

UNITED STATES AGRICULTURAL
EXPORTS TO GERMANY, 1910-1938

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Introduction

One of the most disturbing problems confronting the American economy during the past decade has been the continued shrinkage in this country's agricultural export trade, particularly with the continent of Europe. It has been primarily this situation which has compelled recourse to such measures of surplus control as have been attempted under successive agricultural adjustment programs.

In the period preceding the World War of 1914-18 Germany ranked next to Great Britain as a national foreign market for American agricultural products. Germany continued to hold second place throughout the twenties, but by 1935 had dropped to fourth place behind the United Kingdom, Japan and France, in the order named. By 1938 Germany was in sixth place, ranking behind the United Kingdom, Canada, Japan, The Netherlands, and France, in the order named.

From 1929 to 1938 agricultural exports from the United States to Germany declined in value by approximately 85 per cent. Moreover, whereas in 1929 almost 13 per cent of all agricultural exports from the United States went to German markets, in 1938 the Reich took only about 4 per cent of these exports.

The study presented here attempts to analyze the extent and the nature of the decline in agricultural exports from the United States to Germany, and to survey the underlying causes and influences responsible for this decline.

In doing this, a picture is first presented of total German-United States trade relations from 1910 to the outbreak of the second World War in 1939. Then attention is given to the place of the United States in Germany's agricultural import trade prior to the world economic crisis of 1929-30. Next, the commercial and agricultural policies of the two countries during the last decade are examined to provide a general background for a more detailed study in Part II of recent changes in principal United States agricultural exports to Germany. In making this study, agricultural exports are first discussed as a whole, then by economic classes, and finally by groups and individual commodities. The situation is then summarized and the outlook is surveyed briefly.

PART I

INFLUENCES AFFECTING UNITED STATES

AGRICULTURAL TRADE WITH GERMANY

CHAPTER I

OUTLINE OF UNITED STATES-GERMAN TRADE RELATIONS, 1910-1938

The reciprocal importance of trade between any pair of countries may be examined from four approaches, according as one considers the relative place which either country occupies in the total export and import trade of the other country. Changes in the position of Germany in the export and import trade of the United States, and of this country in the export and import trade of Germany since 1910, are indicated in Tables 1 and 2. Table 1 shows the proportion of each country's total exports and imports which were taken by or supplied by the other in different periods or years within the last three decades. Table 2 shows changes in the national ranking of each country as a foreign customer for the exports, and as a foreign supplier of the imports of the other.

The striking thing revealed by Table 1 is the extent to which trade between the United States and Germany has been curtailed since the late twenties. United States exports to Germany shrank in value from an average of 439 million dollars in the years 1924-29 to an average value of 107 million dollars in the years 1935-38. Germany took 9.1 per cent of this country's exports in the former period, but only 3.8 per cent in the latter. When Germany is considered as a source of imports into the United States during the same period, the situation is essentially the same. Table 1 also shows that Germany has been relatively more important as an outlet for United States goods than as a source of imports. It reveals further that the United States has had an active balance of trade with Germany throughout the period, but that this export excess has

Table 1. Trade Between Germany and The United States
(Millions of Dollars)

U. S. Trade With Germany				German Trade With United States (c)				
Yearly Average or Year	Exports to Germany (Including Reexports)	Per cent of Total Exports	General Imports From Germany	Per cent of Total Imports	Exports to United States	Per Cent of Total Exports	Imports From United States	Per Cent of Total Imports
1910-1914	304.1	14.0	176.5	10.4	169.9 (a)	7.1	407.6 (a)	15.9
1915-1918	3.5	.07	12.8	.5	No data available.			
1919-1923	281.9	5.0	91.7	2.5	113.1 (b)	7.8	279.1 (b)	19.1
1924-1929	439.1	9.1	196.6	4.7	174.7	7.1	452.3	15.6
1930-1933	179.5	7.6	113.9	5.8	101.2	5.3	188.9	12.2
1933	140.0	8.4	78.2	5.4	99.2	5.1	194.7	11.4
1934	108.7	5.1	68.8	4.2	63.6	3.8	150.3	8.4
1935	92.0	4.0	77.8	3.8	68.4	4.0	97.1	5.8
1936	102.0	4.2	79.7	3.3	69.2	3.6	93.6	5.5
1937	125.9	3.7	92.6	3.0	84.3	3.5	113.4	5.2
1938	107.5	3.4	64.5	3.2	60.0	2.8	163.2	7.4
(d) 1939	29.3	2.5	32.0	3.5	27.8	3.0	39.5	4.2

(a) 1913 (c) German statistics. Reichsmarks converted into dollars at yearly average rate of exchange.
(b) 1923 (d) First five months.

