

IN WESTERN EUROPE

A. *Denmark*

DESPITE the handicap of a *Heldengeist* foreign to the demeaning pursuits of commerce, Aryan Germany succeeded in cheating the wily peoples of the Balkans with clearing debts and money-lending operations that would make a Shylock turn green with envy. Handicapped though she was by her racial purity, Nazi Germany beat the Jews, Slavs, Greeks, and other "inferior" peoples of Southeastern Europe at their own game. It therefore required no strain on Germany's powers of commercial shystering to take over the economy of another purely Aryan state, such as Denmark.

Nazi Germany's commercial relations with Denmark constitute one of the most amazing stories in the development of her economic policy. No Balkan principality, no Central American statelet, no nomad tribe, submitted to parallel humiliation by the Nazi trade authorities. Nor was Germany's arrogance in her relations with Denmark confined to the economic sphere. A long series of callous violations of Denmark's sovereignty by German airplanes and naval forces was accompanied by undisguised meddling in Denmark's internal affairs.[1]

Denmark had committed herself to a long-term policy of uncompromising appeasement of the Reich, which went so far as to remove from the German border all armed forces and fortifications with the exception of several companies of "frontier police," and resulted in the shifting of all Denmark's military strength to the protection of her coast from the eventuality of a British attack. Militarily, Denmark's survival was entrusted to the benevolence of Germany from 1911 on. Economically and politically, Germany's domination over Denmark was completed under Nazism.

Denmark's exports were almost exclusively agricultural, and they were almost exclusively sold to England and Germany. Of all European countries the most dependent on foreign trade, Denmark was

1. A book entitled *Rats in the Larder*, by Joachim Joesten (New York, 1939), contains assertions which would have been incredible, if they had not come true in 1940.

the greatest exporter of bacon, butter, and eggs in the world. In return, she purchased industrial goods, fodders, and breadstuffs. Her economy was based on single devotion to factory agriculture, to the creation of high-quality foods with a maximum of labor and a minimum of land. Before 1933 her bacon export went almost entirely to Britain, her butter and eggs, three-fourths to Britain and almost one-fourth to Germany; half her cheese exports and nine-tenths of her cattle exports went to Germany.[2]

In 1933 both these markets were suddenly withdrawn. While England cut her purchases of Danish bacon 50 per cent to encourage home agriculture, and restricted her imports of Danish butter in favor of Australia and New Zealand, Germany placed prohibitive tariffs on the importation of agricultural products. Thoroughly frightened, the Danish Government encouraged industrialization as a long-term counterbalance to excessive dependence on the British and German markets, and cast about in desperation for immediate relief for her predominantly agricultural people.

Germany eventually agreed to increase her imports of butter, but only through the medium of barter, and only after drawn-out negotiations.[3] Britain, as usual, muddled through, increasing her imports of some products slightly, doing nothing about restoring Denmark's English market for others, demanding huge trade concessions in return. The inevitable result, as the Danish Postmaster-General, Anders Oerne, remarked in 1937 was that:

> British protectionism is actually ruining Denmark, which is thus driven, politically as well as economically, towards another anchorage. . . . By opening her doors a little more to Danish produce, Britain would not only benefit her consumers but also service her own political and economic interests.[4]

On 31 January 1936 a secret Danish-German Treaty of Commerce was signed, which made of Denmark an adjunct of the Nazi foreign trade machine. The terms were never made public, for, according to Denmark's own Minister of Finance, H. P. Hansen, "The public would be horrified if they knew the price which we have had to pay for our trade agreements with Germany."[5]

2. Joachim Joesten, *Rats in the Larder, the Story of Nazi Influence in Denmark* (New York, 1939), pp. 19, 25–26.
3. *Economist* (London), 7 April 1934, p. 764; 26 October 1935, p. 804.
4. Joesten, *op. cit.*, p. 34.
5. *Idem*, p. 42.

Part of the treaty, however, did leak out to the Danish press, and has been confirmed by the subsequent development of Denmark's foreign trade. This was the almost unbelievable "Valutatribut."

In the expectation that her passive balance with Germany would continue at its normal level, Denmark agreed to pay a fixed monthly sum in free exchange to the Reichsbank, amounting to approximately (Danish) kroner 1.4 million per month. Immediately Germany increased her purchases from Denmark to such an extent that the latter became the most important source of dairy and cattle imports for the Reich. The result was that the expected passive balance was reduced, while the monthly payment of free exchange became at least in part a monthly contribution to the increase of Denmark's blocked mark account in the Reichsbank. The free exchange turned over to Germany came from Denmark's active balance in trade with England, on which Denmark depended for the purchase of raw materials and primary agricultural products abroad.[6]

In 1936 alone, Denmark accumulated a credit balance of kroner 20

Denmark's Trade[7]

(In kroner, 000,000 omitted)

	Imports from Germany		Exports to Germany		United Kingdom	
Year	*Value*	*Per cent of total imports*	*Value*	*Per cent of total exports*	*Per cent of imports*	*Per cent of exports*
1931	491	33.5	179	13.4	14.9	61.1
1932	296	25.9	150	13.2	22.3	64.1
1933	287	22.7	158	13.0	28.1	64.5
1934	288	21.3	189	15.3	30.1	60.2
1935	292	22.0	206	16.2	36.0	58.0
1936	376	25.3	280	20.3	36.6	54.1
1937	407	23.9	298	18.6	37.7	51.7
1938	402	24.5	305	19.7	34.6	55.6
		(including Austria from 1 July 1938)				
1939	470	27.6	369	23.4	33.3	52.4

6. *Idem*, p. 38–40.

7. Statistics of foreign trade, unless otherwise noted, are obtained from the League of Nations' *International Trade Statistics*, issued with the following serial numbers: League of Nations Publications 1933 II A 27; 1934 II A 20; 1935 II A 21; 1936 II A 19; 1937 II A 17; 1938 II A 19; 1939 II A 21. Statistics for 1939 are obtained from the League of Nations' *Monthly Bulletin of Statistics*, April 1941 (Vol. XXII, No. 4).

million[8] in Berlin, despite her passive balance of trade, as a result of the Valutatribut. In 1937 Dr. Schacht demanded that this Danish "clearing credit" be liquidated immediately by increased purchases from Germany, threatening that otherwise Germany would stop importing from Denmark.[9] This is one of the few instances on record of the Nazi Government demanding an opportunity to pay its clearing debts, and was motivated by the peculiar circumstance that Germany could not have continued to obtain foreign exchange without supplying some goods in order to forestall the ire of the Danish people.

Denmark was forced to take a wide variety of more or less useless industrial goods, including eau-de-cologne and Dresden china.[10] The Danish State had to buy kroner 10 million worth of German coal, which it could not possibly bring into the country without violating a trade agreement with Britain setting quotas for several years. At the beginning of 1939, several years after the forced purchase, the coal was still stored in Germany, and storage charges were still being paid by the Danish Government.[11]

Even this agreement did not satisfy Germany completely. In November 1936 the official German delegate to the opening of a Danish-German Chamber of Commerce in Copenhagen made the pointed suggestion that:

> I may express the hope that the utmost consideration will be shown in Denmark for Germany's export needs, and that the Danish official authorities will take account of our desires. . . . This should be all the more possible for Denmark since the German market provides an important sales outlet for certain branches of Danish production. . . .[12]

One result of the treaty with Germany was that the Danish National Bank fell into growing difficulties in maintaining a supply of foreign exchange for the normal needs of the country, even requiring a loan of £1,500,000 from England. Germany, of course, refused to supply vital raw materials such as oil, rubber, and cotton through the clearing.[13] Denmark's home industry suffered heavily from German dumping, as well as from German competition in the small countries to which she had begun to export her manufactured goods.[14]

8. *Economist*, 9 January 1937, p. 65.

9. Joesten, *op. cit.*, p. 40.

10. Norbert Muhlen, *Schacht, Hitler's Magician* (New York, 1939), p. 143.

11. Joesten, *op. cit.*, p. 41.

12. Muhlen, *op. cit.*, p. 41.

13. *Ibid.* and Joesten, *op. cit.*, p. 41.

14. *Economist*, 19 September 1936, p. 517.

Politically, Denmark's subservience to Germany became marked. In 1938 Germany forced Danish firms dealing with her to dismiss their Jewish employees, by the threat of withdrawing her business, while the subsidized Nazi groups spread propaganda and aided in espionage under the eyes of the Danish authorities.[15] The Danish Foreign Office introduced an indirect censorship of newspaper reports unfavorable to Germany, which culminated in October 1938 in the dismissal of Nikolas Blaedel, Foreign Editor of the internationally known *Berlingske Tidende,* at the demand of the German envoy in Copenhagen.[16]

Much to the disgust of her neighbors, Denmark's foreign policy was subordinated to the wishes of the Wilhelmstrasse. Denmark was the only member of the Council of the League of Nations to refuse to condemn German rearmament at the Stresa meeting in April 1935. Her diplomats consistently sabotaged the efforts of Dr. Colijn, the Dutch Foreign Minister, and leaders of other European neutral nations, to form an effective Oslo Bloc among the Scandinavian States and Belgium and Holland.[17]

Part of Denmark's reward came at the end of May 1939, when Germany signed with her a pact of non-aggression, which seemed to justify all the preceding years of appeasement by providing a guarantee of security.[18] The rest of her reward came in 1940, when Germany did Denmark the honor of including her among the vassal states of the new German Empire on less than one hour's notice. Thus was the Bolshevist danger eliminated in stodgy Denmark.

B. *England*

On one principle Britain stood adamant against Germany through all the years of self-abnegation and compromise. Germany was never permitted to default on her debts when England had the power to collect. Like most of the European creditors of the Reich, Britain had the good fortune to possess an "unfavorable" balance of trade with Germany: England owed to Germany the amount by which her imports from Germany exceeded her exports to Germany. When Germany refused to pay her debts, England could refuse to pay the sums due Germany on her trade.

15. Joesten, *op. cit.*, pp. 117 ff., 124.
16. *Idem*, pp. 211 ff., 252 and *Economist*, 3 December 1938, p. 475.
17. Joesten, *op. cit.*, pp. 189–192.
18. *New York Times*, 1 June 1939.

