

Here is advance news of Germany's default, of the latest lap in the international arms race, and of Japan's penetration of Africa by way of Ethiopia.

ALARMS *and* Excursions

DISPATCHES FROM
THREE FRONTS

I. GERMANY REPUDIATES

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Translated from the *Neue Tage-Buch*, Paris German-Émigré Weekly

AFTER the Bolshévists had gained power in Russia, they announced that the country's foreign debt was repudiated. Ever since this declaration no foreign loan contracted by the former government, no foreign obligation of any Russian citizen were paid either in respect to interest, dividends, or amortization. This dispossession of foreign capital made the Soviet Government unpopular for some time. It served as one of the arguments to prevent western governments from granting diplomatic recognition for many years, and it was one of the real causes of widespread bitterness and distrust in the creditor countries.

Yet, great and long lasting as the irritation was, it did not prevent new business relationships from being es-

tablished. Bondholder A and shareholder B had lost money in Russia, but cotton producer C and machinery manufacturer D would not refuse to sell indefinitely and thus earn money. Although those who had lost growled angrily and demanded an eternal boycott, the interests of those who had not lost money ran in the opposite direction. Moreover, in certain countries hardly anybody had lost money on account of Russia. Also, the hostility between individual states and the hostility between individual interests in different states reopened Russian trade in spite of the repudiated debts, and Russia opposed these rivalries with a unified foreign-trade monopoly of its own. When ten thousand firms were competing for Russian orders against

each other, they confronted a purchasing colossus that played one off against the other and could always make the most favorable arrangement. It succeeded in extending its terms of payments over a longer and longer time, and, above all, it succeeded in arranging that any country that sold goods to Russia must buy goods from Russia and thus develop Russian export trade.

Germany's repudiation of foreign debts has not been accomplished overnight, as was the case with Russia, but by degrees. It never represented such a clear decision. Originally, Schacht and his clique set out to repudiate the so-called political debts, the reparations. They have worked systematically along this line since 1927, and, with this purpose in mind, they plunged Germany and the world quite consciously into a combined political and economic crisis.

But, when they found that it was so easy to wipe off the political debts and when the rest of the world had readily agreed to the standstill arrangement on the commercial debts, their appetite came with the eating. When Schacht returned to the Reichsbank for the second time early in 1933, his first act was to throw overboard four hundred million marks in gold. This sum took the form of the credit extended by the Bank of International Settlements in 1931, which his predecessor, Luther, had decided to use, and Luther had just prepared to sign a document to that effect. Everything was ready, but Schacht did not sign. Instead, he paid out a sum that no one expected him to pay, half of all the gold in the Reichsbank. His reason was 'to clear the situation.' I wrote at the time that he had given the signal

that commercial debts would be the next to go, and at once he began to put on his show of poverty. Just as deliberately as he had wiped out reparations, he launched a new campaign that sums up the whole purpose, task, and promise of his second Reichsbank presidency, and after it is completed perhaps he may depart. This is the campaign for complete debt repudiation. To allay misgivings the camouflage of payment in scrip was devised, but the whole world now seems to have understood the real game. Indeed, repudiation has become the real topic of the day in Berlin, and not for the first time. Actually, the process has gone forward in three stages, two of which have been completed, the only matter now under dispute being the last step. For it is possible that some small remnant may remain untouched, perhaps the Dawes and Young Plan loans, or perhaps a few payments in kind.

Anyone who wants to understand the current negotiations in Berlin has two precedents at hand. We have the Russian repudiation, and we have the two-thirds repudiation that Germany has already completed. Both precedents justify us in warning against undue anticipations. It has again become fashionable to foresee a speedy collapse in Germany. Everywhere people are saying and writing that the system is falling to pieces, that its inner weaknesses are developing at breakneck speed, that it is economically done for. We again hear foreigners saying that it is all breaking up and that, therefore, we need not worry any more. But there is nothing more deceptive than the sensation of victory. When we bring to bear the coldness, objectivity, and critical experience neces-

sary to discover the truth, we find that even Russia's repudiation of her foreign debts did not long prevent her from getting the goods she needed abroad. Also, we find that the two-thirds repudiation of Germany's foreign debts did not cause a fraction of the damage that the Russian repudiation did. The two-thirds repudiation actually made no difference at all. Germany's trade with the rest of the world was not interrupted. Its capacity to provide itself with all the necessary raw materials, even in larger amounts, was not damaged. Why then should repudiation of the rest suddenly lead to catastrophe?