Sources: Foreign Commerce Yearbooks; Commerce Yearbooks; Statistical Abstracts of the United States;
Monthly Summary of Foreign Commerce of the United States; Weekly Report of the German Institute
For Business Research, July 27, 1939.

narrowed from an annual average of 130 million dollars in the period prior to the first World War to an average of 28 million dollars in the years 1935-38. In fact, in the first five months of 1939 the United States actually had a passive balance of trade with Germany of nearly 3 million dollars.

Table II indicates the decline in ranking of each country in the trade of the other. The table shows that Germany has always been an important market for United States goods, but has dropped from third to fifth place since the twenties. As a supplier of United States imports the decline was much more severe, Germany falling from second place in 1913 to twelfth in 1937. The United States has long been the chief source of German imports, but has become much less important as a market for German exports since the twenties, dropping from third place in 1929 to eleventh in 1938.

Period Preceding the First World War

In the years preceding the first World War the foreign commerce of both countries was gradually expanding, and the growth in trade between the two countries was a natural accompaniment of this total increase. Germany's foreign trade increased by 250 per cent between 1871 and 1914, while her¹ population increased only about 63 per cent. By 1914 German exports consisted mainly of manufactures. Population and industrial growth had outstripped agricultural development, and the German Empire was no longer even approximately self-sufficing. The great articles of import had come

¹

Day, Clive, A History of Commerce, pp.408-9.

Table 2. How Germany and The United States Have Ranked in Each Other's
Trade in Certain Selected Years

Rank of Germany in U. S. Foreign Trade Rank of U. S. in Total Trade of Germany			
Year	Exports	Imports	Imports
1913	3	2	5
1923	3	6	3
1926	3	8	3
1929	3	5	3
1932	4	6	7
1935	5	8	8
1937	5	12	9
1938	5	9	11

Sources: Foreign Commerce Yearbook; Foreign Commerce and Navigation of The United States.

to be foodstuffs and raw materials, and only about one-fifth of total imports consisted of manufactures. On the other hand, in 1913 iron and steel, machinery, chemicals, dyes and cotton manufactures constituted over ¹ one-third, in value, of all German exports.

In regard to the United States, in 1900 crude materials and all food-² stuffs constituted about 65 per cent of United States exports and manufactures about 35 per cent. By 1913 the two groups were about evenly divided, the corresponding figures being 51 and 49 per cent. While the changing composition of the exports of both countries reflected rapid progress in industrialization, their trade with one another consisted mainly in the exchange of American raw materials and foodstuffs for German manufactures.

In the period 1910-14 United States exports to Germany averaged 304 million dollars annually, while imports from Germany averaged 176 millions. Germany served as a market for approximately one-seventh of our total exports and as a source of one-tenth of our imports. As a market for our exports Germany was exceeded only by the United Kingdom and Canada, and as a source of our imports was surpassed only by the United Kingdom.

In these same years the United States took one-fourteenth of Germany's exports and supplied almost one-sixth of Germany's imports. The United States was the third most important market for German goods, ranking behind ³ the United Kingdom and Austria-Hungary. The main imports into the United States from Germany were metals and metallic products, dyes, toys, fur skins,

¹ Killough, H. B., International Trade, p. 272.

² Including both semi-manufactures and finished manufactures, but excluding manufactured foodstuffs.

³ Ogg, F. A., Economic Development of Modern Europe, p. 299.

cotton manufactures, china tableware, woolen cloth, chemical wood pulp and artificial flowers. On the other hand, the United States had become the leading source of German imports.

Germany was able to finance her excess of imports during this period because of her position as a creditor country, enabling her to pay for a surplus of imports by interest and dividends due from foreigners and to reinvest abroad every year considerable sums in forms which helped to extend German commerce and industry. To a considerable extent Germany's large passive balance of trade with the United States and other overseas countries was offset, through triangular exchange, by her active balance with such European countries as Great Britain, France, Italy and The Netherlands.

The War Period, 1914-18

The World War resulted in trade between the two countries being reduced to almost negligible proportions. In the first three years the Allied blockade was mainly responsible for the reduced trade. In 1915 Germany fell to sixteenth place as a market for United States exports and to sixth place as a source of United States imports. The decline continued until the entry of the United States into the War in 1917 stopped all exports to her enemy, Germany. For the years 1915-18 United States exports to Germany averaged only 3.5 million dollars annually, with imports curtailed to an annual average of less than 13 millions.

Germany came out of the War a debtor nation. She had lost practically all of her foreign investments, considerable credits formerly provided by her shipping, and in addition had to remit large sums due as reparations.

The peace settlement took from her the iron ore fields of Alsace-Lorraine, which produced three-fourths of her pre-war supply, the coal fields of the Saar, the mineral and industrial resources of a large part of Upper Silesia, and deprived her of about 15 per cent of her¹ arable land and 12 per cent of her livestock. In addition she was forced to surrender all her colonies.