But Britain was reluctant to use this form of pressure,[19] since it ran counter to her traditional foreign trade policy, and because British banking circles were afraid that the introduction of full clearing might have led Germany to denounce the Standstill Agreement, thus depriving them of their privileged creditor position (in June 1938, when full clearing seemed an immediate possibility, registermarks dropped to a record low of 44 per cent of their nominal value).[20]

On 1 November 1934, after Germany had accumulated £5 million of unpaid debts to English exporters,[21] and after an unsuccessful trial of a "voluntary clearing" agreement, a new arrangement was reached which laid down the pattern for England's subsequent trade with Germany, and became the model for the economic relations of the other European creditor States with the Reich. Of the total amount due Germany for her exports to England, 55 per cent was earmarked for payment for British exports to Germany. Another 10 per cent was guaranteed for the payment of the Dawes and Young obligations and for funding and partial service of other loans. To maintain the usual balance of trade, on which the agreement was based, Germany agreed to continue the normal proportion of British exports to British imports. Apart from the agreement as to the use of the proceeds, the regular methods of payment in free exchange were to be used by both sides.[22]

Germany was warned that violation of the terms of the agreement, which depended to a large extent on the voluntary cooperation of both countries, would bring on full clearing.[23]

In exchange for the immediate gain by the continuation of partial payment on Germany's debt to her, Britain set a dangerous precedent for discrimination against British creditors in other countries. In general, Germany's actions established the principle that debtors paid their obligations only to countries which had the power to make them

19. *Economist*, 29 September 1934, p. 579.
20. *Economist*, 25 June 1938, p. 722.
21. At the same time that Germany was claiming that she did not have sufficient foreign exchange to pay this debt, according to U.S. Ambassador Dodd, Germany was believed to have bought large amounts of armaments and military airplanes from Vickers-Armstrong and American firms. William E. Dodd, *Ambassador Dodd's Diary* (New York, 1940), p. 176.
22. League of Nations Publication 1935 II B 6, *Enquiry into Clearing Agreements* (Geneva, 1935), p. 25.
23. *Anglo-German Payments Agreement of 1 November 1934* (Treaty Series No. 26 [1935], His Majesty's Stationery Office, London).

do so, a principle which threatened to undermine the international trust on which England's position rested as a world financial center.[24]

German trade had suffered greatly by the introduction of protectionism by Britain in 1931. The advent of the Nazi regime resulted in the abandonment of trade negotiations between England and Germany, begun in the Winter of 1932 as a pitifully inadequate measure to save the German economy, which had reached the stage where establishment of preferential treatment of German exports to England seemed likely.[25] Commercial relations between Germany and England grew progressively worse, till in 1938 the threat of a trade war was voiced openly by high British officials. Particularly objectionable to English businessmen was the dumping on their home markets of highly subsidized German exports, in competition with long-established British enterprises.

The rising sale of German "Opel" automobiles took on the proportions of a national issue in the Summer of 1938. Lord Nuffield, Chairman of the Board of Directors of Vauxhall Motors, one of the largest British automobile manufacturers, publicly charged that the Opel cars, sold in England at a price of £159 *after* payment of a 33 per cent duty and transportation charges, cost £193 at the factory in Germany. He threatened to resign from the Board of Vauxhall if the Government did not do something to halt the German trade drive, which, he claimed, was ruining his business. (Under the stimulus of subsidies, the sale of German automobiles rose from 5 per cent of total British purchases, by value, in 1937, to 33 per cent in 1938, the most important German make being Opel.)[26] It may be assumed that Lord Nuffield knew whereof he spoke when he gave figures on the subsidization of Opel exports, since Vauxhall and Opel were both owned by the same firm—the General Motors Corporation.

Economically, the Continent of Europe and particularly the southeastern region in which German success was greatest, was of infinitesimal importance to Britain. The Ottawa Agreements, which drew Britain closer to her Dominions, intensified the reorientation of English trade and political interests away from Europe. British interests in Latin America, another sphere of German advances, were threatened as much by Yankee competition as by Nazi penetration.

24. *Idem*, 26 June 1937, p. 731.
25. *Economist*, 15 July 1933, p. 129.
26. *London Times*, 27 July 1938. *Economist*, 29 October 1938, p. 229; 21 May 1938, p. 432.

Large British interests in Germany were built up by the loans and investments of the post-war period, and played an undeniable part in determining the sympathies of British creditors and industrialists. A striking example of this tendency is provided by the great Unilever combine, engaged in soap and margarine production throughout the world, which had purchased several valuable factories in Germany. By special barter arrangements, such as the construction by Germany of a fleet of ships to carry raw materials from the company's West African plantations, Unilever was allowed to take part of its profits out of Germany despite the Nazi exchange laws.[27]

Unilever felt impelled to express its appreciation publicly in order to protect its privileges and property in Germany. Although a considerable and perhaps controlling amount of Jewish capital was invested in Unilever, it supported the Anglo-German Fellowship, an influential appeasement group, with direct contributions and the granting of quarters in its main office, Unilever House.[28]

Certain groups in the London City, the financial center of England, were directly sympathetic to Nazi Germany. In March 1938 a barter organization for German trade, called Compensation Brokers Ltd., was formed by Anglo-Foreign Securities, Ltd., to deal especially with the British Dominions and the Empire. Anglo-Foreign Securities was a subsidiary of Hambros Bank and J. Henry Schroeder & Co. On the Board of Directors of Compensation Brokers were Lord Glencomer, E. W. Tennant, and P. F. Tiarks, the latter a close associate of Montagu Norman, Governor of the Bank of England.

Much like the firm formed by the American Schroeder Banking Corporation, Compensation Brokers set up blocked mark arrangements to exchange German exports at low prices for British Empire products needed badly by the Reich. According to an official statement of the new company, it

> . . . will not facilitate the importation into Germany of raw materials used exclusively for rearmament, and it will take great care not to deprive British exporters of trade. On the contrary, the underlying idea is to obtain for Germany orders from the Dominions which otherwise would go to countries such as the United States.[29]

27. *Economist*, 16 April 1938, p. 241; 21 May 1938, p. 432.
28. Letters from Unilever and its American subsidiary, in files of Joint Boycott Council.
29. *Economist*, 2 January 1937, p. 25.

This "underlying idea" of a British-German economic front against the United States was a stock item in Germany's approach to English financiers and manufacturers.[30]

Germany's trade drive after Munich in Southeastern Europe and in other markets more important to England, was met at first with a certain amount of aplomb. In the words of the *London Times*, semi-official spokesman for the Chamberlain Government:

> Only a few months ago, when Dr. Funk was travelling in the Near East with the avowed purpose of securing agreements of just the character of that since concluded with Roumania, his efforts were regarded with not unsympathetic interest (by the British Government).[31]

In furtherance of appeasement, England was willing to surrender her economic interests in Southeastern Europe and even in the Near East, in the hope that Germany would make ". . . no attempt . . . to exclude fair competition or to push political designs under the cloak of trade. . . ."[32]

Even when Germany's subsidies and her shrewd bilateral bargaining began to pinch British exporters, in 1937 and 1938, when Germany not only excluded fair competition but also pushed political designs, the answer of the Chamberlain Government was—more appeasement.

The Chamberlain Government tried one last effort at economic appeasement on an immense scale. Britain offered to Germany, in substance, the creation of an Anglo-German cartel, which would have marked the end of free international trade.

Representatives of the British and German coal industries had already agreed upon a cartel arrangement for the sharing of markets and the discontinuance of German dumping. This the Federation of British Industries used as a basis for undertaking negotiations with the Reichsgruppe Industrie, the semi-official German organization of manufacturers. A conference was planned for March 1939, to be held at Duesseldorf, to which the British Government lent official sanction by announcing that Mr. Robert Hudson and Oliver Stanley, respectively Secretary of the Department of Overseas Trade and President of

30. German agents in the United States were equally opportune with offers of German-American cooperation at the expense of England. In the face of incontestable technological progress in communications, the Reich was somehow able to keep the countries in which her right hand was busy blissfully unaware of what she was doing in the countries in which her left hand operated.

31. *London Times*, 13 April 1939. 32. *Ibid.*

the Board of Trade, would also go to Germany at the same time. Mr. Stanley stated in the House of Commons on 17 February that the object would be to obtain "an agreement that will give both Britain and Germany a fair share of the markets" and that would avoid a trade war.[33] Mr. Ashton-Gwatkin (an appeaser who had been Viscount Runciman's assistant in his investigations of the Sudeten question before Munich) left soon after to undertake preliminary conversations with the German Foreign Minister, Von Ribbentrop, while a representative of the German Ministry of Economics arrived in London on a similar mission. *The Federation of British Industries undertook the negotiations with the full knowledge and active support of the British Government,* while representatives of the Reichsgruppe Industrie were directly under the command of the German Government.[34]

Conversations were opened on 15 March, and resulted in the signing of an agreement between the two groups on the following day. From available evidence this document can only be regarded as *expressing directly the intentions of the Chamberlain Government.* After platitudinous references to the need for fostering world trade "to the mutual benefit of Great Britain, Germany, and all other countries," the document goes on to provide for joint agreements between individual German and British industries on "price and other factors" —in effect, for German-British cartels. Though other countries were to be invited to join,

> The two organizations realize that in certain cases the advantages of agreements between the industries of countries or a group of countries may be nullified by competition from the industries in some other country that refuses to become a party to the agreement. In such circumstances it may be necessary for the organizations to obtain the help of their Governments, and the two organizations agree to collaborate in seeking that help.[35]

In short, the British and German Governments were to be "requested" by their own industries, operating on their instructions, to cooperate in a trade war on countries not agreeing to the rules of the Anglo-German cartel. This meant, if anything, common export subsidies by the two countries, directed against countries persisting in competition. The country most likely to be affected by this provision

33. *New York Times*, 18 February 1939; 19 February 1939.

34. *Idem*, 22 March 1939.

35. *Idem*, 17 March 1939. *Economist*, 25 March 1939, p. 607.

was the United States.[36] Germany was to be appeased at our expense, since we could hardly have joined an industrial cartel with its inevitable implication of exploitation of agriculture. If it had gone into effect, the deal might have provided American isolationists with an excellent opportunity to study at close hand the cost of peace at any price.

However, the entire appeasement policy crumbled on the very day that the agreement was signed, since the German Army had taken Prague the day before without notice or conference and thus proved that they were no gentlemen. The visit by Mr. Hudson and Mr. Stanley to Berlin was cancelled at the last minute, and Mr. Stanley regretfully announced that the negotiations would have to be repudiated for the time being. Nevertheless, he stated, he felt that the agreement was "a valuable piece of work which might have served as a basis on which the individual industries of the manufacturing countries of the world could have solved a great many of their difficulties."[37]

The end of appeasement meant that Germany could no longer satisfy her demands without bloodshed. Bloodletting began five and a half months later, when Germany in combination with the Soviet Union undertook to save Poland from Bolshevism.

