



*PART I*

We have approached our task as business men anxious to obtain effective results. We have been concerned with the technical, not the political aspects of the problem presented to us. We have recognized, indeed, that political considerations necessarily set certain limits within which the solution must be found if it is to have any chance of acceptance. To this extent, and this extent only, we have borne them in mind.

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The committee has had to consider to what extent the balancing of the budget and stabilization of the currency could be re-established permanently in Germany as she actually is at the present moment, with limitations as to her fiscal and economic rights over a part of her area.

We should say at the outset we have been unable to find any practical means for insuring permanent stability in the budget of currency under these conditions, and we think it unlikely that such means exist. The solution of the double problem submitted to us implies, indeed, restoration of Germany's credit, both externally and internally, and it has appeared to us impossible to provide for this restoration under the conditions mentioned. We have therefore been compelled to make the assumption that the fiscal and economic unity of the Reich will be restored. Our whole report is based on this hypothesis.

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The task would be hopeless if the present situation in Germany accurately reflected her potential capacity. Proceeds from Germany's national production could not in that case enable her both to meet her national needs and insure payment of her foreign debts.

But Germany's growing and industrious population, her great technical skill, the wealth of her material resources, the development of her agriculture on progressive lines, her eminence in industrial science, all these factors enable us to be hopeful with regard to her future production. Further, since 1919 the country has been improving its plant equipment. Experts specially appointed to examine the railways have shown in their report that expense has not been spared

in improving the German railway system. Telephone and telegraph communications have been assured with the help of the most modern appliances. Harbors and canals have likewise been developed. Lastly, the industrialists have been enabled further to increase the entirely modern plants which now are adapted in many industries to produce a greater output than before the war.

Germany therefore is well equipped with the resources she possesses and the means of exploiting them on a large scale. When the present credit shortage has been overcome she will be able to resume a favored position of activity in a world where normal conditions of exchange gradually are being restored. Without undue optimism it may be anticipated that Germany's production will enable her to satisfy her own requirements and to raise the amounts contemplated in this plan for reparation obligations. The restoration of her financial situation and her currency, as well as the world's return to a sound economic position, seem to us the essential but adequate conditions for obtaining this result.

We propose to deal in the first place with the currency problem. The present financial and currency position of Germany is stated in Part II. It will be seen that by means of the Rentenmark stability has been attained for a few months, but on a basis which in the absence of other measures can only be temporary. The committee proposes the establishment of a new bank of issue in Germany or, alternatively, a reorganization of the Reichsbank as an essential agency for creating in Germany a unified and stable currency. Such a currency, the committee believes, is necessary for the rehabilitation of Germany's finances, balancing of her budget and restoration of her foreign credit.

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We repudiate, of course, the view that Germany's full domestic demands constitute a first charge on her resources and that what is available for her treaty obligations is merely the surplus revenue that she may be willing to realize, but at the same time, if the prior obligation for reparation that is fixed for Germany to pay, together with an irreducible minimum for her own domestic expenditure, make up in a given year a sum beyond her taxable capacity, then budget instability at once ensues and currency stability is also probably involved. In that event an adjustment of treaty obligations of years is obviously the only course possible. The amount that can safely be fixed for reparation purposes tends, therefore, to be the difference between the maximum revenue and the minimum expenditure for Germany's own needs.

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We fully recognize both the necessity and justice of maintaining the principle embodied in the treaty that Germany's payments should increase with what may prove to be the increase of her future capacity. We also recognize that the estimate now made once for all might well underestimate this and that it is both just and practicable that the Allies should share any increased prosperity. All that we regard as essential as a condition of stabilization is that any

such increased demands to correspond with increasing capacity should be determined by a method which is clearly defined in the original settlement and which is capable of automatic or at least professional, impartial and practically indisputable application.

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We have done our utmost to apply the principle of commensurate taxation.

It is not open to dispute as a simple principle of justice, and it is contemplated by the treaty that the German people should be placed under a burden of taxation at least as heavy as that borne by the peoples of the allied countries. No single person in Germany, whether speaking as an individual or representing any section of the nation, has failed to accept that principle when it has been squarely put to him. Any limitation upon it, if there is one, must be a limitation of practicability and general economy expediency in the interest of the Allies themselves. Obviously it is morally sound and it would be clearly repugnant to all sense of natural justice that the taxpayers of the countries with large important regions devastated by the war should bear the burden of restoring them while the taxpayers of Germany, on whose territory the war caused no comparable devastation, escape with a lighter burden.

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There has been a tendency in the past to confuse two distinct though related questions, viz.: First, the amount of revenue Germany can raise available for the reparation account, and, second, the amount which can be transferred to foreign countries. The funds raised and transferred to the Allies on the reparation account cannot in the long run exceed the sums which the balance of payments makes it possible to transfer without currency and budget instability ensuing. But it is quite obvious that the amount of the budget surplus which can be raised by taxation is not limited by the entirely distinct question of conditions of external transfer. We propose to distinguish sharply between the two problems, and first deal with the problem of the maximum budget surplus and afterward with the problem of payment to the Allies. In the past the varying conclusions formed as to Germany's capacity have often depended upon which of these two methods has been chosen.

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Above all, we recommend our proposal for these reasons: It adjusts itself automatically to realities. The burden which should rest upon the German taxpayer should in justice so obviously be commensurate with that borne by the allied taxpayer that in our view nothing but the most compelling and proved necessity should operate to make it lighter.

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With these principles in mind we recommend Germany should make payment from the following sources: (a) from her ordinary budget, (b) from railway bonds and transport tax, (c) from industrial debentures.

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The committee has been impressed with the fairness and desirability of requiring as a contribution to reparation payments from German industry a sum of not less than 5,000,000,000 gold marks to be represented by first mortgage bonds bearing 5 per cent interest and 1 per cent sinking fund per annum. This amount of bonds is less than the total debt of industrial undertakings in Germany before the war. Such indebtedness has for the most part been discharged by nominal payments in depreciated currency or practically extinguished. In addition, the industrial concerns have profited in many ways through the depreciated currency, such as the long-delayed payment of taxes by subsidies granted and advances made by the German Government and by depreciation of emergency money which they have issued. On the other hand, it is incontestably true that there have also in many instances resulted losses through the depreciation of currency from the sale of output at fixed prices and in other ways.

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Realizing the depletion of the liquid capital supply in Germany and that a period should be provided for its recuperation we recommend that the interest on the 5,000,000,000 of debentures above referred to be waived entirely during the first year, that the interest during the second year be 2½ per cent, during the third year 5 per cent, and thereafter 5 per cent, plus 1 per cent sinking fund. [ . . . ]

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