Early Post-War Period, 1919-23

Germany was in a desperate condition in the early post-war period from 1919-23. Her industries were run down and unable to obtain adequate supplies of raw materials from abroad. She was consequently definitely limited in her exporting capacity. No foreign exchange was available for import purposes from reparation deliveries in kind. Inflation made the situation worse. Germany enjoyed no favors abroad, and at home she suffered from a dearth of capital which made it expensive or impossible to stimulate sales in foreign countries by extending short-time credits or making long-time loans to foreigners.

Germany's total trade in 1921 was only about 30 per cent by volume of the 1913 trade, and from 1922 to 1924 it averaged about 40 per cent as² much as in 1913. Germany's share in the total international trade of the world fell from 14 per cent in 1913 to only 6 per cent in 1922.

Following the separate peace treaty between Germany and the United States in November 1921, the two countries took steps to revive trade between them. As a result, they concluded a new commercial treaty on December

¹ Angell, J. W., The Recovery of Germany, pp. 12-16.

² Ogg, F. A., Economic Development of Modern Europe, p. 689.

8, 1923, incorporating the unconditional form of the most-favored-¹ nation principle. This was the first important treaty in which this principle was involved.

During these years Germany and Japan shared fourth place, behind Great Britain, Canada and France, as a market for United States exports, and was only eleventh as a supplier of United States imports. From the German side of the picture, the United States was exceeded only by The Netherlands and Great Britain as an outlet for German goods, and was the leading source of German imports.

Reconstruction Period, 1924-29

By the end of 1923 the mark was worthless. The creditor countries finally realized that the internal economic and fiscal conditions in Germany were of vital importance if the country was to be able to continue reparations payments. The Dawes Plan of 1924 recognized this. The currency was stabilized by means of the Dawes international gold loan and the re-organization of the Reichsbank, and Germany recovered its economic strength with extraordinary rapidity. Reparations were paid punctually and in full. However, it should be noted that Germany was enabled to meet her payments by borrowings from abroad. About 70 per cent of these borrowings came from the United States. Germany had a net importation of capital from 1924 to 1928 of around 3.7 billion dollars.²

¹ Dietrich, E. B., World Trade, p. 209.

² Angell, J. W., The Recovery of Germany, p. 191.

Trade between Germany and the United States flourished from 1924 to 1929, but did not reach the 1910-14 level in terms of quantities of goods involved. Table I shows that trade between the two countries was considerably greater, on a value basis, than in 1910-14, but this increase is accounted for by a rise in the price level. Whereas, Germany took 14 per cent of United States exports and supplied 10.4 per cent of United States imports in the period 1910-14, these percentages were only 9.1 and 4.7, respectively, in the period 1924-29. From the German viewpoint, the United States was almost identically as important, on a percentage basis, in Germany's trade in the latter period as in the former. Germany had moved up behind Great Britain and Canada as a market for American goods, and had advanced to seventh place in supplying American imports. The ranking of the United States in German Trade remained the same as in the 1919-23 period. During this period, iron and steel, machinery, leather and leather manufactures, glassware and musical instruments became notably more important as United States import items from Germany.

World Depression of 1930-33

The success of the Young Plan, instituted in 1929 to replace the Dawes Plan, depended on continued extensive trade and the willingness of creditor countries to accept excess imports from Germany. The world depression doomed it to failure and created special difficulties for Germany as the world's greatest debtor nation. The German governments' measures to protect domestic agriculture by use of protective tariffs, together with the cessation of foreign lending and investment in Germany, reduced German imports on a quantity basis. The decrease in dollar values was even sharper because of the fall in prices. United States

exports fell from an annual average of 439 million dollars in the years 1924-29 to an annual average of 179 millions in the years 1930-33.

In this period Germany took a smaller percentage of U. S. exports and furnished a larger percentage of American imports than in the late twenties. The United States was responsible for a smaller share of Germany's trade--both exports and imports. By 1932 Germany was in fourth place, behind Great Britain, Canada and Japan, as a market for American exports, and was sixth as a source of our imports. The United States was in seventh place as an outlet for German goods.

Trade With Germany Under the Nazi Regime

Since 1933, when the disintegrating Weimar Republic gave way to Hitler's Third Reich, German-American trade has been still further curtailed, the low point being reached about 1935. Germany's policy of carrying on trade by barter and her use of arbitrary exchange restrictions has been largely responsible for this decrease in trade. Agricultural exports have been especially hard hit because of Germany's attempts at self-sufficiency. Moreover, much trade that previously flowed between Germany and the United States has been diverted by Germany in recent years to Southeastern Europe and Latin America.