36. *Economist*, 25 March 1939, p. 607. 37. *Idem*, pp. 607, 614.

III

IN LATIN AMERICA

A. *Brazil*

IN 1929 Brazil's economy had been centered on the production of one cash crop for export, coffee. A crisis of overproduction was turned into disaster by the world depression. Coffee surpluses mounted despite government storage, frantic efforts to revive exports, the burning, and finally the dumping into the sea of millions of bags of coffee beans. Between 1931 and 1939 lack of storage space resulted in the burning of 67 million bags of coffee.[1] Internally, the crash swept Getulio Vargas into power in 1930 as a strong man capable of acting in the emergency, and produced profound unrest in the form of "Communist" revolts. In her foreign trade, Brazil was forced to adopt exchange regulation and to cast about for new markets and new export products.

Early in 1935 an agreement was reached with Germany by which trade between the two countries was to be carried on through the ASKI system.[2] The acceptance of bilateralism by Brazil was established *de jure* by the denunciation in January 1936 of forty of her trade treaties containing most-favored-nations clauses, including that with the United States.[3]

Germany's share of Brazilian trade rose remarkably through 1935 and 1936 under the stimulus of the 30–35 per cent lower prices of her exports under the ASKI system. In addition, the Third Reich's trade was favored by her eagerness to comply with the desires of the Brazilian importer, both as to credit terms and adaptation of manufactured goods to the peculiarities of the country's market. American and British competitors, who did not benefit by the support and prodding of a totalitarian government, were unable to meet the "uneconomic" competition of the Germans. Indeed, they made very little effort to do so. The Americans were constitutionally unable to take the trouble to study the language and adapt themselves to the habits of

1. T. R. Ybarra, *America Faces South* (New York, 1939), p. 69.
2. *Journal of Commerce* (New York), 20 April 1935.
3. *Economist* (London), 18 January 1936, p. 129.

Brazil, and the British were tied up in traditional ways of doing business.[4]

More important, especially in later years when the difficulties of German export trade increased, was the foreign exchange position of Brazil. United States and British exporters demanded free exchange for their goods. Germany offered to sell goods against her ASKI-mark purchases of Brazilian export products, which increased steadily. Whether the Brazilian importer wanted to buy from Germany or not, he found growing pressure on him to use the easily obtainable ASKI marks available in Brazil.[5]

Germany's offer to buy large quantities of coffee and other Brazilian export goods seemed at first a boon to the Brazilian producer, harassed by growing unmarketable surpluses. But instead of relieving the foreign exchange problem, bilateral trade with Germany only made it more difficult.[6]

Germany began reselling Brazilian coffee to world markets at ruinously low prices, thus cutting direct sales bringing free exchange to Brazil and further upsetting the price of coffee.[7] In one instance, early in 1937, Germany bartered coal for coffee, promising to use the coffee herself, and hinting that a way had been found to convert it into explosives and artificial silk. Despite her pledge and the pseudo-scientific window-dressing, the coffee was promptly resold to Central Europe.[8]

Against her exports, Brazil obtained ASKI marks, valuable only for the purchase of goods from Germany according to the conditions set by Germany. Germany stood willing to pay high mark prices for Brazilian products where necessary, the result being that the discount at which ASKI marks sold in Brazil made possible underselling of American merchandise by from 10 to 40 per cent.[9] Increasing German exports, in turn, sustained the willingness of producers of goods sought by Germany to accept ASKI marks, by keeping alive a market for them in Brazil.

A "favorable" balance in ASKI trade soon developed because of large German purchases, and the Bank of Brazil was forced to buy

4. *Ibid.* 5. *New York Times*, 13 January 1939.
6. *Economist*, 2 May 1936, p. 250.
7. *New York Times*, 6 November 1938; 13 January 1939. Norbert Muhlen, *Schacht, Hitler's Magician* (New York, 1939), p. 143.
8. N. P. Macdonald, *Hitler over Latin America* (London, 1940), pp. 109–110.
9. *The Nation* (New York), 13 November 1937.

up the surplus ASKI held by exporters, in order to relieve them of the burden of credits frozen in Germany. Though the Bank refused to discount ASKI credits in the summer of 1935 after pressure from the United States, a step which for a time halted Brazilian exports to Germany,[10] it was forced to resume in August 1936 by the clamor of Brazilian producers for restoration of their German market.[11]

In fact, Brazil continued (in the words of Dr. Aranha, then Ambassador to the United States) "doing more against Germany than the United States" in making ASKI transactions difficult, and was willing to stop completely if the United States, then permitting the so-called cotton-barter scheme equivalent to ASKI, would do likewise.[12] The Brazilian Government had taken over control of all operations in foreign exchange in December 1937, including ASKI mark transactions. These were made a monopoly of the Bank of Brazil. The German banks in Rio de Janeiro were thus deprived of their ability to manipulate the market for ASKI marks, which had facilitated German trade policy and brought large profits at the expense of Brazilian producers and consumers.

In one interesting transaction Germany had obtained a contract to supply 300,000 tons of coal to the government-owned Central do Brazil Railway, by quoting a price of 23 marks per ton. The Brazilian railroad was given to understand that the price was in ASKI marks, which sold at 5.3 milreis apiece, compared to 6.82 milreis for free Reichsmarks. At the ASKI rate the coal cost a total of contos 36,570. When delivered, however, the ASKI marks had by a stroke of financial wizardry become Reichsmarks, with the result that 9,000 contos were added to the bill presented to the Brazilian Government.[13]

The Bank of Brazil, while maintaining the buying rate at substantially the original figure, increased the selling price for ASKI marks to a record high, in order to discourage the growth of imports from Germany.[14] Quotas were established for exports to the Reich of major Brazilian products, intended to limit German reselling on international markets. Only 1,600,000 bags of coffee and 62,000 tons of cotton were allowed yearly against ASKI.[15] Despite its efforts to dis-

10. Muhlen, *op. cit.*, p. 127. Pierre Evrard, *Le Commerce extérieure de l'Allemagne de la stabilisation du mark au deuxième plan quadrennial* (Nancy, 1938), p. 147.
11. *New York Times*, 26 January 1938. 12. *Idem*, 5 November 1937.
13. Macdonald, *op. cit.*, p. 111. 14. *New York Times*, 1 December 1938.
15. *Idem*, 13 November 1938.

courage ASKI trade, the Bank, on which were pushed the surplus ASKI marks not absorbed by the Brazilian market for German exports, held as much as 50 million ASKI marks by 1938.[16]

Germany carefully coordinated her sales efforts and propaganda to pile up an ASKI debt to Brazil, keeping it as large as she thought possible without forcing a breakdown in the system. The debt was valuable to the Nazi economy, since it represented a forced loan of useful goods to Germany by Brazil. It was even more important as a weapon of economic penetration, used to force the Brazilian Government to toe the line, under the threat that it would be repudiated or made virtually worthless by new restrictions on the use of ASKI marks within Germany.[17]

The political friction in 1938 between the Vargas Government and the Third Reich over the German "minority" in Southern Brazil brought these economic difficulties to a head. In June the Bank of Brazil announced that it would cease buying ASKI marks from Brazilian exporters. The German press broke out in an uproar over "Yankee influence," which was credited with inducing the Brazilian Government to cut off relations with the Reich. The German Government announced that:

> As is known, toward the end of June the Banco do Brazil completely stopped the purchase of German clearing marks resulting from the German purchase of Brazilian products. This makes it impossible for Germany at present to purchase coffee, tobacco, rubber, lumber, oranges, bananas, etc., in the Brazilian market. Germany is forced consequently to purchase these products, insofar as she does not wish to do without them entirely, from other countries, where substantial additional purchases of goods have already been made.[18]

In essence, all that the Brazilian Government had done was to refuse to continue to take upon itself the expense of Germany's "unfavorable" balance of ASKI trade: the Bank of Brazil had ceased taking over from the country's exporters the losses occasioned by the freezing of ASKI credits in Germany, and thus made them unwilling to continue shipments to the Reich. Germany answered by demanding that her right to rob the Bank of Brazil be restored, and by cutting off all German purchases immediately to enforce her will.

16. *Idem*, 11 December 1938.
17. *Idem*, 1 December 1938.
18. *Idem*, 13 July 1938.

The Brazilian Government had to give in after four weeks, but persisted in its refusal to buy ASKI marks against exports of cotton, the product most wanted by Germany, and cocoa, which had been particularly subject to indiscriminate dumping in international markets by Germany.[19]

Brazil also refused to allow Germany to exceed the quota on coffee agreed to in the 1935 arrangement. When this quantity was exhausted (in November), Brazil halted exports of coffee against ASKI. The result was a complete shortage of coffee in Germany by the end of the year.[20] Berlin dispatches to Brazil were filled with details of the clamor of German consumers for coffee, while it was stated that "Germany is willing to increase purchases from coffee-producing countries, if those countries will increase their imports of German goods," and Germany again threatened to go elsewhere unless further concessions were forthcoming from Brazil.[21] But this type of propaganda, playing on the interests of the Brazilian coffee planter and against the interests of Brazil, did not succeed again.[22]

With the aid of loans from the United States, Brazil was beginning to break out of the cunning economic prison planned for her by Germany. One of the most cleverly contrived hindrances was her cotton production, developed largely in response to the German demand.

