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PRICE TRENDS AND ECONOMIC CONDITIONS IN GERMANY

An outline of Economic conditions and price trends in Germany prepared by the Dominion Bureau of Statistics contains the following:

During the first half of 1926 Germany was in the throes of a period of depression which had commenced in the previous year, but in the last half there was a considerable measure of improvement. The depression was accompanied by much unemployment, bankruptcies and stagnation of trade but during its course there went on a reorganization of industry which laid the foundations for the improvement of the later months of the year.

The crisis or depression which existed in 1925 and the first half of 1926 was the inevitable result of war time developments and the artificial boom which characterized the period of currency inflation. During the inflation period there had been a great extension of industrial activity but industry contained much obsolete technical apparatus and over-extended mercantile and financial structure, much of which was unmodernized. There was apparent prosperity while the fictitious boom persisted but with the stabilization of the German currency and the necessity of competing on a gold basis much of this structure had to be swept away. Though the necessity of reorganization had been recognized by many before it was forced upon them, none could take place in the midst of inflation when only short term capital was available and currency was being turned into material goods as quickly as possible. It was this readjustment which was taking place during the first half of the year. The inefficient could no longer maintain themselves in business. There were failures and receiverships on an unprecedented scale (bankruptcies numbered 2,092 in January and had fallen to 435 in December) and the firms who rode safely through the crisis adopted the policy of "Rationalisation," that is, they set out to restore their industries to a profitmaking basis by the introduction of technical improvements in their plants, by the modernization of commercial methods and the concentration of industry in large units. The United States was taken as the model, to a large extent, and the idea of large scale organization and standardization was seized upon and worked intensely. Some of the resulting organization appears to have been on the surface only being agreements as to price and control of output and a great deal has yet to be done before rationalisation in such cases is really effected, nevertheless much seems to have been accomplished, and German industry is more efficient than it was at the inception of the Dawes scheme.

Capital was necessary in order that the reorganization should take place and this came first of all from foreign loans but latterly from the savings of the Germans themselves. One of the outstanding developments of the year was the revival of the home capital market. The accumulation of savings was in part due to the quietness of industry. In more active times much of it would have been maintained in a liquid form for working capital but as it was, it became tied up in fixed interest investments. Allowing for this fact there was nevertheless a rapid and unpredicted accumulation of savings and capital. Germany is therefore making herself independent of the international capital market. Savings were 1.8 billion marks in January, 2.15 in April, 3.1 in December and 3.6 in February 1927. Interest rates on long term capital fell during the year to about 7% and bank discounts averaged 6.74% in 1926 as compared with 9.15% in 1925. During 1927 the rate has been 5%.

One result of the increase of savings and the lack of urgent demand for working capital was a boom in the stock markets. Funds were utilized for speculative purposes which would otherwise have gone into other lines of activity.

Though some increase in industrial activity would likely have occurred in the last half of the year in any event, it was the British coal strike which was responsible for the considerable measure of improvement which did take place. By October the German output of coal had reached some 30% above April, stocks rapidly disappeared and the industry was prosperous. Shipping also gained because of the coal situation which led to increased export business and high freight rates. The iron and steel industry likewise profited. This prosperity spread to other industries with the increase in purchasing power of the workers in the industries mentioned. During the first three months of the year the unemployed numbered 2,000,000 but there was a drop to 1,370,000 by December 1st, though this number increased afterwards due to seasonal influences. By the first half of April, 1927, unemployment had been reduced to 987,000.

During 1926 there was an outstanding reduction in the unfavorable commodity trade balance. On the basis of published figures it was only 133,000,000 marks as compared with 3,630,000,000 in 1925, precious metals excluded. Commodity imports in 1925 were 12,428,000,000 marks and in 1926, 9,951,000,000 marks. Commodity exports were 8,798,000,000 marks in 1925 and 9,818,000,000 marks in 1926. Including gold and silver the import figures for 1925 are 13,146,000,000 marks and in 1926, 10,566,000,000 marks, and the export figures 8,838,000,000 marks in 1925 and 9,854,000,000 marks in 1926. Commodity exports, however, are claimed to be from 1½ to 5% undervaluated. If this claim be granted then instead of an unfavorable commodity trade balance in 1926 there was a favorable one of from 25,000,000 to 400,000,000 marks.