In 1937 Germany ranked behind Great Britain, Canada, Japan and France as a market for American goods and had dropped clear down to twelfth place as a supplier of our imports. Figures in Table I for the first five months of 1939 indicate that for the first time Germany is more important as a source of United States imports than as a customer for our exports. However, it should be noted that Germany is now taking part in only about 3 per cent of United States foreign trade.

The United States in 1937 had dropped to ninth place as a market for German exports, and to third as a supplier of imports, ranking behind Great Britain and Argentina. In 1938 the United States regained first place as a source of German imports.

CHAPTER II

PLACE OF UNITED STATES IN GERMANY'S AGRICULTURAL IMPORT TRADE PRIOR TO 1930

Nature of Germany's Agricultural Economy

Germany is about equally divided between a dissected plateau region in the south and west and a broad belt of plains--the German lowlands--¹ stretching across the north and east. In spite of its large size and its wide range of latitude, the climate of the country is exceptionally uniform. In general it is a modified continental type, the influence of the ocean being especially conspicuous in the northwest. The rainfall of the northern plains draining into the North Sea and the Baltic averages twenty to thirty inches annually and is fairly well distributed seasonally. In general the precipitation decreases from west to east and southeast, Silesia receiving the least.

In most parts of Germany the soil is of a quality which agricultural experts in America would describe as "submarginal". Labor is cheap in Germany, whereas land is dear. Thus German agriculture relies on a highly developed technique of plant cultivation, on natural and artificial fertilizers, on intensive deep tillage, and on the combination of plant cultivation with stock farming, rather than on the employment of labor-saving² machines.

¹ Blanchard and Visher, *Economic Geography of Europe*, p. 240.

² Brandt, Karl, "The Crisis In German Agriculture", *Foreign Affairs*, July 1932, p. 633.

Most of the large estates are found in eastern Germany and the Prussian province of Saxony. The soil here is mostly light and sandy, and the level topography makes it suitable for large-scale cultivation. Cereal and fodder crops are raised almost exclusively. Potatoes are the most important crop on the plains of northern Germany, and in the central Elbe Valley sugar beets are very extensively raised. The small farms are found mostly in southern and western Germany. Soils are better here, but the rough topography is a limiting factor. Here intensive cultivation is the rule. The goods marketed by the small farmers are mainly animal and horticultural products such as meat animals, milk, eggs, poultry, vegetables and fruits. To these small farmers an available supply of cheap feeds is very important.

The large estate owners had long been the dominating influence in German political and economic life. Before the first World War they imported cheap Polish labor each summer to do their work. This led to a lowering of the standard of living for German agricultural workers. The great mass of small holders could eke out a living only by dint of hard work and efficient management. The republican constitution abolished some of the privileges of the large landowners--more especially their monopoly of the higher government posts, and also the exemptions which they had enjoyed in regard to taxation. Nevertheless, they remained very powerful.

In regard to agricultural production, Germany had experienced a phenomenal expansion in the forty years preceding the first World War.

1

Brandt, Karl, op. cit., p. 634.

Germany's economic and tariff policy definitely aimed at the largest practicable production of food, so that in case of war she might be substantially independent of the outside world. With a rapidly increasing population but a restricted area, the growing demand for foodstuffs was met by increasing the yields. This was accomplished through more intensive cultivation, the larger use of commercial fertilizers and the scientific selection and use of seeds, breeding stock, and food-stuffs, as well as by a comprehensive system of agricultural education.¹

In spite of this increased production Imperial Germany was estimated to be only about 70 per cent self-supporting. Table III shows that in 1913 Germany was importing large quantities of grains, meats, lard, fruits, cotton, tobacco, fodder and cattle hides and calfskins. Germany was especially dependent upon the United States for her imports of lard, cotton, wheat and wheat flour. It might be noted here that both Germany and the United States had become highly industrialized by 1913. However, the United States was a net food exporter, while Germany was a net food importer.

Agricultural production dropped during the War because of the removal of workers to other industries and to the trenches to fight. The use of fertilizers was curtailed, resulting in soil depletion, and there was a relative shortage of horses and new farm machinery. German agriculture lived on its capital and emerged from the War badly crippled.²

¹

Blanchard and Visher, Op. cit., pp.241-2.

²

Day, Clive, Economic Development In Modern Europe, p. 285.