Brazil's production of raw cotton had received an extraordinary stimulus from the AAA program in the United States. Brazil's production rose from 449,000 bales in 1932–33 to 1,013,000 in 1933–34.[23]

But when the U.S. artificial scarcity program broke down, Brazil was left with large stocks which could not be sold in free world markets. Much of Brazil's production was uneconomic, some of it inferior in quality. The only market open for a substantial and growing share of it was the German. While Germany was able to take only relatively small amounts of other commodities produced by Brazil, her total demand for cotton bulked as large as Great Britain's.[24]

Germany first turned to Brazil for large quantities in 1935, after the United States had refused to agree to the barter of cotton. In that year Germany shifted an important part of her purchases to Brazil, so hur-

19. *Idem*, 23 July 1938.
20. *Idem*, 22 November 1938; 9 January 1939.
21. *Idem*, 8 January 1939.
22. *Idem*, 26 January 1939. In May 1939 the Bank of Brazil halted purchases of ASKI marks from cocoa producers, in order to prevent Germany from obtaining a huge order of 240,000 bags. *Idem*, 30 May 1939.
23. *Idem*, 26 January 1938.
24. *Economist*, 29 July 1939, p. 213.

riedly that Brazilian exporters forfeited penalties for breaking their contracts with Lancashire textile mills in order to take advantage of the 10 per cent higher prices offered by Germany. The result for Brazil was a permanent estrangement of the British market.[25]

The subsequent course of trade with Brazil for cotton is marked by recurrence of the German attempt to play the United States off against Brazil. Many German textile mills changed their machinery to adapt it to the inferior short-staple cotton produced in Brazil. To the United States this trend was represented as the inevitable and permanent result of refusing to barter with Germany, and the threat was made that the German market would continue to be diverted if we did not agree to bilateral commerce. To Brazil, Germany hinted that she was ready to transfer her purchases back to the United States if trade concessions and a cooperative attitude were not evinced.[26] The German propaganda service for South America, Transocean, sought to build up in Brazil the belief that the United States was threatening to dump her surplus cotton on international markets if Brazil did not stop producing the commodity,[27] while worries in Washington over growing cotton production in Brazil were slyly encouraged from Berlin.

Germany began by offering extraordinarily high prices for Brazilian cotton. Though the Brazilian product was inferior to that of the United States, especially at the beginning, average German import prices for cotton, in Reichspfennigs per kilogram, were as follows:[28]

	1933	*1934*	*1935* (first half year)
Brazil	64.6	87.3	110.2
United States	69.4	72.4	77.4
Egypt (high-grade long-staple)	93.0	87.8	97.1
Turkey	77.0	85.0	102.7
Peru	79.3	80.9	103.2
British India	55.5	49.5	66.0

Payment of higher prices amounted to a German subsidy of Brazilian production, as was admitted by one German source.[29] Germany subsidized Brazilian production because in the long run she could

25. *Journal of Commerce* (New York), 22 March 1935.
26. *New York Times*, 18 July 1938.
27. *Idem*, 28 January 1939.
28. Karlrobert Ringel, *Warenclearing* (Berlin, 1938), p. 38.
29. *Idem*, p. 39.

make it cheaper for herself to obtain inferior cotton from a country with weak bargaining power than to meet the free-exchange demands of the United States. From Brazil, Germany could buy without foreign exchange, and could recoup some of the greater expense by extorting credit in the form of ASKI mark balances similar to clearing debts.

The Brazilian cotton growers were usually former coffee planters forced out by the conditions of overproduction. The interests of the two groups were one, since Germany also purchased large amounts of coffee. When Brazil sought to deny Germany cotton, as a bargaining weapon to force a more considerate working of the ASKI system, German propaganda cleverly tied the cotton issue to coffee: ". . . in the long run Brazil cannot afford to lose Germany as a customer (especially since Germany is also willing to increase her purchases of coffee from Brazil in the measure to which she can cover her demand for cotton in Brazil)."[30] The vested interests built up by Germany were turned into a source of constant pressure on the government for more favorable terms for Germany.[31]

Brazil's Trade[32]

(Value in gold £, 000,000 omitted)

	Imports from Germany		Exports to Germany		United States		England	
Year	*Value*	*Per cent of total*	*Value*	*Per cent of total*	*Per cent of imports*	*Per cent of exports*	*Per cent of imports*	*Per cent of exports*
1931	3,014	10.5	4,573	9.2	25.0	43.6	17.5	7.2
1932	1,960	9.0	3,257	8.9	30.2	45.8	19.2	7.0
1933	3,371	12.0	2,905	8.1	21.2	46.7	19.4	7.5
1934	3,569	14.0	4,628	13.2	23.7	39.5	17.1	12.0
1935	5,608	20.4	5,451	16.5	23.4	39.4	12.4	9.2
1936	7,065	23.5	5,167	13.2	22.1	38.9	11.7	11.9
1937	9,697	23.9	7,252	17.1	23.0	36.2	12.1	9.1
1938	8,976	25.0	6,852	19.1	24.2	34.3	10.4	8.8

(Imports are figured cost including freight, exports free on board)

30. *Deutsche Volkswirt*, 6 April 1936.
31. *New York Times*, 18 December 1938. *New Republic* (New York), 22 February 1939.
32. See footnote 7, page 84.

Loss of first place by the United States in 1937 was an important propaganda item in Germany's favor in the rest of Latin America.[33]

One difficulty in understanding the German trade methods, both for Brazilians at the time, and for the purposes of the present study, appears strikingly in the trade statistics. Germany piled up an ASKI debt to Brazil. Yet Brazil's own statistics declare that more was purchased from Germany than was sold to her. Three factors explain this apparent discrepancy:

(1) Brazil's statistics for imports included freights, while her exports totals did not. But, since about 35 per cent of freights could be paid in ASKI marks, the difference cannot be explained to any great extent on this ground alone.
(2) An indeterminate amount of both exports and imports were carried on outside the ASKI system, in free exchange. These probably balanced out, at least to some extent.
(3) The major reason was the manipulation of ASKI marks by Germany.

Germany exported mainly on the basis of ASKI marks, with the result that the actual prices to Brazilians were perhaps 30 per cent lower than if the same goods had been sold for free Reichsmarks. But she invoiced her sales, in reporting to the Brazilian customs authorities, as if they had been made for free Reichsmarks. And the statistics for Brazilian exports to Germany were based on actual prices received by Brazilians, which were converted from ASKI marks. An artificial, confusing difference was thus built up between what Germany actually sold Brazil and what she claimed to have sold, with the intention of hiding the frozen balance owed by Germany. (A report by the U.S. Department of Commerce gave the United States first place in Brazilian trade in 1938, with the German share only 20.7 per cent on the basis of the c.i.f. prices in ASKI marks *actually* paid by Brazilians.[34]) Germany knew what she was doing to Brazil, and knew that the less Brazil realized about it the better . . . for Germany.

33. *New York Times*, 1 December 1938. 34. *Idem*, 2 May 1939.

IV

THE UNITED STATES OF AMERICA

A. *Plutocracy Number One*

NAZI trade strategy received its most rigorous test in the German commercial relations with the United States. It failed, but not completely. For, though Germany did not succeed in imposing on us the same terms as it enforced on the less mighty states of the world, its strategy of appeal to divergent interests achieved some notable successes at the expense of the common interest. In the experiences of 1933–1939 lie some indication of what the future holds if economic Nazism in *any* form or under *any* sponsorship emerges victorious from the war.

From the very beginning, Nazi economic leaders held the problem of trade with the United States to be the most important one facing their foreign commercial policy. The pattern of German-American commerce included everything displeasing to Nazi eyes. Most uncomfortable, from their point of view, was the large and consistently unfavorable balance of trade.

The United States was virtually the only country in the world with which Germany continued to have a true passive balance of trade, despite every effort to induce us to accept the bilateral principle. "Unfavorable" balances developed by Germany from time to time in trade with other nations almost always represented forced loans to the Reich through the clearing mechanism.

That Germany continued to buy anything from the United States under these conditions may be explained only by her inability to find elsewhere in the world sufficient supplies of raw materials required to feed her expanding war machine. Threats of cutting off completely German imports from us were frequent, but never could be applied.[1]

For many years after 1933 Germany had hopes of being able to induce the United States to accept the principle of bilateral trade. Though flattering references to the New Deal and comparisons of Roosevelt to Hitler (believed an honor in Germany) soon disappeared

1. *New York Times*, 3 February 1939. *New York World-Telegram*, 24 March 1934.

from the Berlin press, overtures for closer economic relations persisted through rebuffs and partial successes up to the beginning of World War II. The German attitude, as reported in a Berlin dispatch to the *New York Times,*[2] was that:

> It has been an axiom of National Socialist ideology that the democracies generally and "dollar democracy" in the United States particularly, in contrast with the heroic mood of National Socialist Germany, are capitalistically and commercially minded. . . . Therefore, the Nazis hold that the democracies, or at least the dominant interests in them, can best be captured by a commercial appeal. The failure of the United States to respond to the appeal of German dollars has, therefore, both puzzled and exasperated National Socialist quarters.[3]

B. *How to Win Friends and Influence People*

Germany's appeal, therefore, was directed to special interests in the United States, through which it was hoped pressure could be brought on the Government in favor of the repeated proposals of closer economic relations.[4] The first group Germany sought to use was, as elsewhere, her creditors, the class hit first and hardest by the Nazi economic policy.

An entering wedge for the German system of subsidized trade was provided by the debts due American banks under the Standstill Agreement. Leading American institutions, such as the Chase National, Guaranty Trust Co., and Manufacturers' Trust Co.[5] circularized American importers at their own expense, in the hope of interesting them in purchases of German goods with Registermarks held by the banks.

In the first years of the Nazi regime barter became virtually the only means of continuing trade with Germany. In the face of this situation an influential group in the New Deal, headed by George N. Peek (the President's Special Adviser on Foreign Trade) seemed willing to expand American exports and imports along bilateral lines. As head of the Export-Import Banks, he suggested that a clearing

2. *New York Times,* 3 February 1939.

3. This report is confirmed by the great surprise occasioned in Germany by the Lease-Lend Act, through which the United States made a virtual gift of her help to Britain. Nazi war plans were predicated on the belief that, though we would *sell* our armaments for *cash,* we were devoid of all but materialistic feelings and would lose interest in the war as soon as Britain's dollar resources ran out.

4. *New York Times,* 11 April 1934.

5. Letters in files of Joint Boycott Council.

agreement be undertaken by those institutions with Germany.[6] Though his influence soon diminished in Washington, Mr. Peek represented the thoughts of an important group in the Government, which Germany sought to use for her own ends.

American agriculture was the object of most of Germany's subsequent pressure on the United States. Through the Board of Trade for German-American Commerce in New York, the idea was sedulously disseminated that the refusal of the United States to buy more German goods was "slowly wreaking havoc among American export traders, particularly cotton growers, meat packers, fruit growers, and others."[7]

Barter of the U.S. cotton surplus for German industrial goods found influential adherents in Congress. German representatives pointed to the willingness of their country to expand greatly her imports of American cotton, claiming in 1934 that she would purchase one million bales if barter were approved, compared with the 300,000 she would take that year against free exchange.[8] Southern Senators found a magical poetry in the phrase "one million bales."

