



[...]

Concluding remarks.

With the present Report a period of four years closes. If we compare the present position with that of four years ago, we note a very great advance alike in regard to the economic development of the country as a whole and in regard to the position of the Reichsbank in particular.

There has been a far-reaching reorganisation and rationalisation of the industrial system of Germany; the standard of living of the masses of the people has appreciably risen, and in the case of a great part of the working-class has again reached or surpassed the pre-war level. The marked fluctuations of the first few years have made way for a more steady line of development, and an increasing power of resistance is clearly revealed. Those who foretold that the symptoms of decline from the highly favourable conditions of a year ago were about to take on the form of a rapid and serious depression, under-estimated the country's economic power of resistance.

At the same time there are still considerable branches of the national economy which have had an inadequate share in the general recovery. If the general position were to change fundamentally for the worse—there are at the present no signs of such a change—this would presumably be more apparent.

The position of agriculture, though here and there improvement is apparent, remains on the whole less favourable than that of the rest of the national economy. The possibilities in this case of compensating out of the business the high rate of interest which has to be paid, or alternatively of passing it on to the consumer, are considerably less than they are in other economic branches.

The high rate of interest and the disproportion which it reflects between the supply and demand of capital constitute the main difficulty confronting the German economy at this time.

It was to be foreseen that after the war and the inflation which, followed the war a marked demand for new capital would make itself apparent for the purpose of improving the machinery of production as well as for public purposes. Much has been done during the years in question. The largely modernised machinery of production at the present time provides work for four million more workers than it did before the war within the same territorial limits, and a great number of public requirements which for a long time had remained unsatisfied have since been able to be met. The price, however, which has been paid for these results is a new annual burden of interest in relation to foreign countries, which at present is undoubtedly well over half a milliard reichsmarks. In so far as the calculations on which the borrowers have based their decision to take up these loans are found in the long run to have been correct, this new charge will represent no increased burden. But there can be no doubt that a section of the loans is not productive in this sense.

In view of the great importance which the situation in regard to capital in Germany will have for her future economic development, it is desirable to consider the problem somewhat more closely. No unqualified answer can be given; but it is possible to indicate certain factors of the position.

That the formation of capital inside Germany has increased in the years just passed may be confidently assumed. The psychological influence of the destruction of so many earlier savings by the inflation has gradually diminished, and new groups of savers, partly from other sections of the population, have come into being. The internal accumulation of capital which is taking place inside industrial undertakings will always be dependent in a high degree on the general situation. But the cumulative character of individual savings justifies the expectation of a further increase in the future. That on the other hand the State and social charges, which have so largely increased since the pre-war period, and the reparation charges tend to diminish new capital formation requires no further argument. But the effect is confined to that part of the purchasing power withdrawn from the population which would otherwise have gone into savings; and it must also be borne in mind that the State and social charges to a certain extent go back into capital formation.

As regards the demand for capital it may be assumed that the heavy accumulation of requirements which was at first apparent after the war and the inflation is gradually diminishing. Nevertheless there are numerous capital requirements which have been for the moment postponed, but would immediately come to the fore again in the event of a slight easing of the market.

One particular factor which will undoubtedly be felt in this connection is the falling off to be expected in the near future in the supply of new labour which has been the sequel to the decline in the number of births during the war years. The dimensions which this contraction of the labour supply is likely to assume over a period of years may perhaps best be seen from the fact that the number of children who became of school age during the years 1922 to 1925 inclusive remained on an average under 700,000, or only a little more than half the numbers of previous

years when the figure of births was not subject to the influence of the war. The consequence is that within a short space of time there will probably be a decrease instead of an increase in the aggregate numbers of the working population. The housing market on which at present there is still a large deficit particularly in the big cities in spite of vigorous building activity, will also be influenced by this development at a later stage.

To what extent all this will find expression on the capital market and in the future movements of the interest level cannot yet be said. But it is certain that there will be something of a breathing space.

Whatever turn the future may take, it is certain that the present is still entirely under the influence of the serious temporary shortage of capital. The difficulties encountered in placing long-term loans have led to a growing proportion of the long-term capital requirements being met for the present by short-term borrowing only. The foreign indebtedness has also been incurred on a short term basis to a much greater extent than is desirable. The last few months, however, have happily shown that it is possible for important alterations to take place in the money market of one of the great lending countries, with concomitant changes in the circle and nationality of the foreign lenders, without the favourable international position of the German currency suffering even to a slight degree. A certain provisional stiffening of rates on the money market has been the only consequence. The large short-term debt of Germany remains a serious feature. But it is a satisfactory phenomenon that the position of the Reichsbank has continually strengthened and is to-day stronger (as has been shown above) than at any other period of the last four years.

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