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To judge the situation we must recall that rivalry between hostile interests saved the Russians. This rivalry has already manifested itself in the fact that only the English and French Governments have sent warnings to Berlin, and both of these have referred only to the Dawes and Young loans. These two loans are guaranteed by the respective governments, and, therefore, the national treasuries are affected. Although they hold a relatively small amount of these bonds, they announced that they had no interest in any of the others. Each country is ready to fight in behalf of its own treasury department, but not one of them is ready to champion Citizen X or Citizen Y who hold German obligations.

But still more significant is the fact that the American Government did not participate in the protest about the two special government-guaranteed loans, although most of these loans are held in America. Since the

United States was, of course, asked to participate in this protest, the episode makes it quite clear that America is not willing to go as far as England and France in protecting its own treasury. For America is a country that sells more to Germany than it buys there, whereas England and France are preëminently purchasers of German goods. The hostility of the different interests thus reveals itself in the different attitudes of the governments concerned toward the two special loans in which they have an interest.

Look at it from the point of view of the individual. Why should Citizen Jones in Texas sell no cotton to Germany because Citizen Mitchell in Chicago gets no money on his Rheinisch-Westfälische Elektrizitätswerks bonds? Only his government could be of assistance. But has his government an interest in reducing cotton exports? Obviously not. And the same thing is true of German exports. Citizen Mitchell's irritation will not prevent Citizen Anderson from buying unusually cheap German opera glasses for his optical shop, and he, too, could be hindered only by a law reducing imports from Germany. Finally, the legislator knows that you cannot sell cotton if you do not admit other goods to the country, and he has an interest in selling cotton.

Nevertheless, difficulties will arise. There will be agitation, perhaps reprisals; and probably a further decline in trade. Yet Russian experience rises again before our eyes. Russia played off hostile foreign interests against each other and confronted them with a foreign-trade monopoly. Why should n't Germany do the same thing? The answer is that it can. Anyone who has eyes to see and ears to hear perceives that the German

foreign-trade monopoly is growing. In so far as imports are concerned, all agricultural products are already subject to a state monopoly, and the same thing is true of metals and textiles. This means that many German imports come into the country only in amounts fixed by the state and that other imports will be subject to the same restrictions. A practice of this kind necessarily extends from one form of goods to another. And this steady extension of state import control results in a severe decline in prices within the countries from which the imports come.

The indissoluble connections between all economic spheres within the state at once bring about a state centralization of exports. Already a whole system exists, stretching into many branches, that keeps depressing export prices by state subsidies and rebates, not to mention scrip and other devices. Discussion about the export drive has begun, that is to say, about the obligation of every manufacturer to sell a percentage of his products at cut rates on the export market with the aid of the national treasury. Is n't it clear where all this is leading to—the transformation of export trade into a collective instead of a private activity, into a centralized instead of into a dispersed business?

The foundation of Bolshevik trade with the outer world is: 'We need such and such goods, hence we deliver certain products in the necessary quantities. Since only a very small part of our total production is involved, it does n't make much difference whether we deliver more or fewer goods and prices do not matter. Exports have nothing to do with normal calculations of cost. The importation of certain goods we

need is important. How many goods are demanded from us in exchange, or, in other words, the price at which we export, is relatively unimportant. It is merely something supplementary.'

That is the foundation on which Germany is beginning to build. Germany also needs imports amounting to scarcely ten per cent of her total production. Consumption is gradually being diminished and can be diminished a great deal further. The country still has bananas and silk from Lyon, and one can get along with one less suit a year. A centralized state import bureau can still play on this piano for some time. But to pay for these imports will be just as difficult for Germany as for Russia as soon as exports are no longer considered a source of private profit but a national obligation and as soon as Germany says, 'I simply give goods in exchange in whatever quantities are needed.'

Communism? Of course. Here, too we see the character that marks all of German economy: the totalitarian régime, combined with autarky and the war industries, creates the precise opposite of what those ungifted, stupid promoters, Thyssen and Co., imagine. 'We have made a mistake,' Thyssen now complains when he is abroad. And other rulers in his guild who have been clothed with rank and dignity in the system are complaining in their hotel rooms just as bitterly as any émigré did during the first weeks. And all this has not happened for the benefit of the proletariat. It has happened for the benefit of the capitalist. It was set in motion by the capitalist, and its purpose was to establish the capitalist in a position of leadership. But with the force of a process against which there is no protection, the consequences

of such crassly anti-capitalistic, totalitarian, 'heroic,' and autarkistic conceptions are forcing the masters of Germany to take further measures to destroy the capitalistic mechanism every day.

