

D 643

D (4) / D 82

Jan. 1920.



Index No. 26.

The Peace Treaties Explained.

No. 3. GERMANY: ECONOMIC CLAUSES.

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Price 3d.

PUBLISHED BY THE WOMEN'S INTERNATIONAL LEAGUE,
14 BEDFORD ROW, W.C.1.

THE
PEACE TREATY WITH GERMANY.

**SHOULD ITS ECONOMIC
PROVISIONS BE REVISED?**

Ought we to press for the revision of the provisions of the German Peace Treaty which affect her economic life? The answer obviously depends on whether the terms are **just**, whether they are **feasible**, and whether they are **desirable** in the interests of the community of nations.

I.

ARE THE ECONOMIC TERMS JUST?

Without stopping now to discuss this question, let us start with the assumption, which nobody will challenge, that it is just that Germany should contribute as much as she possibly can to the repair of the injury caused by the war.

II.

**ARE THE ECONOMIC TERMS
POSSIBLE TO CARRY OUT?**

GERMANY'S FINANCIAL POSITION.—Let us see first what is Germany's financial position to start with. According to Herr Erzberger's Budget Statement in October 1919, her debt will amount by April 1920 to 212,000,000,000 marks—*i.e.* a larger national debt than our own. This first Budget of the new German Republic shows a deficit for the year of 56,000,000,000 marks, and this is

D643
Versailles,
Treaty of, June 28,
1919
(Germany)

after taking into account the sum of 9,000,000,000 which it is hoped to raise by the Capital Levy.

Now this financial burden would obviously be a heavy one for any country, even our own. But mark this. That German Budget includes provision only for the cost of the Army of Occupation; **it makes no provision whatever for the further costs of reparation, which costs have not yet been fixed.**

REPARATION.—Let us now see what Germany is liable to pay as reparation. She has to make compensation for all damage done to the civil population of the Allied and Associated Powers and to their property during the war, whether by land, sea, or air. This is defined as meaning that, among other items, she is liable to pay **for the capitalized cost of all pensions and compensation granted by all the Allied and Associated Powers to all naval and military victims of war, whether mutilated, wounded, sick, or invalided, and to the dependents of such victims; also for all allowances made by the Allied and Associated Governments during the whole war to the families and dependents of all mobilized persons or persons serving with the Forces.** (The scale of these pensions and allowances is to be calculated according to the rates in France.) (Article 232, Annex I.) In addition, Germany has to repay with interest all the loans made by the Allied and Associated Powers to Belgium up till the Armistice (Article 232).

These are only three items in the programme. Imagine what they represent in money. Is it not clear that it would be virtually impossible for any one country in such a financial position as Germany to pay more than a fraction of these vast sums, **even if that country had all its resources intact?**

EFFECT OF TREATY ON GERMANY'S RESOURCES.—But one of the fundamental facts of the Treaty is that, whilst making these charges on Germany, it also **deprives her of a great part of her principal resources and assets.** Some of these assets of which she is deprived will be credited to her as part of the reparation; but in nearly all cases the loss of them will reduce Germany's capacity to produce and therefore her capacity to pay. The following assets are simply lost to her and do not count against the Reparation Fund.

A. Iron Ore.—The Treaty deprives her of over three-quarters of her production of iron which came from Alsace-Lorraine. Before the war Germany's iron and steel industry was her greatest trade (Part III, Section 5).

B. Coal.—The Treaty deprives her of so much coal that it is certain that she will not have enough for her own industries, at any rate, in the immediate future. Some of the coal will, however, be paid for (Part VIII, Annex 5, &c.).

In 1913 Germany produced about 190 million tons of coal and imported $10\frac{1}{2}$ millions. She exported $34\frac{1}{2}$ millions. The Treaty deprives her of Alsace-Lorraine (3.8 millions in 1913), the Saar (13.0 millions in 1913), and, subject to the plebiscite, Upper Silesia (43.5 millions in 1913). She would thus have left about 130 million tons if the Ruhr coalfield were producing at its pre-war level; but the production has fallen by 30 per cent. or more. Out of the balance of some 90 million tons (assuming Silesia to be lost) she has to supply to France 7 million tons annually for ten years; also, as an additional reparation for the destroyed mines an amount equivalent to the deficit of these mines compared with their pre-war output: the amount may be up to 20 millions annually for the first five years and 8 millions annually for the succeeding five years. In addition, she has to deliver to Belgium 8 millions annually for ten years, and to Italy $74\frac{1}{2}$ millions during the next ten years. The price of this coal is regulated. It should be added that the Reparation Commission will have discretion to postpone or cancel these deliveries if the full exercise of the options would interfere unduly with the industrial requirements of Germany. Besides all this, she has to deliver large quantities of coal products.