In 1938, again, when German-American relations had deteriorated sharply, Dr. Rudolf Brinckmann, Secretary of State for Economics and a leading commercial Lorelei of the Third Reich, declared Germany's willingness to purchase "three or four million bales" of cotton annually. This would have been five times the German imports from us in previous years, and amounted to a fourth of the surplus stock held under the AAA. It is interesting to note that the quantity mentioned was double the estimated annual consumption of the Reich (1,485,000 bales), and the excess would undoubtedly have been reexported to Southeastern Europe and the Baltic countries in ruinous competition with direct American sales.

In 1939 Germany's campaign turned to the American producers of lard, whose exports to Germany had been cut from 21.5 million pounds in 1929 to 1.38 million pounds in 1938[9] by the "guns not butter" preferences of the Nazi leadership. Pressure became particularly strong after the President's proclamation of the 25 per cent anti-

6. George Peek, *Letter to the President on Foreign Trade* (Government Printing Office, Washington, 1934). Export Managers' Club of New York, *Luncheon Report, 21 August 1934. Speech of Mr. Charles E. Stuart, Vice-President of the Export-Import Bank. Journal of Commerce* (New York), 7 September 1934.

7. *New York Times,* 22 January 1935.

8. *Journal of Commerce,* 3 November 1934.

9. *Voelkischer Beobachter,* 15 July 1939.

dumping tariff against Germany in April. A bill was actually introduced into Congress in July by a Representative from Iowa to provide for the proposed barter.

The German appeal to agriculture succeeded in gaining permission to dump exports into the United States through the "cotton barter" scheme, and evoked surprisingly strong currents of public opinion favoring trade with the Reich in the South and Midwest. It is a factor not to be underestimated in the event of the return of National Socialism in international trade.

The results of German pressure on American industrial interests were equally important, though less evident. This proved especially true in the petroleum industry, where conditions of surplus production similar to those in agriculture existed. Since the oil companies were able to import direct from Germany goods which they could use themselves, in exchange for the products they sold, Government intervention was not requisite for the consummation of barter deals. Although one major company received a large number of harmonicas in return for its crude oil,[10] most of the deals were arranged in return for German oil pipe.[11] Among the companies particularly active in this type of business were Standard Oil, Atlantic, Tidewater, and Texas Oil.

Mr. William Rhodes Davis, the soldier of Nazi fortune noted for his arrangement of the Mexican oil barter deal, was also active in this trade. His cooperation with Germany was rewarded by the opportunity to obtain valuable oil properties in this country. Thus he received a large block of stock in the Panhandle Producing and Refining Co. in January 1939, in return for German pipe, and used a similar arrangement to buy up oil leases in 1937 for his Crusader Oil Company. His operations were largely financed by the First National Bank of Boston, through its blocked mark accounts in Germany.[12]

The American motion picture industry, dependent for a large part of its revenue on foreign markets, not only undertook to barter its opuses to Germany for preserved plums, herring, candid cameras, harmonicas, and (edible) hams,[13] but also established through the Hays Office a voluntary censorship of works offensive to the Axis powers.

10. *Dallas Morning News*, 13 September 1938.
11. Letter in files of Joint Boycott Council. *New York Times*, 9 January 1938.
12. *Financial Times* (London), 11 January 1936.
13. *New York Daily News*, 16 January 1939. Joint Boycott Council files.

Only after Germany announced an official boycott of American films, in January 1939,[14] did all the major producers recover their freedom of action.

The most amazing instance of the power of German pressure on American companies with interests abroad is provided by the actions of the General Motors Corporation. The patriotism of this firm can in no way be impugned after consideration of its record in defense work. Yet this American industrial giant felt compelled to undertake direct action against the Hull trade program (with which it agreed in principle and which benefited it greatly), action from which it derived no monetary gain and which actually caused it to lose export sales. The reason was its $35,030,628 investment in Germany. It provides a warning of the internal dissension and economic uncertainty which would come to America on the "wave of the future."

In 1929 General Motors had purchased the Adam Opel A. G., the largest automobile factory in Germany, as part of its policy of short-circuiting tariff barriers by the establishment of branch factories abroad. Under American management the firm grew rapidly, aided by the parent company's decision in 1931 to place at its disposal the facilities of the world-wide General Motors Export Corporation. Export of "Opel" cars developed from 7,672 units in 1933 to 32,611 in 1937, while the proportion of exports to total sales rose from a low of 11 per cent in 1934–35 to 25 per cent in 1937. Nazi Germany was given no reason to believe that General Motors' foreign trade policy was inimical.

The German company's report for 1937 states: "The connection with the General Motors Corporation was found to be most satisfactory, and was primarily responsible for the extraordinary increase in export business, which took place through its sales organization covering almost all the countries of the globe."[15]

The "General Motors World," house organ of the General Motors Export Corporation, makes some interesting reports on the way in which this phenomenal progress was achieved. James D. Mooney, Vice-President of the Corporation, remarked in the June 1938 issue: "One of the outstanding impressions of my trip was the sales record that the Opel passenger car is making in South America." Latin

14. *New York Times*, 24 January 1939.
15. Information about the Adam Opel Aktiengesellschaft from *Handbuch der deutschen Aktiengesellschaften* (Berlin, 1938), pp. 5260 ff.

America had long been considered, both by American and European manufacturers, as virtually closed to the sale of any but American automobiles.

The General Motors Corporation placed itself at the disposal of the German trade drive in South America, cutting the sales of its own product for the benefit of a subsidiary which had not been allowed to pay dividends abroad since 1933. The Hull Trade Treaty program, designed in part to counter German economic and political expansion, was combatted by General Motors, which had supported its principles from its inception. An official of General Motors even went so far as to suggest to the foreign sales organization the expediency of arranging barter deals with Germany. E. R. Palmer, General Manager of Adam Opel A. G., wrote in the March 1937 issue of *General Motors World:*

> In several European markets, Opel passenger cars outsold all other makes, regardless of source. . . . Countries that previously absorbed no Opels or took them only by tens, are now taking them by hundreds, and a few countries are well over the thousand mark annually. All of this is very encouraging for it indicates the increasing interest in Opel products that is being taken by General Motors exporters throughout the world and points the way to what can be accomplished when the full possibilities of our German source products are fully capitalized in all potential markets. . . .
>
> Further, if Opel's present prices are not competitive in your particular market, perhaps something can be worked out in the nature of a "swap" that *will* make it possible for your country to import and sell more Opel products. Germany needs more raw materials to supply the improving internal economic conditions. Your country may be able to supply some of these and we might arrange a "trade."

The economic position and prestige of the American General Motors Corporation were thus made available to the German subsidiary. Half-page advertisements of Opel cars appeared in Argentine newspapers, declaring them to be "A General Motors Product, typically American in style and in mechanical characteristics."[16]

The contradiction is made even more apparent by the attack, made by Graeme K. Howard, Vice-President of General Motors in charge of exports, on the fundamental thesis of the Hull program, unalterable opposition to the restrictive bilateral trade policies of Germany and other countries. Speaking on 25 May 1939, at the Foreign Trade Week

16. Joint Boycott Council files.

celebration of the National Foreign Trade Council at the New York World's Fair, his words broadcast and carried by short-wave in Spanish, Mr. Howard said:

> Let us grant freely that it was only by the threat of force that Hitler has righted some of the wrongs created by the Versailles Treaty. However, with the remaining problems now surely soluble by negotiation, it is time for the countries of Europe to use the Conference table. . . .
>
> The most striking omission in the Reciprocal Trade Agreements Program has been the absence of agreements with the "have-not" nations. . . . It must be recognized that sheer necessity makes realization of the most-favored-nations clause possible only through practical evolution. Hence clearing, barter and quota arrangements must be encompassed within the most-favored-nations principle (sic!!) until the evolution is achieved. . . .
>
> The most disturbing situation of all would be any deliberate attempt on our part to undermine, to lower the standard of living, to starve into submission, and to make economic war upon countries with which we are at peace.
>
> In the case of Germany, our blacklisting and application of countervailing duties seem like steps in this direction, and are having the consequence of shutting off trade between Germany and the United States. . . . May we not deprecate as well any appearance of impairment of German trade in neutral areas?[17]

General Motors is not the only firm with large investments in Germany, nor is it singled out for special attention for any reason except that it was perhaps the most frank and open in its statements. (The German Ford Company has issued somewhat less complete statements of policy entirely analogous to those of Adam Opel A. G.) Direct investment in Germany was made on a sizable scale, almost entirely before the rise of Hitler, by such industrial leaders as Libbey-Owens-Ford Glass, F. W. Woolworth, Standard Oil Co. of New Jersey, Universal Pictures, International Business Machines, General Electric, International Harvester, International Telephone and Telegraph, and the Ford Motor Co.[18] Most of these have extensive investments in other countries now under German control.

17. Mr. Howard apparently meant South America. "Neutral areas" is part of the jargon of monopolistic competition which has grown up in recent years. It means markets in which no trader has a predominant position.

18. For further information on American industrial investments in Germany, see: Dr. Joseph Tenenbaum, *American Investments and Business Interests in Germany* (Joint Boycott Council, New York, 1939).

C. *Commercial Relations, 1933–1939*

On 13 October 1934 the German Ambassador in Washington handed to the State Department a note declaring Germany's intention of denouncing her commercial treaty with the United States, with a request for the negotiation of a new treaty without the most-favored-nations clause.[19] This climaxed a dispute over the discrimination practiced against U.S. creditors by Germany, and began a commercial war which lasted, with interruptions, to the present.

The moratorium on German debt payments announced for 1 July 1933 had drawn a sharp note of protest from Secretary of State Hull, who declared that Germany's difficulties were largely of her own making. He pointed out that the economic position of the Third Reich was due to the resentment caused abroad by the policies of the Nazi Government, and that Germany made large purchases abroad of strategic raw materials for military purposes and bought up her bonds at depreciated prices, meanwhile claiming to lack foreign exchange to pay her debts.[20]

The special debt settlements granted British, Dutch, and other creditors in the summer of 1934 brought a series of protests from the U.S. Government. Germany's requests for a new trade treaty on bilateral lines were looked upon with disfavor by the State Department as a result of these differences over the treatment of creditors.[21] In October came the denunciation of the German-American Treaty of Commerce.