Involuntary, rapid self-annihilation of capitalism is going on in Germany, a process in which one part of the capitalist machine after another is torn to bits, cast aside, and replaced by an obviously Communist part. 'But we cannot go any further,' stormed Herr Schmidt after Hitler came to power. 'Now nothing more will be changed.' And the very next day still another cogwheel had to be thrown out, and one has to keep on changing parts. What people call the struggle between the socialistic and the capitalistic tendencies in the National-Socialist Party amounts to nothing more or less than a struggle between two free decisions. But these decisions consist of an eager assent or an angry denial of a development that goes its way with the relentlessness of an advancing stream of lava.

Actually, the capitalist system hardly functions at all. The capital market has been destroyed. All normal farm credit has been removed now that the property of the peasant can not be transferred. Credit on municipal real estate does not exist because nobody will write a mortgage. Commercial credit has been destroyed by the virtual elimination of bankruptcy legislation, and stock and bond issues are absolutely impossible. Capital investment has become completely the affair of the state in every important field.

Competition does not exist. More and more prices are being fixed from above. Production methods, quality,

quantity, sources of material, and working conditions are determined by bureaucratic cartels and associations. The hand of the state intervenes more and more in determining the cost of operation and deciding how many workers shall be employed, even what workers. International trade has ceased. Imports are dictated, exports manipulated. The stream of capital has been completely dammed, and even personal travel becomes more and more difficult. I therefore ask myself, 'What is the principal difference between the functioning of the economic system in Germany and Russia?' And the answer is this: Germany is like another Russia with but two exceptions. First, the business leaders receive very much higher incomes. Second, the state is not the nominal owner of the means of production, although there has been such a close network of regulations woven around the private business man that he has almost no freedom of movement. Imagine this and you have a rough objective idea of the situation into which Germany is being hurried at increasing speed. It means the end of the individual business man and of free initiative. It is making the workingman a soldier in the ranks of the economic system and the business man a major.

This is what they wanted—the Thyssens, Schmidts, and Schachts. They deny it; they decide every day that it cannot be, and then they come to their office, find some new consequence of what they have done staring them in the face, and they cannot help taking another step in the same direction. For they can retrace their steps only if they again become pure economists, pure capitalists, if they cease subordinating the economic to

the military, revengeful, nationalistic, tyrannical aspirations of a politically dominating group of gangsters, and even then the way back would be murderously difficult.

How, for instance, could the programme of agrarian self-sufficiency ever be abandoned now that the existence of millions of peasants is based on it? In any case, as long as these aspirations dominate economic considerations, there can be no retreat. They

must continue to come closer and against their will to a kind of communism that is without the social aims of Russia—a communism of planlessness and of empiricism—but to Communism none the less, that is to say, to a repudiation of one liberal, capitalistic element after another. In order to escape anarchy they will progressively replace the bankrupt capitalist element with what is collectivist and authoritarian.

II. THE ARMS RACE TO-DAY

By A SPECIAL INVESTIGATOR

From the *Daily Herald*, London Labor Daily

THE great armament racket is now nearing its peak. It has been carried on persistently, callously, and with deadly effectiveness for two or three years. And so confident have the armament kings become that it is now being worked openly, with a contemptuous disregard of everything but profit-making. A number of countries are in it, and Great Britain is playing a leading part. Poison gases deadlier than any ever known are being 'perfected.' New types of guns are being tried out in secret. Some firms are taking on hundreds of extra men, and shares, especially of aircraft companies, are soaring to remarkable heights. A year ago Hawker shares were worth 11 shillings sixpence. On May 25 the price was 22 shillings sixpence. Fairey Aviation shares have leaped from 21 shillings sixpence to 33 shillings one pence halfpenny within the year. In Sheffield alone factories manufacturing special steels for airplanes are working on a scale not known since the War. There is

similar activity in other centres, and highly paid agents from armament firms in this country have been touring Europe, South America, the Near East, and the Far East booking orders for death and mutilation.

But the activity in Sheffield is typical of the situation as a whole. One man well known in that city, who has been making inquiries for months, said to the *Daily Herald*: 'The position has gone beyond the stage where denials can be accepted. I have been inside some works and talked with men who are employed in others. Despite all precautions against leakage of information, there is evidence in plenty that big combines are concentrating on arms for navies, armies, and air forces. Since the introduction of the secret marks on the blue prints,—they have taken the place of the name of the government or department for which the orders are being undertaken,—the men cannot tell for whom they are working. But nothing can disguise the increase in the num-