Her own consumption of her own coal in 1913 was 163 million tons. (This, of course, included the consumption of Alsace-Lorraine and Upper Silesia.)

C. Zinc.—The Treaty will deprive her of nearly three-quarters of her zinc if the plebiscite goes against her in Upper Silesia, where 72 per cent. of her output is produced (Part III, Section 8).

It will also deprive her of much lead and silver and of the foundries in which these zinc ores were worked up with Upper Silesian coal, and of the by-products of the industry, especially sulphuric acid. In addition, the German zinc contracts in Australia have been annulled. The German zinc industry used to be one of her greatest assets and, to a large extent, controlled the world's market for zinc.

D. Potash.—The Treaty deprives her of the great deposits of potash in Alsace-Lorraine (Part III, Section 5).

Before the war the German potash monopoly was Germany's most powerful commercial weapon in bargaining with other States: the only potash outside Germany was the small field in Spain. Now the monopoly is broken.

We are not considering whether the loss of these assets is right or not, but only whether Germany's capacity to pay is likely to be reduced thereby. It may well be the case that the breach in this German monopoly is a wholly good thing for the world, and will lead to the development of the hitherto little exploited potash resources of Alsace; but, of course, it reduces the value of Germany's assets.

E. Food Producing Land.—The Treaty deprives her of some of her richest food producing land—*i.e.* Posen and West Prussia (Part II, Art. 27, and Part III, Section 8).

These Provinces produced about one-quarter of Germany's total output of grain and potatoes, and about 10 or 12 per cent. of her live stock: as the population of these Provinces was only 6 per cent. of the total population of Germany they had a large surplus of food to send to Berlin and other parts of Germany.

F. Ports and Waterways.—The Treaty deprives her of the control of all her main river communications, this being placed in the hands of International Commissions. In no case has Germany a majority on any one of these Com-

missions, even on that which deals with the Oder, a purely German river (Part XII).

Apart from the assets which Germany has to surrender at a dead loss there are the assets which are chargeable to her credit with the Reparation Commission. These include the following items:—

G. Shipping.—The Treaty deprives her of all her shipping of 1,600 tons gross and upwards, and may compel her, on demand, to build up to 200,000 tons of shipping annually for the Allies for five years (Part VIII, Annex 3).

In addition, she loses half her tonnage of ships between 1,600 and 1,000 tons gross, and one-quarter of her tonnage of steam trawlers and other fishing boats. A further demand has lately been made for 300,000 tons of dock equipment, &c. She may also be deprived of an amount up to 20 per cent. of her river fleet.

H. Rolling Stock.—The armistice deprived her of 150,000 railway wagons and 5,000 locomotives. She has also to surrender the rolling stock of the railways in the ceded provinces.

I. Cables.—The Treaty deprives her, in favour of the Allies, of her submarine cables (Part VIII, Annex 7).

J. Colonies.—The Treaty deprives her of all her Colonies, which are prospective sources of raw material, and on which Germany had spent large sums (Part IV, Arts 119-127).

There is undoubtedly a strong case against German colonial administration, especially in German West Africa. But the point here is that the loss of all her Colonies reduces Germany's prospective wealth. It may be added that it also appears to be a violation of the spirit of Point 3 of the Fourteen Points. Moreover, so long as other nations maintain the practice of possessive colonization of primitive countries, the exclusion of Germany from the opportunities and responsibilities of such colonization is liable to divert her energies into more dangerous channels. Germany's population was rapidly increasing before the war, and she has far more need of "expansion" than any other country.

K. Dye-stuffs.—The Treaty deprives her of half her present stock of dye-stuffs, and for a period of years gives the Allies an option over a sufficient proportion of her future output to enable them to break her control of this trade (Part VIII, Annex 6).

Like the breach in the Potash monopoly this appears to be a good thing in many ways; but, of course, it reduces the value of Germany's assets.

L. Live Stock and Agricultural Implements.—The Treaty deprives her of large quantities of agricultural implements and of live stock (Part VIII, Annex 4).

It is manifestly just that Germany should make restitution of the implements and live stock carried off from the devastated areas; but the provision that within three months of the coming into force of the Treaty Germany shall deliver 140,000 milch cows would, if insisted upon, make a great milk famine in Germany inevitable. It is stated in the British Government White Book, C.M.D. 280, on Food Conditions in Germany, that the milk production in Germany in 1918 was only half the pre-war figure: "Even should a plentiful supply of food-stuffs (for cattle) be imported or otherwise made available . . . it is difficult to see how Germany can avoid a milk famine, which will endanger the lives of children and mothers to an extent we hardly dare contemplate."