Germany had no desire to extend to the United States the privileges squeezed out by her other creditors under threats of clearing, and knew that the United States was unable to undertake similar action because of our active balance in trade with Germany. Though Germany would have preferred to keep her most-favored-nations status in the United States, she intended in any case to use bilateral discrimination in her trade with other countries,[22] and the old treaty had already placed legal difficulties in the way of this desired method.

Secretary Hull had set as one of the major objectives of the Reciprocal Trade Agreements Program the elimination of bilateral quota restrictions and other obstructions to world trade.[23] In order to put pressure on Germany and other "offenders," those countries not according most-favored-nations equality to the United States were placed on a "blacklist" and denied the benefits of the tariff reductions under the program. Their goods were burdened with the maximum duties set by law.

This retaliatory discrimination, added to the disadvantages under which German exports already labored, caused her to seek means of subsidizing her trade with the United States, and drove her to the development of modified forms of direct exchange of goods to reduce the strain on her devisen resources. The ASKI mark system, satisfying the two objectives of subsidizing exports and avoiding the use of foreign exchange, was introduced in German trade with the United States during 1935 and 1936.

Under American tariff law, however, nations subsidizing their exports were strictly liable to countervailing duties to the full amount of the artificial advantage given their exporters.[24]

In July 1936 the U.S. Treasury Department took cognizance of the ASKI subsidy and promulgated retaliatory duties.[25] Alarmed by the effect of this new reprisal on its trade, the German Government stopped the use of ASKI marks in commerce with the United States in August, and gave assurances that the subsidization of exports to this country would cease. The countervailing duties were thereupon withdrawn.

German pressure on the State Department, threatening a break in commercial relations, brought on conversations which culminated in a compromise by which the United States permitted a modified form of the ASKI system, despite the mandatory provisions of the Tariff Law.[26] A new Treasury Department decision (dated 23 December 1936) declared that Section 303 of the Tariff Act (the Anti-Dumping provision), would not be invoked against purchases of German goods with "the proceeds of the sale in Germany of merchandise exported from the United States, provided that such proceeds, until so used, have been continuously owned by the person for whose actual account the American merchandise is sold in Germany and German goods are purchased in this country." The new interpretation was de-

19. *New York World-Telegram*, 13 October 1934.
20. *New York Times*, 29 June 1934.
21. *Journal of Commerce*, 18 September 1934; 26 September 1934.
22. *Idem*, 2 May 1935.
23. *New York Times*, 20 September 1934.

24. U.S. Code, title 19, Section 1303.
25. U.S. Treasury Department, Circular No. 48360, 11 July 1936.
26. *Boston Evening Transcript*, 28 February 1939. Board of Trade for German-American Commerce, *Bulletin* (New York), January 1938.

signed to permit the creation of a subsidy scheme just as effective as ASKI, yet having a semblance of legality, the so-called "cotton barter" plan.

The German Government allowed Americans to pay for certain German goods by the sale of cotton to Germany. Since German devisen control had resulted in a market price of cotton in Bremen about 33⅓ per cent higher than the world price, the American importer thus received one-third more marks for his dollar by the sale of cotton than he could obtain by the sale of dollars to Germany at the official rate, and could import German goods at two-thirds of their nominal price.

The words "cotton barter" are intentionally misleading, made use of because the scheme was foisted on the U.S. Government largely by the mobilization of pressure from the farm bloc. A barter transaction is one of mutual exchange. Under "cotton barter," the producer of cotton never saw the German goods bought with it, and the "seller" of cotton, who did receive German goods in return, never saw the cotton.

The ASKI system had subsidized German exports by paying high prices in ASKI marks to the American exporter, then letting him sell the inconvenient ASKI marks at a discount to an American importer who wanted to buy from Germany. Under the "cotton barter" scheme, the Treasury Department made the assumption that the German Government was not directly responsible for the differential between world and internal prices for cotton, and that there did not exist an ". . . agreement or understanding between the several parties under which the 'purchase' and the 'sale' of the cotton by the American importer is not actually for his own account in more than form, but . . . only a device for him to secure controlled marks at a predetermined fixed discount."[27] Under these highly unrealistic conditions the "cotton barter" system was not the same as the ASKI mark system, and the Anti-Dumping provisions could be set aside.[28]

In practice the scheme became even more patently a German subsidy measure.[29] German-named firms sprang up with the words "Cotton

27. Board of Trade for German-American Commerce, *Bulletin*, April 1938, carries a letter from Commissioner J. H. Moyle of the U.S. Bureau of Customs.

28. Letter from Stephen B. Gibbons, Assistant Secretary of the Treasury, to Matthew Woll, President of America's Wage Earners' Protective Conference of the American Federation of Labor, dated 27 September 1938.

29. Copper and petroleum were added to the list of products in which deals were to

Broker" on their letterheads. Typical, one circularized American importers on the merits of "a very attractive way of buying merchandise from Germany by which you can save 25 per cent . . . (without) any additional work for you . . . and you don't run any risk in this connection."[30] A "Continental Export and Import Corporation" was formed in New York in March 1937 by Germany, with the aid of $300,000 subscribed by the J. Henry Schroeder Banking Corporation and several private German industrial companies, to carry through the cotton barter transactions as the "German Amtorg."[31] Many of the new firms had no previous connection with the commodity markets, while strong suspicion existed that cotton was never actually shipped by them, or was shipped prior to and independently of the supposed "barter" transaction.[32]

The cotton "barter" plan nevertheless remained in force until March 1939. At that time Attorney-General Murphy was permitted to discover in public that a "fundamental difference" had developed since the scheme had been permitted in that the German Government's subsequent practices resulted in "a controlled market for both American and German goods, and as to American goods, prices arbitrarily fixed by the German Government."[33] Only eleven days before the Attorney-General's perception of a relation that had existed in Germany since 1933, Congressman Celler had been informed by the Treasury Department[34] that there were no legal objections to the plan.[35]

Attorney-General Murphy's discovery coincided with the application of countervailing duties against imports from Germany, on the grounds that the Reich had been subsidizing its exports to the United States through the cotton barter scheme. This was on 18 March 1939, three days after the German occupation of Prague. A standard pen-

be permitted, while the list of products which could be bought from Germany through the procedure was extended.

30. Letter from "Felix Rapp, Cotton," to a New York firm. In files of Joint Boycott Council.

31. *New York Times*, 28 April 1937.

32. Files of Joint Boycott Council.

33. *New York Times*, 19 March 1939.

34. *Frankfurter Zeitung*, 21 March 1939.

35. The extent of cotton barter operations may be judged from the fact that a balance of several million dollars in "Inland Accounts" had been built up through its workings by the spring of 1939, although accounts were usually used for purchases from Germany almost as soon as they were established. *New York Times*, 21 March 1939.

alty tariff of 25 per cent was introduced, on the assumption that the subsidy amounted to at least that much, with provisions for decreasing or increasing the amount in particular cases where a smaller or larger degree of subsidization by Germany could be proved.[36]

Commercial warfare, which had smouldered for years between Germany and the United States, now broke open. The *Frankfurter Zeitung*, in an obviously inspired article (dateline: Berlin, *20th* March) declared that:

> The anti-dumping duties are the product of political hate and political provocation. They indicate how incapable certain American circles are of judging the political events of the last few days in an objective manner. Have the inevitable disadvantageous results of the further disturbance of the economic relations with Germany been considered? The refusal to take advantage of the constantly expanding possibilities of the German market is not only an economic, but also in the long run an internal political problem for the United States.[37]

Reading between the lines, a threat of economic retaliation and of a renewed political appeal to agricultural and other special interest groups in the United States is apparent.

In two things the article was incontestably right. The Anti-Dumping duties were reintroduced as an expression of political disapproval of Germany's course of action. And the conflict between Germany's desires and America's actions was more than commercial in scope.

36. *Idem*, 18 March 1939.

37. *Frankfurter Zeitung*, 21 March 1939.

THE CHALLENGE TO INTERNATIONAL CAPITALISM

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NATIONAL Socialism's economic system is the antithesis of international liberalism. As such, it not only challenges the existence of democratic capitalism itself, but also that of equalitarian aspirations of all gradations. It permits no independent national destiny, subordinates all liberty of choice to the rule of the strong.[1]

The success of this system did not result from its faults. Its achievements were possible only because it provided a solution of sorts at a time when no better alternative was apparent. Unless a new order is created by the rest of the world on the basis of the principles of free determination (which historically have found expression in the particular form of international capitalism), unless world liberty in its most general sense can be made to work, National Socialism will triumph whatever the result of the present war.

The struggle is between the principle of equality of individuals, nations, and ideas, and the belief in hierarchy and aristocracy, in a "Fuehrerschaft" and a ruling race, in subordination of all individuals

1. The significance of the National Socialist economic system has received remarkably little attention in the writings of Nazi economists themselves, for two very good reasons:

(1) As one economist put it, in reviewing a book on *Grossraumwirtschaft* (greater regional economics) in 1934:

> "German economists can learn much from the book. Will they do so? Such books will doubtlessly be read much more eagerly by foreigners wishing to pick up something out of Germany's mouth. . . . There are many other ways besides books to prepare a people for its goals in foreign policy. From this point of view the Professors of Social Sciences in the German graduate schools possess a completely new and important task." (*Weltwirtschaftliches Archiv*, 40. Band [Kiel, 1934], p. "Literatur 19*")

(2) The Nazi "system" is the product of eight years of pragmatic development, during which its significance changed radically almost from month to month. It does not represent a planned development or a logical entity. The Nazis themselves often do not realize what they are doing.

This chapter has been written more from a general impression of what the Nazis are attempting than from any specific sources. Certain German works, however, have been very illuminating. They are listed in footnote 2.

to one idea of one self-centered group. The struggle is between freedom and power.[2]

The struggle arose because of the failure of freedom. In international relations freedom has historically taken the particular form of sovereignty. Abuse of this form of freedom in the international economy resulted in the suicide of liberty, just as abuses of laissez-faire within countries by capital (and sometimes labor) resulted in the creation of monopoly power strong enough to negate it.

It is in opposition to a perverted and therefore inoperable system of "freedom," going under the name of international capitalism, that National Socialism develops. National Socialism makes only two criticisms in a universally acceptable tenor. These criticisms are:

(1) The gold standard, essence of the old system of international capitalism, has broken down, dragging into collapse the productive forces of the world. A new mechanism must be built up which will not hamper the full use of modern technology to satisfy human wants.

(2) Economic planning will be necessary in this new mechanism. Planning by the individual States, the only feasible units of government, is not possible in a world in which economies are allowed to interact on each other.