The period of inflation following the War offered to owners of mortgaged farms the opportunity to rid themselves of their debts by payment in depreciated marks. The urge to get rid of money before it depreciated led also to many permanent improvements, and to the purchase of a great amount of farm equipment. The stabilization of the currency (1924) put an abrupt end to these conditions. The products of other countries, cheaper and often better graded and more attractive to the purchaser, flooded the market.¹ The farmer received prices which continued low in relation to his costs. Agriculture was in a state of depression. In four years of stable currency German agriculture incurred debts approaching two billion dollars. Many estates in the East were mortgaged up to the full value of the land, and it was evident that they had ceased to be profitable.² Meanwhile, the small farmers continued for the moment to enjoy prosperity because of efficient management, relative freedom from debt and favorable prices for their products. The collapse of the grain prices in the world market after 1929 made the situation critical, and it seemed that the supremacy of the large estate holders would finally come to an end. However, they were regarded as the guardians of the detached province of East Prussia and were still very powerful politically. Consequently, they were able to influence the German government to revise steeply the protective tariff on grain, establish a system of milling quotas and manipulate the grain market. This resulted in the virtual insulation of the German grain price structure from world market movements.

¹ Day, Clive, op. cit. p. 285.

² Brandt, Karl, op. cit., p. 636.

After the German bank crisis of July 13, 1931, it was generally thought that the doom of the large estate owners was finally sealed. But they achieved another lease of life. They evaded individual bankruptcy by obtaining a general moratorium.

The actual physical volume of agricultural production in the late twenties was less than in the pre-war period. For rye, the largest of the German grain crops, the average for 1924-28 was 22 per cent less than the average for 1909-13; for oats, 18 per cent; wheat, 14 per cent; barley, 2 per cent; potatoes, 1 per cent; and sugar beets, 23 per cent. Taking the principal crops together, the average decline was about 14 per cent.¹ One reason for this decline, of course, was that Germany lost about 15 per cent of her pre-war arable land by the Treaty of Versailles. The average yield per acre, however, was from 5 to 15 per cent lower in 1928 than in 1913. The pressure of existing debts, lack of working capital, etc., prevented farmers from making needed improvements and using adequate fertilizers. Agriculture was one of the weakest spots in the German economy² from 1924 to 1928, and one of the principal sources of internal stress.

In 1929 domestic production as a percentage of total consumption for a number of foodstuffs was estimated³ as follows: sugar, 112 per cent; milk, 100 per cent; potatoes, 98 per cent; all meat, 93 per cent; bread grains, 87 per cent; fruit, 83 per cent; vegetables, 81 per cent; eggs, 66 per cent; butter, 70 per cent; lard, 61 per cent.

¹

Angell, J. W. The Recovery of Germany, p. 248.

²

Angell, J. W., op. cit., p. 253.

³

Compiled from reports of The German Institute for Business Research.

The dominating influence of the grain-producing large land holders of East Prussia largely explains why the raising of grain, although no longer a profitable branch of economic production, was artificially expanded after 1929 instead of being contracted; whereas the output of animal products such as milk and eggs, for which natural conditions were much more favorable, was kept down because of the higher prices which the small land holders had to pay for feeds.

German Agricultural Tariff Policy

Under Prussian leadership a Zollverein, or customs union, had been formed in North Germany in 1818. By the middle of the century it included the whole of Germany except Austria, the Mecklenburgs, and the free cities of Hamburg, Bremen and Lubeck. For the next twenty-five years the Prussian authorities sought systematically to manipulate both foreign relations and the internal affairs of the Zollverein in the direction of free trade, in order to gain markets for the agricultural products of Prussia and to decrease the price of manufactured imports. The free trade movement by England was also an influencing factor.

For a while after the complete political unification had been achieved with the proclamation of the German Empire in 1871, under Prussian hegemony, the policy of free trade was continued. In 1877 ninety-five per cent of all imports entered the country duty free.¹ The competition of Russian and American grain, however, was being felt with increasing severity, and in 1879 Germany returned to agrarian protectionism. Up until this time

¹

Ogg, F. A., op. cit., p. 290.

Germany had been a grain-exporting country on balance. Now she became a grain-importing country; and as this transition proceeded, she became one of the foremost exponents of agricultural protectionism. Protection, as one writer has put it, was the German tradition, and free trade was¹ a plain infraction of that tradition. The industrial interests in southern and western Germany had always favored protection, and now the landowners were joining in with them because of the increased competition² from Russian and American grain.

After 1879, the German producers of breadstuffs and meats secured additional duties and sanitary regulations to hinder imports; and in 1902 they obtained not only a general increase in agrarian duties but also a specific provision which prevented the government from reducing these duties below certain minimum levels in treaties which it might make with³ other powers under Germany's general and conventional tariff system.

During the World War, Germany lowered her tariff duties to encourage much needed imports of foodstuffs and raw materials. Following the War, the Treaty of Versailles prohibited Germany from raising import duties for a period of six years.

In 1925, however, Germany again returned to a protective policy toward agricultural production. In spite of the war experience this

¹

Dawson, Protection in Germany, p. 26.