M. Economic Rights and Interests outside Germany.—As regards territory outside the frontiers of Germany as now fixed, the Treaty deprives Germany of "all rights, titles, and privileges whatever in or over territory which belonged to her or to her Allies, and all rights, titles, and privileges, whatever their origin, which she held as against the Allied and Associated Powers" (Part IV, Art. 118). She loses all her property, privileges, and rights in China, and all rights in Siam, Liberia, and Morocco. The Allies have an option under the Treaty to confiscate all German rights and interests "in any public utility undertaking or in any concession operating in Russia, China, Turkey, Austria, Hungary, and

Bulgaria, or in the possessions or dependencies of these States, or in any territory" ceded under the Treaty by Germany or her Allies (Art. 260). Germany even loses all rights of German subjects under any "treaties, conventions, or agreements of whatsoever kind to representation upon, or participation in, the control or administration of commissions, State banks, agencies, or other financial or economic organizations of an international character, exercising powers of control or administration, and operating in any of the Allied and Associated States, or in Austria-Hungary, Bulgaria, or Turkey, or in the dependencies of these States, or in the former Russian Empire" (Art. 258).

Furthermore, the Allied and Associated Powers have the right to retain and liquidate all property of Germans in their territory, even after the ratification of Peace (Art. 297). And on top of all this Germany has to accord "most favoured nation treatment"* for five years in respect of imports, exports, and transport to all the Allied and Associated Powers **without reciprocity on their part** (Part X).

In short, Germany and her subjects are deprived, or are rendered liable to be deprived, of practically all rights, property, and privileges outside Germany itself.

Three great assets still remain to be considered, Germany's labour, Germany's food-production, and Germany's industrial production.

N. Labour.—The value of Germany's labour has been fearfully reduced for the time being by the long blockade.

* That is to say, German charges on imports, exports, and transit of goods to and from Allied countries must for five years be at least as low as the lowest German charges on such goods to and from any foreign country whatever. Germany can thus make no discrimination against the commerce of any of the Allies, and any privilege as to imports, exports, and transit which Germany may accord to any foreign country must be extended equally and at once to all the Allies.

Prof. Starling has said in the Government White Book on Food Conditions in Germany: "The impression we have derived is that the nation of Germany is broken, both in body and spirit. Even if the adverse conditions as regards food were removed within the next few months, months or even years of good feeding will be necessary before the people are restored to their previous health and efficiency." "Germany stands face to face with a catastrophe which may involve the death of millions by famine and disease unless she can obtain by importation sufficient food to make up her deficit."

O. Food Production.—Germany's capacity for producing food has been enormously reduced. Before the war she produced no less than 85 per cent. of her requirements of food; but her land is, generally speaking, poor, and she depends more than any other country for crop production on the supply of artificial manures. At present "her supplies of nitrogenous and phosphatic manures have been reduced by almost two-thirds" (*vide* White Book C.M.D. 280 for full particulars). Germany's cattle stocks have been reduced from 21,000,000 to 17,000,000, but these are so diminished in weight as to be equivalent to little more than half (55 per cent.) of the pre-war stocks. Her pigs have fallen from 23,000,000 to 5,000,000 (White Book). It may be imagined that the effect of all this on Germany's food production is very serious, apart from the loss of food-producing provinces.

P. Industrial Production.—The value to Germany of possessing the apparatus of a great industry obviously depends on her capacity to obtain raw materials and to sell in foreign markets. We have seen that Germany loses under the Peace Treaty a very large proportion of her own

raw materials: **she has no adequate credit facilities for the purchase of foreign raw material.** For the time being her foreign credit is smashed.

Apart from this difficulty as to supplies of raw material there is the further difficulty as to trading abroad: the Treaty virtually deprives Germany of all property and commercial rights outside her own country. The Allies can cancel or maintain their pre-war treaties with Germany at their own discretion. No rights accrue to Germany as to tariff or transport, and she is left with practically nothing with which to bargain or retaliate. As already stated, she has to give most favoured nation treatment to all the Allied and Associated Powers without any reciprocity on their part. When it is added that German merchants have been expelled from or interned in very many of the countries of the world during the war it will be realized to what an extent Germany's foreign trade must now find itself paralysed.

To sum up, Germany has been deprived by the Treaty of so many of her assets and sources of production at home and abroad that her economic system must be absolutely crippled for the time being. But we cannot thus smash her on the one hand and expect her to pay a colossal indemnity on the other. We cannot kill the goose and then expect it to lay eggs. In short, the economic terms of the Treaty are mutually incompatible, and when taken as a whole are **absolutely impossible to carry out.**

III.

