

Debt and Democracy in Germany

By RICHARD W. LINDHOLM

THE GREAT WEAKNESS of the manner in which the Allied Control Commission governs Germany has been its demonstrated inability to plan for the solution of problems before they become critical. An administration that does not have long-term plans must solve each new crisis upon the basis of short-run expediency. This approach is especially undesirable in the economic area, where it has been particularly evident.

The Allied governments, in dealing with German economic problems, must have as an uppermost consideration the probable effect which the policies they approve will have upon Germany's political future. One of these problems which will be clamoring for solution in the near future is that of the German government's internal debt.

I

THE NAZIS (like the Democracies) found it economically and politically expedient to obtain large portions of their war funds by resorting to the flotation of loans. In 1939 the German government spent 52 billion marks (\$20,800,000,000). Of this huge total, 38 billion marks (\$15,200,000,000) was obtained from taxes and forced payments received from conquered areas. Thus Germany borrowed about 27 per cent of the funds expended in this, the first year of World War II. England, during a comparable period, borrowed about 20 per cent and the United States about 41 per cent. However, both Nazi Germany and Great Britain found it impossible to continue to pay so large a portion of total war costs from current receipts of taxes, but the United States improved her position.

In 1942 Germany spent 128 billion marks (\$51,200,000,000). Of this greatly increased expenditure she was forced to borrow 47 per cent. The amounts collected in taxes and obtained from conquered nations increased greatly, and were about double former receipts (from 38 billion marks to 68 billion marks) but expenditures increased even more rapidly. The same situation existed in Great Britain, where during a comparable period only about 52 per cent of total expenditures were covered by tax receipts. When the United States became an active participant in the war the relationship between taxes and expenditures became comparable with that which existed in Great Britain and Germany. During a comparable period we borrowed 66 per cent of the funds expended.

The manner in which the German debt expanded is summarized in Table I, below:

TABLE I
GERMAN NATIONAL DEBT
(as of March 31, 1946)
(In billions of marks—one mark equals 40 cents)

	1938	1939	1940	1941
I. Old indebtedness before April, 1924	3.5	3.3	3.2	2.8
II. New indebtedness	15.6	27.4	44.7	83.7
Foreign Debts	1.3	1.3	1.2	1.2
Internal Debts	14.3	26.7	43.5	81.9
Long term & middle term	12.0	19.6	25.5	43.7
Short term	2.3	6.5	18.1	38.2
Total	19.1	30.7	47.9	85.9
	1942	1943	1944	1945
I. Old indebtedness before April, 1924	2.7	2.5	2.4	2.0
II. New indebtedness	135.0	193.0	271.0	377.3
Foreign Debts	1.2	1.2	1.2	1.2
Internal Debts	133.8	191.9	269.8	376.1
Long term and middle term	66.9	88.3	115.7	139.4
Short term	66.9	103.5	154.2	236.7
Total	137.6	195.6	273.4	379.3

In November, 1945, German fiscal experts estimated that 20 billion marks (\$8,000,000,000) of secret borrowing had been carried on between December 31, 1944, and April 30, 1945. They were also of the opinion that no secret borrowing took place prior to December 31, 1944. Recent data that has been received in Frankfurt by occupation authorities indicate a considerably higher figure.¹ Certainly Nazi military and government leaders indulged in all types of immoderate fiscal practices during the last hectic days of the war.

However, the increase in amounts reported in the Reich budget as paid out for interest in 1944 over those of 1943 totals 4.8 billion marks (\$1,920,000,000), a 72 per cent rise. Such an increase in the Reich debt from 1943 to 1944 would bring the total debt at the end of the fiscal year 1944 up to 473 billion marks (\$189,200,000,000) instead of the 380 billion marks (\$152,000,000,000) reported. A debt of 473 billion marks is approximately \$3,051 for every German man, woman, and child, assuming the post-war population is about 62 million. The United States per capita debt is \$1,950, Great Britain's is \$2,000.²

If the conservative figure of 473 billion marks is taken as the total German national debt the amount would not be unbearable if Germany had emerged from the war as a going economy, one similar in condition, say, to that of Belgium or France. This, however, was not the case. The German total national income, which was estimated as 100 billion marks in 1945, will not exceed 60 billion marks (\$24,000,000,000) during any foreseeable future period. A debt which is eight times a nation's total national income is too large and must be substantially reduced. Interest payments on a debt of this size would amount to about 25 per cent of

¹ See *New York Times*, Jan. 28, 1946.

² The German government's internal debt at the end of World War I was about 146 billion marks.

the German total national income. In fact a nation which has had her economy so badly disarranged as the German cannot carry any appreciable amount of debt, even internally, without making substantial sacrifices.