² Ogg, F. A., op. cit., p. 291.

³ Day, Clive, op. cit., p. 417.

again developed along pre-War lines. Rye became the most highly protected product, and for a time a similar support was accorded oats. The tariff aid granted to wheat flour was lower. Feed grains, other than rye and oats, were only moderately protected. Butter, eggs, vegetable oils, etc., were treated in a manner similar to the pre-War practice. The duties on livestock and meat were fixed at higher levels than before the War. This policy of unbalanced protection proved untenable in less than two years, during which time demand increased at a relatively slow rate, and production shifted from products with less favorable prices to those of higher returns.¹ By 1928 large surpluses of both rye and oats had accumulated. Imports of butter, which were at the pre-War level as early as 1924, doubled in the course of the next three years. Imports of eggs in 1928 exceeded the highest imports of pre-War years. Imports of feeds, other than rye and oats, also increased rapidly, but soon reached their peak, considerably under the figures of the last pre-War years.

Character and Sources of German Agricultural Imports

In the period 1924-28 over 40 per cent of all the wheat and barley consumed in Germany was imported from abroad, 10 per cent of the potatoes, and a large proportion of meat, fish and butter. In those years just about one-third of the value of all German imports consisted of foods and animal products.²

Table III gives an indication of the importance of the United States as a source of some of the leading German agricultural imports before

¹

"Germany's Capacity to Produce Agricultural Products", Foreign Agriculture, May 1937, p. 230, U. S. Department of Agriculture.

²

Angell, J. W., op, cit., p. 402.

again developed along pre-War lines. Rye became the most highly protected product, and for a time a similar support was accorded oats. The tariff aid granted to wheat flour was lower. Feed grains, other than rye and oats, were only moderately protected. Butter, eggs, vegetable oils, etc., were treated in a manner similar to the pre-War practice. The duties on livestock and meat were fixed at higher levels than before the War. This policy of unbalanced protection proved untenable in less than two years, during which time demand increased at a relatively slow rate, and production shifted from products with less favorable prices to those of higher returns.¹ By 1928 large surpluses of both rye and oats had accumulated. Imports of butter, which were at the pre-War level as early as 1924, doubled in the course of the next three years. Imports of eggs in 1928 exceeded the highest imports of pre-War years. Imports of feeds, other than rye and oats, also increased rapidly, but soon reached their peak, considerably under the figures of the last pre-War years.

Character and Sources of German Agricultural Imports

In the period 1924-28 over 40 per cent of all the wheat and barley consumed in Germany was imported from abroad, 10 per cent of the potatoes, and a large proportion of meat, fish and butter. In those years just about one-third of the value of all German imports consisted of foods and animal products.²

Table III gives an indication of the importance of the United States as a source of some of the leading German agricultural imports before

¹

"Germany's Capacity to Produce Agricultural Products", Foreign Agriculture, May 1937, p. 230, U. S. Department of Agriculture.

²

Angell, J. W., op, cit., p. 402.

Table 3. German Imports of Certain Agricultural Products.
(Thousands of the units specified)

Commodity	From the United States			From all Countries			Per Cent from U. S. ^a		
	1913	1926	1929	1913	1926	1929	1913	1926	1929
Cotton and linters (lbs.)	888,000	646,000	731,000	1,149,000	757,000	940,000	77	86	78
Tobacco, leaf (lbs.)	16,118	13,773	22,413	179,434	134,773	226,664	9	10	10
Grains and feedstuffs:									
Wheat (bu.)	36,943	27,930	8,460	93,549	79,816	78,334	40	35	11
Wheat flour (bbls.)	74	509	137	201	1,368	341	37	38	40
Rye (bu.)	769	1,953	500	13,879	9,669	5,687	6	20	9
Barley (bu.)	8,633	15,985	7,737	148,732	79,914	81,056	6	20	10
Oats (bu.)	3,806	4,919	220	34,793	20,417	7,640	11	24	3
Corn (bu.)	6,756	1,240	4,937	36,166	27,725	26,349	19	5	19
Fodder: bran, rice, offal, oil cake and meal (tons)	477	55	60	2,659	898	1,153	18	6	5
Animal Products:									
Lard (lbs.)	223,065	208,200	162,876	236,745	239,354	192,956	94	87	84
Meats, game, poultry (lbs.)	4,331	23,097	14,559	150,843	511,425	288,755	3	4	5
Cattle hides and calf- skins (lbs.)	8,606	7,441	3,571	456,067	239,666	244,496	1.9	3.1	1.5
Fruits and nuts (lbs.)	126,261	123,531	279,178	2,184,000	734,000	103,000	6	7	13

^a Approximate.