**ARE THE ECONOMIC PROVISIONS
DESIRABLE IN THE INTERESTS OF
THE COMMUNITY OF NATIONS?**

We have seen that the Economic provisions of the Treaty, as they stand, appear certain to cripple Germany for the time being as a going economic concern. Is this desirable in the interests not only of Germany but of ourselves and of the community of nations as a whole?

In the first place we should, of course, get **no indemnity**. Our Allies, especially France, Italy, and Belgium, are counting on receiving great sums from Germany.

It stands to reason that, unless she has food, raw materials, and internal stability, she cannot produce: unless she can produce she cannot export: and unless she can export she cannot pay.

In the second place, we should lose our best customers. Already it takes 200 German marks to buy a sovereign's worth of English goods: already the working power of the German workman is greatly reduced by under-feeding; and already the danger of internal disorder is sufficiently grave. If Germany is plunged still further into bankruptcy, starvation, and anarchy, what chance is there that we shall be able to develop the Central European market for British goods?

Apart from every moral consideration, apart from every objective of the League of Nations, the British trader simply cannot afford to see Germany hopelessly ruined: **for it takes two to make a trade.**

CONCLUSIONS.

What steps ought to be taken to amend the situation?

(I) The League of Nations.—The first step must clearly be to admit Germany forthwith to the League of Nations.

(II) The Open Door and Reciprocity.—The League of Nations should apply the principle of Point 3 of President Wilson's Fourteen Points—viz. "The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance."

This will involve:—

A. The amendment of the Alsace-Lorraine clauses, so as to assure to Germany fair rights of access to the iron ore necessary for her industry.

B. The amendment of the Saar Valley clauses, so as to assure to France the necessary coal without placing the population under foreign rule.

(The Saar Valley, which is purely German, is being placed under foreign rule without its consent; this is an unnecessary violation of the principle of self-determination.)

C. The extension by the Allies to Germany of the commercial rights and privileges accorded by Germany to the Allies. In all economic provisions with reference to most-favoured-nation treatment, transit, internationalization of waterways, Germany should be included in their benefits as well as their obligations.

(III) Reparation.

A. The maximum sum to be demanded from Germany should be fixed as soon as possible, not left indeterminate:

the sum should not be beyond what is clearly within the capacity of Germany to pay within, say, ten years. It is impossible for Germany to get to work with any prospect of benefit from her labour, or to obtain the credits essential to her, until her debt has been definitely fixed. It may be necessary to face the fact that no large sum, over and above the value of the coal, shipping, and other payments in kind, may be obtainable at all.

B. The powers and constitution of the Reparation Commission should be revised by the League of Nations. The arrangements for securing payment should be controlled by the League, not merely by the Allies. The arrangements for the control of credit, shipping, food, and raw materials should be in the hands of bodies on which the late enemy States are represented under the League.

The Reparation Commission, as at present constituted, represents only the Allied Associated Powers—*i.e.* Germany's late enemies and economic rivals.

The Commission, whilst it may accept properties and rights from Germany in lieu of payment in gold, has power to fix for itself, without arbitration, the values of these substitutes. The Commission also has power to "determine the currents of (Germany's) trade, the conditions of credit, of international credit; it can determine how much Germany is going to buy, where it is going to buy, and how it is going to pay for it" (President Wilson, 5.9.1919).

The Commission has power to require payment by May 1921 of £1,000,000,000 in whatever form it may choose: it may point to German property in any part of the world and demand its surrender.

Is it not clear that Germany ought to have means of redress through the League of Nations against abuse of powers so tremendous?

(IV) Supplies.

The principle governing the allocation of necessaries of life during the famine period should be the degree of vital need, not the degree of immediate capacity to pay.

The importation of vitally necessary supplies of food and

raw materials into the countries now without foreign credit should be financed by an internationally guaranteed loan.

(V) Colonies.—The mandates for the conquered Colonies should be granted by the League and not by the Allies, and Germany should be afforded an opportunity as soon as possible to become a mandatory. The mandatory principle should, if possible, be extended to all non-self-governing Colonies, and the principle of equality of access to the economic opportunities of such Colonies should be applied by the League.

Further discussion of these questions will be found in "Labour and the Peace Treaty" (issued by the Labour Party); "The Peace Treaty and the Economic Chaos of Europe," by Norman Angell (Swarthmore Press); and "The Economic Consequences of the Peace Treaty," by J. M. Keynes (Macmillan), which is a book that everyone should read.