Import figures showed the greatest change, a fact which was due to special circumstances. In 1925 there was an extraordinary accumulation of import commodities in anticipation of the termination of the special customs provisions of the Versailles Treaty and of the new protective tariff of October in that year, and also because of the obtaining of foreign credits. In 1926 the depression checked imports and even set up a contrary movement, some of the 1925 import stocks being re-exported. Price declines were another important factor in reducing import values. Exports, on the other hand, were substantially aided by the British strike, those for coal, coke and iron and steel products increasing by over 600,000,000 marks.

As to the balance of international payments which takes cognizance not only of commodity trade but of all international transactions, the report of the Agent-General for Reparation Payments states that there seemed to be no doubt that Germany had produced during the second Reparation year from September, 1925, to August, 1926, an actual surplus of exported goods and services sufficient to make Reparation transfers. Including deliveries in kind these amounted to about 1,220,000,000 marks. It is true that during this period Germany received loans from abroad to the extent of 1,700,000,000 marks but these loans were counterbalanced by increased cover for German currency of about 700,000,000 and an export of capital of about 1,000,000,000 marks. Germany had, therefor, in the second Reparation year a sufficient surplus of commodity and service exports to meet the payment of 1,220,000,000 marks.

The experience of the second Reparation year must be viewed with caution becausd of the abnormal trade factors mentioned above and because of the large foreign loans. It was the latter which made possible Germany's export of capital or extension of credit abroad, which was made in such countries as Russia and facilitated Germany's trade. Borrowings from abroad have now been practically discontinued. Under normal conditions Germany would have to increase her surplus to 2,500,000,000 marks for Reparation purposes after providing for export of capital and for capital maintenance and extension in her own country which has been estimated to require annually from 7,000,000,000 to 8,000,000,000 marks. It will be seen from this that the real test has yet to be made.

An examination of the movement of prices in Germany during the last two years reveals the fact that the general level of wholesale prices dropped from 141.6 in 1925 to 134.4 in 1926. The latter figure was almost 10 points lower than the average index for gold prices in the chief European countries. In February 1927 the German index was 135.6 which compares with an average index of European gold prices of about 142.5. German prices were therefore at the beginning of 1927 lower than world prices. During 1925 the index dropped from 135.8 in January to 131.9 in June and rose to 137.1 in December, when it commenced to fall again. Thus, during the last six months of 1926, prices were rising there when the world tendency was downward. This result, however, was largely due to the influence of the vegetable foods group which was 111.2 in January 1926, 152.1 in December and 155.7 in February 1927. Total farm products index rose from 122.3 in January 1926 to 143.7 in December. Industrial materials and semi-finished products declined from 134.4 in January 1926 to 129.7 in December. They were 129.1 in February 1927. In this group coal and iron were slightly higher in December than in January. Textiles declined from 166.7 to 136.3. Hides and skins rose from 112.8 to 122.0. Rubber fell from 102.8 to 48.0. Finished goods declined from 158.0 to 143.5 during 1926 and were 141.6 in February 1927.

In order that Reparation payments may be made in future Germany must produce a huge surplus of commodities for export and also accumulate the equivalent in funds to enable their transfer to be made. Funds will be raised by taxation and other means under the Dawes Scheme and transmitted through the purchase of foreign exchange or other media as Reparation payments. Thus the purchasing power of the German nation will be reduced and prices will be low. In those nations which receive the indemnity the converse will be true. Low prices in Germany and increased purchasing power abroad will tend to make Germany a good country to buy in and a poor country to sell in, hence exports should be increased, making for a favourable commodity balance equivalent to the amount of Reparations. The transfer of funds mentioned above is, of course, the mechanism by which the payment of Reparations in goods and services is rendered possible. The reduction of prices is, however, not wholly a monetary problem, for the technique of industry must also be made so efficient that costs of production will be sufficiently low to give rise to an export trade sufficient to make a surplus equivalent in goods and services to the amount of reparations.

One of the great obstacles with which Germany has to contend in common with other European countries is that of high tariff barriers. It is absolutely necessary that these be penetrated in order to produce her export surplus, hence much effort is being put forth to bring about trade agreements. During the year such were concluded with Sweden, Finland, Latvia and Turkey whilst those with Denmark, Spain and Italy were extended. A provisional arrangement was made with France and negotiations have been proceeding with Japan.