^b 1928

Source: United States Department of Commerce, Commerce Yearbooks.

the first World War and in the late twenties. Germany was almost wholly dependent upon the United States, both in 1913 and in the late twenties, for her imports of lard and cotton. The United States seemed to be gaining during the twenties in importance as a source of fruit and nut imports, and to be declining in relative importance as a supplier of fodder and hides and skins. In the case of grains, whereas Germany's total imports declined in the late twenties, imports from the United States declined even more so. In the case of meats, the United States showed some relative gain, but on the basis of smaller total imports at the end of the twenties. In regard to tobacco, the United States held its own in relative importance supplying about 10 per cent, and this was on the basis of larger total tobacco imports. At the end of the twenties Germany was importing smaller amounts of grain, lard, fruits and nuts, cotton, fodder, and hides and skins, than she had in 1913. Meats and tobacco were the only ones to show substantial increases over 1913. The same thing was true of Germany's imports from the United States, with the exception of fruits and nuts which showed a definite upward trend in the late twenties. (See the graphs in Part II for a more detailed presentation.)

Such items as butter, eggs, rice, wool, silk, jute, vegetables, coffee, cacao beans, wines, and hops, which were important in Germany's import trade in the late twenties, were supplied by the United States either in negligible quantities or not at all.

In 1913 the United States supplied 15.9 per cent of all German imports and this percentage was about the same in the twenties. But notice should be taken of the changed position of Russia and Southeastern European countries in German import trade. In 1913, 13 per cent of German imports came from Russia, but by 1925 Russia's contribution was only 1.6 per cent.

In 1929 it was 3.2 per cent. This is largely explained by the breaking up of the great estates in Russia, with a subsequent decrease in Russian production and an increased consumption by the masses, with the result that Russia almost disappeared as an exporter. On the other hand, South-eastern European countries supplied less than 2 per cent of Germany's imports in 1913, but by 1929 this had risen to 3.8 per cent and was¹ destined to rise to 10.5 per cent in 1937.

¹ The diversion of German trade to Dannbian countries is discussed more fully in Chapter 3.

CHAPTER III

GERMAN COMMERCIAL AND AGRICULTURAL POLICY SINCE 1929

In chapters one and two an examination was made of the general course of German-United States trade from 1910 to 1938 (see Tables 1 and 2), and of the changed position of the United States in Germany's agricultural import trade prior to 1930. It was shown that United States trade with Germany has declined greatly since 1929, with agricultural exports being especially hard hit. In this chapter a general examination is made of the causes and course of the commercial and agricultural policies pursued by Germany during the thirties which have been broadly responsible for American agricultural exports to Germany declining to a much greater extent than to the world at large.

Germany's International Debtor Position and the Crisis of 1931

The Versailles treaty fixed Germany's total direct and indirect liability on reparations account at 31.4 billion dollars, with Germany to be responsible for the whole amount in case of default by her former allies.¹ The Dawes Plan instituted in 1924, placed reparation liabilities on a graduated annual basis, with some consideration of Germany's capacity to pay, and with safeguards as to transfer. The mark was stabilized on a gold basis, and foreign capital then proceeded to pour into Germany in large amounts. The United States was the chief supplier. These foreign credits were on a scale which made it possible for Germany from 1924 to

¹ Scroggs, W. O., "German Debts and Export Bounties", Foreign Affairs, Vol. 12, (1933-34), pp. 520-21.

1928, not only to transfer its reparations payments under the Dawes schedule, but also to finance a net excess of imports (see Table 4.) This vast volume of foreign borrowing meant, however, that the Reich was obligating itself for a rising annual scale of debt service on this account, in addition to its continuing annual reparations obligations under the Young Plan, and that when foreign lending dried up after 1929, she was confronted with an acute crisis in her balance of inter-national payments.

While the Young Plan of 1929 had further reduced reparations payments, Germany's export excess of 1929-31 fell far short of meeting her annual debt obligations. During 1931 Germany lost gold abroad to the amount of 1.1 billion Reichsmarks, and complete financial collapse was averted only by the Hoover Moratorium in June of that year, suspending inter-governmental debt payments, and by the subsequent Standstill Agreement accepted by foreign bank creditors.

Germany's total external debt on February 28, 1932, has been estimated¹ as follows:

<u>Foreign Debt</u>	<u>Million Reichsmarks</u>	<u>Million Dollars</u>
Long-term debt	8,200	1,953
Short-term debt		
Standstill	5,040	1,200
Non-standstill-		
Commercial,		
Industrial banking	2,400	570
Reich government	614	146
States and Communes	201	48
Reichsbank and Gold		
Discount Bank	904	215
Total Short-term	<u>9,153</u>	<u>2,180</u>
Total Debt	<u>17,353</u>	<u>4,133</u>

¹ National Industrial Conference Board, The Situation in Germany at the Beginning of 1933, p. 44.