II

GERMANY'S POSITION is similar to that of a man living upon a subsistence wage. He cannot afford to expend any portion of this income upon the repayment of a debt or upon interest payments, for if he does so, he must go without certain goods necessary for the maintenance of life. Moreover, Germany cannot afford to have any appreciable number of persons obtaining the necessities of life without having within the same period produced goods and services of equivalent value. This would, of course, apply as well to persons obtaining an income as the result of the ownership of industrial and municipal securities, and of farm, urban and resource land as it would to owners of Federal government bonds and certificates.

When a country finds itself with a tremendous internal debt, some method of cancellation must be determined upon. The method adopted by Germany at the end of World War I was inflation. This results in cancellation by reducing the value of the units in which the debt is stated. It, however, also has other very important effects. The units of value in which the national debt is stated cannot be reduced without also reducing the value of all other debts stated in terms of these units and thus reducing the value of all savings which are stated in terms of these units.

But at the same time as all persons with accumulations stated in these units lose, these persons possessing accumulations in land, buildings, machinery and stocks of goods find their relative position vastly improved. Also all industrialists operating businesses financed by funded debt find themselves in a greatly enhanced financial position.

The manner in which the Allies manipulate the German internal debt can have a very important effect upon the kind of Germany which will develop to live within the family of nations. It is of fundamental importance that this be realized and understood and that policies which are adopted be based upon that understanding.

Most of the more than 450 billion marks which were borrowed by the Nazis during the war were obtained from the numerous German saving institutions, all of which were largely patronized by German laborers and the lower middle class. The German aristocracy, which has always occupied the key positions of the German General Staff and the German State Department, and the German industrial leaders who have profited so handsomely from German nationalism, invest their accumulations in property, industrial plants, domestic and foreign securities and precious metals and stones. An inflation would improve the economic position of this, the most pro-Nazi section of the German population, while it would utterly destroy all who had their savings stated as a definite number of money units.

If the huge German debt is adjusted to the requirements of the new situation by reducing the value of the units in which it is stated, a basis will be laid for the re-establishment of German militarism and nationalism. The democratic and labor sections of the German population will feel that they have been betrayed again. They will also be so economically dependent that they will be unable to resist any new movement promising them bread and shelter; a new German dictatorship would inevitably follow.

III

THE OUTRIGHT CANCELLATION of one-half to three-fourths of all debt outstanding would be another obvious alternative for bringing about the necessary reduction of the Ger-

man internal debt. This would again largely eliminate the savings of the German labor groups and the middle class. However, it would be superior to inflation in that it would not give the industrialists and land-owners an opportunity to improve their absolute economic position. The ideal situation would be if the German internal debt could be handled in such a way that it would aid in the establishment of a strong middle class and an independent labor faction. In other words, the debt should be managed in a manner which will increase the likelihood of a democratic Germany.

One way by which the German internal debt may be reduced and the sacrifices of the German people equalized and the forces favorable to democracy strengthened would be to substitute for the cancelled government debt shares in the remaining valuable German property. (There are several other practical methods of accomplishing this aim.) This would mean that the ordinary German would retain a stake in the German economy. It would also prevent the creation of conditions which would produce the type of mass dependence upon the government which existed in 1932; also it would prevent the creation of an economic atmosphere favorable to the rise of communism. This type of scheme could readily be placed in effect.

The normal value of all industrial capital and farm, urban and resource lands would be determined. Upon the basis of this determined value there would be issued to all holders of government and worthless industrial bonds (worthless due to acts of war) certificates representing ownership in all German productive property. These certificates would represent a right to share in the proceeds of a special tax which would be levied upon the profits and rents arising from all German productive resources. There does not appear to be any just reason why the German who holds industrial bonds or stocks of an undestroyed corporation or

owns farm land or a valuable city site should be left in a more favorable position than the holders of government bonds or securities in destroyed corporations. In fact, if this situation should be permitted, some German individuals might show a net war profit.

Certainly no German should feel that war is good because it enhanced his individual economic position. The adoption of a plan similar to that outlined above would largely eliminate this possibility, and to that extent would decrease the likelihood of a war party arising in Germany. In addition, this type of solution to the problem of the German debt would promote respect for justice and indicate to the laborer and the average German citizen that the Allies appreciate their economic position.

A solution of the sort indicated would so divide the holdings of property in Germany that it is doubtful if an appreciable number would be able to provide themselves with the required goods and services for existence without having during the same period produced nearly an equivalent value. As the German economy increased in prosperity the fact that the general population shared so widely in the ownership of all property rights would contribute mightily to the maintenance of that prosperity. In turn, the continued prosperity of Germany would be a favorable factor in the preservation of world peace.

Ohio State University