In part, the challenges are incontestable. Proof was provided by the world economic crisis and the fate of the efforts to meet it.

A temporary solution was found by National Socialism for the first problem, in bilateralism and barter, admittedly makeshifts. Part of the solution offered by National Socialism for the second problem was

2. The best German sources on the Nazi system, limited as they are, are:
Albrecht Forstmann, *Der Kampf um den internationalen Handel* (Berlin, 1935).
Theodor Puetz, *Die deutsche Aussenwirtschaft im Engpass der Jahre 1933–1937* (Berlin, 1938). This is especially good.
Hermann Rauschning, *The Voice of Destruction* (New York, 1940). Unparalleled as an expression of Hitler's viewpoint. His own "Mein Kampf" refers to economics only twice.
Ernst Wagemann, *Wirtschaftspolitische Strategie* (Hamburg, 1937). Particularly the introductory chapters.
Weltwirtschaftliches Archiv, 1933 to date. Particularly the following articles:
Gerhard Mackenroth, *Neue Formen der Weltwirtschaft*, in Vol. 41 (1935 I), pp. 1 ff.
Friedrich Luetz, *Goldwährung und Wirtschaftsordnung*, in Vol. 41 (1935 I), pp. 224 ff.
Erich Egner, *Das Ringen um die Erneuerung der aussenwirtschaftlichen Theorie*, in Vol. 48 (1938 II), pp. 1 ff.
Fritz Meyer, *Devisenbewirtschaftung als neue Währungsform*, in Vol. 49 (1939 I), pp. 415 ff.

autarchy—economic isolation. But this was not enough, since no State can live at the present level of economic development without the aid of the rest of the world. As a permanent solution of both, National Socialism offers the "New Order."

The "New Order" is not a joke. The Nazi "New Order" can be maintained indefinitely (once established) by the purchase from subject peoples of their liberty and independence (abstracts) in return for material prosperity and assurance of employment (physical realities). As Adolf Hitler once said:

> . . . Germany as it is today is not a biological unit. *It will be Germany only when it is Europe as well.* Without power over Europe we must perish. . . . Germany is Europe. I give you my guarantee that there will be no more unemployment in Europe. An unequalled renaissance will come. We shall awaken the world from its sleep.[3]

The job will be done by National Socialism (German, Japanese, American,[4] or Hottentot flavor, now or twenty years from now) if it cannot be done by liberalism. It will be done at the expense of human values if it cannot be done by free human beings. It will be done by a human machine, if free men cannot do it.

Can we do it under our system? To answer this question, it must first be determined what our system does. Under the gold standard, the mechanism which expressed during a certain time the essence of international liberalism, two objectives were accomplished in international trade:

(1) Variations of exchange rates between national currencies were kept within narrow limits. This was an outward sign of the more fundamental services performed by the gold standard. One of these was that it acted as a stabilizer, giving to international trade security and uniformity of terms (such as exchange rates), as well as a reliable mechanism of exchange, making possible the long-term calculations and trust necessary to all economic activity.

(2) The economies of all nations were bound together, with the result that all tended to improve at the same rate (and to fall into depressions simultaneously). When one country prospered more than its neighbors, it imported at a faster rate, while its exports remained

3. Rauschning, *op. cit.*, p. 24.
4. Friedrich List, grandfather of German autarchy, got his ideas in the United States, from our experiences with the "National System" and the protective tariff.

the same, or even declined because of the rise of its prices compared to those of other countries. The result was a drain of gold from the country of greater prosperity, which curbed its expansion and increased the economic tempo of the neighbors receiving the monetary metal. Over a long period of time, and with many obvious deviations, there tended to be a common speed of economic development all over the world.

Were these two results desirable?

(1) Stability of exchange rates was desirable—over the short run. Certain accidental variations in the national economy (such as the failure of a crop, the dishonesty of a financier, a fire in an important factory, or a temporary flurry of speculation) were not allowed to affect the smooth flow of international trade, and rightly so. The gold standard and excess gold reserves acted as an insurance policy.

But neither stable exchange rates nor the gold standard itself are holy things, though there was an unfortunate tendency to regard them as such. Long-term changes (such as those caused by exhaustion of a country's soil, a comparative increase or decrease in cultural standards, the development of new resources in other parts of the world; or a world war) could not and were not supposed to be withstood by the gold standard. Any effort to do so merely meant the loss of the entire gold reserve and the breakdown of international trade.

Long-term changes could be met by a change in price levels; by the alteration of exchange rates as the expression of new relations of economic potential; or by cutting off the country from the effects of change: by economic isolation.

In the post-1919 world, laboring under the fetich of the gold standard, the attempt was made to meet changes by allowing them to affect price levels. But under the prevailing organization of economic life, a change in price levels had cumulative effects far more important than the original cause of the change. Price changes imposed through the gold standard system by international trade brought domestic depressions far greater than were necessitated by the original alteration in the terms of trade. National Socialism was on firm ground when it criticized the old form of economy, with its emphasis on money incomes rather than maximum production of goods. This is one of the major problems we will have to meet if our system is to survive.

In international trade, a partial solution can be found by recognizing that in the long run exchange rates must vary, since they are an expression of relative economic strength. Revision of exchange rates should have been a better recognized prerequisite of the gold standard.

(2) The binding together of the economies of the countries of the world was the most important result of the gold standard, and the factor closest to the heart of the liberal international system, since it is based on a recognition of equal rights to all nations. Through the gold standard system (the executive power which happened to be adopted under international capitalism) all countries had an equal right to access to raw materials, to share in the prosperity of others, to profit from the need of others for their services, to develop on the same terms as others.[5] In return, none were allowed to escape unscathed when economic difficulties developed anywhere in the world.

Again it must be asked: *is this desirable?* Should the American middle class suffer because of a crop failure in Brazil? Should a Frenchman find life easier because a German works harder? Whether this should be or not, the American, Frenchman, German or Zulu cannot help himself in the present state of the world.

Hitler tried. Every possible avenue of escape was turned by unremitting effort into a six-lane Autostrade. But present levels of cultural development are based on access to resources found scattered over the world. This access can be maintained in one of two ways: either by submitting to a degree of international cooperation between equals, or by the way of National Socialism.

Germany cut herself off from the rest of the world by devisen laws and import controls, in order that the internal boom caused by rearmament of the Reich would not spread across the borders. The natural desire of Germans who had more Reichsmarks to buy more imported goods was curbed, in order that it would not outrun the desire of the rest of the world to buy German goods in the same proportion that Germany's internal economy of full production outran the depressed activity in the rest of the world.

Germany refused to permit outside economic forces to bring deflationary pressure to bear on her artificial internal boom, to demand a share in the benefits of German deficit spending. She determined to keep the improvement to herself (at least, until the time came to ex-

5. It must be kept in mind throughout this chapter that these were the *theoretical* results of a *perfect* form of international capitalism The actual results were sadly different, not because of international equality but in spite of it, not because of the international capitalist system, but because of the almost inevitable abuses of that order.

port some of that improvement in the form of thirty-ton tanks and high-explosive bombs).

The result, as has been indicated, was that instead of deflationary pressure from abroad, Germany was faced with a "strike of exporters" at home. The economic forces which she abhorred caused her own citizens to turn away from unremunerative sales to foreign countries laboring under the depression, to turn to the booming internal market. In the place of the automatic forces of deflation, imposed from abroad, Germany had to resort to police power to force her businessmen to sell abroad, and had to subsidize their exports. Instead of being forced to sell goods at lower prices to the less prosperous members of the family of nations, by the automatic pressure of deflation, Germany had to substitute an equal amount of energy through the physical force of State intervention, to sell goods at the same lower prices.

As Germany's internal needs continued to rise, outrunning the capabilities of countries not sharing her prosperity to buy her exports in return for the sale to her of vital goods, SHE WAS FORCED TO EXTEND HER GOVERNMENTAL POWER OVER OTHER COUNTRIES. IN ORDER TO OBTAIN THE GOODS SHE NEEDED, SHE INEVITABLY HAD TO BRING OTHER COUNTRIES WITHIN HER SYSTEM OF GOVERNMENT-EVOKED PROSPERITY. At first this was done by the "reverse protection" of production of goods useful to her outside her boundaries. Then it was done by running up clearing debts, which amounted to deficit spending by foreign governments for her benefit. Finally, it was accomplished by actual occupation or political control, over Austria and Czechoslovakia, then Rumania, then over the entire Continent of Europe. The Autostrades of Autarchy led directly to an entanglement in the economic systems of other nations far closer than was ever conceived under the "hampering" ways of internationalism.

National Socialism, which refuses to bow to the concept of equal rights, must inevitably operate on the only other principle which remains, domination of man by man. In economics, this principle is called exploitation.

The question, "is economic interdependence desirable?" now is seen to mean:

Should the nations of the world accept the mutual rights and obligations of equality, or should the strong retain their strength by exploiting the weak?

The problem is social. As in the national economy, so in international affairs, if underprivileged groups are allowed to develop, the effect is to waste human resources of an irreplaceable nature and to create pressures which eventually lead to the overthrow of society.

As in all processes where a stimulus sets human beings into action, the reaction in a rising of the underprivileged is far greater than the original stimulus: man is himself a source and a controller of energy, which he can liberate at his will. If the world is to remain at peace in the future, it will be either on the foundation of equal rights and proportionate responsibilities in the world economy, or on that of the suppression of conflict by a dominant police State. The first is in keeping with our traditions and our way of life. The second is the scheme of National Socialism, so repugnant to us that any effort by us to maintain it would end in a failure as miserable as the collapse of the "ring around Germany" built by Versailles.

But besides the social aspect, the problem is also economic. For the greatest economic benefit, the nations of the world must work as a team, with no laggards and none who break from the traces to gallop to individual green pastures. The possible load of economic plenty is so great that the cooperation of all, weak and strong, is needed to pull it. No ten individual horses, each with its own wagon, can pull as much as a team of ten working together, if only because ten wagons require a massive duplication of lumber. In economics, excess lumber is known as protected industries.

Can our objectives be obtained, as has often been suggested by the abolition of all barriers to trade? Will our problems be solved by the restoration to international trade of the theoretical conditions of laissez-faire? This question can be broken into two more concrete parts:

(1) *If we restore international laissez-faire, will we obtain stability of exchange rates, and other factors of international trade, insofar as it is desirable?*

Theoretically, exchange rates will not vary under the gold standard system, no matter what happens to economic potentials on both sides of a frontier. Theoretically, *price levels* are the variables by which international trade finds equilibrium.

It is highly doubtful that a restoration of the complete fluidity of "pure competition" can be enforced. "Contracts, combinations, and conspiracies in restraint of trade" can be broken up when they become too obvious, but the pervasive psychological fear of a falling price cannot be legislated out of the economy. Even if it were possible to reconstruct our system along the lines of theoretical laissez-faire, stability will not be restored by the sole means of breaking down tariff barriers and reintroducing international economic automatism, since the problem lies deeply seated in the structure of the national economies. External pressures on national prices can, indeed, be restored by the abolition of barriers to trade (which came into existence to meet them), but the result cannot be borne by national economies, if this alone is the complete solution. It seems easier to endure the maladjustment demanding a change in prices than to cope with the additional maladjustment caused by a change in prices.

(2) *If trade barriers are abolished, will common speed of world economic development be attained?* The answer is yes. No region of the United States undergoes economic changes apart from the common destiny of the whole, because of the freedom allowed equilibrating forces.

The challenge, then, in international relations just as within the separate national economies, is to reconcile continually needed adjustments with the disastrous results of change. The challenge is the business cycle. National Socialism finds the solution in a nationalist armament economy. It is a simple solution. But it is not, it cannot be allowed to be, the only way.

Certain strategic factors, however, present to some degree even within nations, make the problem far more difficult than the already complex one of national cycle control. Social, cultural, and economic differences between countries make absolute equalization of rates of development by automatic adjustment an impossibility and an absurdity. Only if land, labor, and capital could move freely in response to economic changes would uniform development prevail throughout the world. But land (and natural resources) is fixed, capital is inflexible insofar as it is embodied in specific uses, and the movement of labor is inhibited by immigration laws which, whatever their wisdom, will not change much in the near future.

Differences in culture, historical development, and language are the basis of the nation. As long as these variations remain, some separate form of national government must be envisaged. National governments are faced with different social problems. The Chinese Government will aid industrialization of China, an inevitable development held back by historical conditions. The British Government will have

to deal with the problem of technological unemployment in the "depressed industries." In the past such problems have been met by restricting international trade. In the future they must be approached with a wider perspective, within the framework of international commerce.

International trade bridges the gap between these fundamental differences, utilizes them for productive purposes where possible and alleviates the tension caused by them. Over the long run international trade will greatly lessen the degree of variation by making available to every nation the benefits of land, labor, and capital fixed within other regions (when Orientals, for example, become accustomed to Western standards of living most of the objections to their emigration will disappear naturally). But for the foreseeable future some economic means must be found to bring concordance between the more or less cohesive and more or less regionally defined organizations known as nations.[6] Or some political means will be found by some one nation to crush others beneath its rule.

(1) *What effect will the remaining barriers have on international monetary organization?*

Gloomy Malthus believed that population adjusted itself automatically to the available means of sustenance, by the gruesome process of dying of starvation when excess numbers existed, and by mass reproduction when population was smaller than could be provided for by the food supply. Subsequent experience has shown that changes in the customary standard of living have effects fully as important as actual famine. But such changes are adjusted to only after appreciable time lags. Population and desired standards of living may increase faster than available resources, or physical wealth may decline before a corresponding change in standards of living or number of inhabitants in an area can take place.

In international trade, the immediate expression of such developments is a change in the terms of trade. If consumption and production changed quantitatively in the same proportion there would be no pressure on the ratio at which exchange with other countries takes place.

6. Of course, the old State entities should not and will not be retained inviolate. Nations are beginning to realize that they have far more in common with their historically separate neighbors than they had once thought. Regional federations of nations with similar interests, such as the pact between the Polish and Czechoslovak Governments-in-Exile, must be encouraged and extended.

This would be the case if emigration and immigration of physical resources and population were absolutely free. Since barriers do exist, however, changes in purchasing power parity must be allowed for.

Changes in the terms of trade may take either the form of changes in price levels or of changes in exchange rates. But alterations in price levels, as we have seen, carry consequences which are highly undesirable. Therefore provision must be made for alteration of exchange rates. In the past, however, such changes have been used to provoke new, supposedly favorable, maladjustments, by artificial devaluation or artificially maintained overvaluation. To prevent the abuse of exchange rates, which brings about retaliation and new dislocation, some form of international control is necessary.

In any case, an international organization will be needed to set up an international medium of exchange. The gold standard is defunct, because no nation except the United States will have any gold left at the end of this war, and none will be willing to entrust the determination of its economic destiny to unpredictable and uncontrolled automatism working through internal price levels.

Gold no longer circulates as money, nor does it have much remaining significance as a fetich by which confidence in a currency may be maintained. It no longer serves the purpose of regulating the international economy, because the State has taken over that function, and will in all likelihood retain it. It is as foolhardy to think of restoring the automatic gold standard as to suggest a return to complete laissez-faire (including freedom from State interference in child labor and misleading securities advertising) for the internal economy, in the face of the lessons of the past.

Economically, the State must intervene to solve the problem of the business cycle, because no other power on earth can do so, and because no society can afford any longer the pleasure of having depressions. Socially the State will probably discover many fields for its activity, not the least of which is malnutrition despite bursting granaries, poverty in the face of tremendous possibilities of production.

But internal control of this sort, since it works counter to automatic economic influences, carries with it the danger of destroying the intimate connection of national economies with each other. Stabilization of exchange rates against forces judged by the State to be temporary, or considered to interfere with State economic objectives, may result

in these forces becoming permanent. This consideration brings us to question:

(2) *What effect will the remaining barriers have on the common speed of economic development?*

Government intervention to assure the smooth functioning of the national economies will most probably take different forms according to the differences between national economies. Government amelioration of social problems will certainly vary according to the necessities of a particular nation. Insofar as distribution is involved in welfare projects (it almost always is), such efforts will have a profound effect on internal economies and thus on their relations with each other.

In recent years, independent decisions were made by national governments in response to problems of the depression and in an effort to control the business cycle within their own borders. The protective tariff became an instrument of pump-priming and make-work policies. It was, however, two-edged, just as likely to cut off the fingers of the user as to cut down the weeds choking recovery. Protection solved unemployment by making industry as a whole less efficient, thereby requiring more workers to accomplish a given task. But, when protective tariffs were instituted by a country in order to create employment within the national economy, the ability of other nations to purchase from that country was reduced. The result was new unemployment in the most efficient industries, those working for export.

If international trade were a luxury which could be dispensed with at will, the use of protection to create employment might not be serious. But international trade is a necessity for all nations, and a *vital* necessity for some. The eventual price of the international maladjustments caused by nationalistic economic policies is war.

No one nation, of course, can undertake to lift the whole world out of a depression in order to alleviate its own economic distress. Since this is impossible for a single country, each separate State has been compelled to adopt the alternative policy of individual action directed to the internal economy. National Socialism claims there is no alternative for nationalistic control.

Our own experience with the AAA program of agricultural restriction, by which farm prices were raised at home with the result that our foreign market for cotton and wheat declined, shows the folly of ameliorating our internal income at the expense of income from abroad. Granting in this example the need for a solution of the social problem arising from competitive agriculture being required to bargain with monopolistic industry, it must be recognized that the difficulty is world-wide. The Brazilian planter is just as much at a disadvantage as the Southern share-cropper. Attempts to aid the one without helping the other are only partial solutions, because both react upon each other through the ties of international trade. Only if the AAA in American cotton had been accompanied by an AAA in world coffee production would the probably uneconomic, but now permanent, shift of cotton production from the United States to Brazil have been avoided.

International cooperation in control of the business cycle and in social amelioration is the only alternative to nationalistic experiments struggling against each other. It is necessary to the same degree that international trade is necessary. It presents the same possibilities, the same hope of plenty and prosperity, as the future development of unrestricted world trade.

Is this utopian? Whether desirable or not, whether inevitable or not, will international cooperation be politically possible in the post-war world?

Experiences of the last peace have shown how easy it is to do nothing about economic problems. Will the difficulties in the way of doing what is required be too great?

Three factors favor an attempt to solve the problems facing us:

(1) Vested interests have been destroyed, at least in the Occupied Territories of Europe. Nazi control has one feature which will help in establishing sound economic relations after the war, although its method is hardly one to rejoice at. The old has been wiped out to such an extent that it will interfere little with the new.

In Great Britain and the United States, due to the demands of total war, a somewhat similar process is taking place, at least to some extent. Rationing and priorities are choking off old industries, while government demand favors new development. By a fortunate coincidence, this war is demanding production of just the sort in which both countries have comparative advantages, and is undermining many branches of industry which formerly were loudest in their demands for protection. When this war has been won, the great "overcapacity" built up in machine-tool production, in the automotive and aviation fields, in aluminum and electro-technical manufacture will be

a source of pressure for the opening up of international markets, while the decline in consumer-goods production will make for greatly increased import opportunities.

(2) Post-war problems will be so great that the impossibility of solving them without international cooperation will be evident. The countries which have suffered the full brunt of warfare will require immediate and obvious aid. Those which have not been turned into battlefields will need immediately a substitute for their war-time markets. At present, for example, virtually all United States exports take the form of lease-lend aid or sales to our Allies. If post-war economic collapse is to be prevented, normal markets or emergent demands for reconstruction will have to be found abroad to absorb the productive energies now going into war. Only international cooperation will make this possible.

(3) Once established, a system of economic cooperation will prove its own merits. The first, and greatest, task will be the creating of the new international economy. We can only hope and believe that our leaders and our people will have the vision and force of character requisite to the first step. Technical potentialities are present for an era of material satisfaction unparalleled in the history of the world. All that is required is the foresight and ability to avoid in the future the mistakes which in the past have prevented full utilization of the world's resources.

We are determined to end war. Dictatorship and war arise (if the national environment is favorable) when a nation is faced with grave problems which it cannot solve with its own resources in the usual way, when the difficulties which it must overcome are imposed from outside its own boundaries. If problems face all the world simultaneously, if national problems interact on each other, we are ready for international organization.

Two world wars and a decade of world depression within the last thirty years are alone evidence of the need. The world can no longer afford the luxury of international anarchy. There is now in progress an attack on the civilized world, all over the world, arising from a common cesspool. We, people, have united aspirations for decency, progress, and freedom. Now our task is to clean out National Socialism. Our victory must be complete, and permanent.