Table 4. Germany's External Trade, 1924-1939.
(Millions of Reichsmarks)

Year	Imports for Consumption	Exports of German Products	Balance of trade
1924	9,083	6,552	-2531
1925	12,362	9,290	-3072
1926	10,001	10,414	/ 413
1927	14,228	10,801	-3427
1928	14,001	12,276	-1725
1929	13,447	13,483	/ 36
1930	10,393	12,036	/1643
1931	6,727	9,599	/2872
1932	4,666	5,739	/1073
1933	4,204	4,871	/ 667
1934	4,451	4,167	- 284
1935	4,159	4,270	/ 111
1936	4,218	4,768	/ 550
1937	5,468	5,911	/ 443
1938	6,052	5,619	- 433
^a 1939	2,756	2,816	/ 60

Note.-From 1925 to 1932, the figures of exports are inclusive of deliveries on reparations account, valued at \$150,132,000 for 1926, \$137,246,000 for 1927, \$158,147,000 for 1928, \$195,164,000 for 1929, \$168,491,000 for 1930, \$93,539,000 for 1931, and \$14,788,000 for 1932. Deliveries ceased in 1932 under the Lausanne Agreement.

^a First six months.

Sources: Foreign Commerce Yearbooks; German Institute for Business Research.

Half of the total debt was in the form of short-term credits maturing before February 28, 1933. About 50 per cent of the total long-term foreign debt was owed to the United States, and about 32 per cent of short-term credits advanced to Germany came from the United States. Of the total debt, American creditors had advanced about 40 per cent.

On June 16, 1932 the Lausanne Reparations Agreement reduced the entire reparations debt to about 714 million dollars.¹ The "standstill" agreement of September 1931 was periodically renewed, and on June 9, 1933, the German Government decreed a transfer moratorium for six months on all public and private debts contracted before July 1931, except those covered by the "standstill" agreements. The total of Germany's public and private external debts at this time had been reduced to 2.5 billion dollars. This decree was modified shortly afterwards so as to exclude the Dawes and Young Plan loans and to provide for a maximum payment of 50 per cent of the amount due on other loans, with the remaining 50 per cent to be paid in scrip.

Germany's insistence that she could maintain the services on her huge external debts only by a sharp increase in her exports, was in part rendered more difficult of realization by her own refusal to devalue the mark. This tended to keep the prices of German goods high in terms of depreciated currencies and made it difficult for them to compete on world markets without drastic internal deflation or subsidization of her exports. Moreover, Germany's foreign debt and her redemption of a part of it, led to a depletion of gold and foreign exchange holdings of the Reichsbank, in turn leading to the institution of import and exchange controls and clearing and barter arrangements.

¹

Killough, H. B., International Trade, p. 406.

Emergency Import Controls in Republican Germany

The problems of agriculture, foreign trade and debt payments faced by Republican Germany in the early depression years made emergency import controls more or less inevitable. These measures were designed to maintain the exchange value of the mark, by curtailing imports and controlling exchange transactions, to maintain exports by a deflationary policy of low wages and consequently low prices of German goods; and to protect German agriculture from falling prices and depreciated currencies of other countries, by minimizing the extent of competitive agricultural imports.

Germany rejected devaluation as a solution partly for domestic psychological reasons in a country in which the memories of hyper-inflation were still fresh. Also, devaluation would have involved higher mark prices for imported raw materials and external debt obligations payable in foreign currencies would have demanded larger budgetary allocations. Moreover it was likely that devaluation would have been met by countervailing restrictions on German imports in other countries. The refusal to devalue caused a growing disparity between German and foreign prices, and German merchants were compelled either to curtail their imports or to sell goods at ruinously low prices.

The unfavorable position of German agriculture led to a policy of government aid after 1928. In the summer of 1929 import duties on most grains were raised to a level above those in the last pre-War years. A period of rather indefinite increases in import duties on grains ensued.

In addition to the tariff, the German government used a number of other devices to support prices of agricultural products, control production

and regulate imports. In general, the main devices for protecting grain producers in Germany were: (1) tariff rates, (2) milling regulations, (3) a so-called "grain-exchange plan", (4) combination sales of domestic and foreign grain, (5) special aid to rye producers, (6) baking regulations,¹ and (7) crop financing measures.

An example of the measures undertaken was the compulsory admixture of a specified percentage of alcohol (from potatoes) in all motor fuels, introduced in 1930, in order to support indirectly the potato industry. Brewers were required to use a minimum of 75 per cent of German hops, and those who did not use imported hops in 1930 could not subsequently begin using them. A monopoly for corn was established March 26, 1930. It had the exclusive right to import and sell corn. It could prohibit importation by private importers, fix internal prices and regulate the distribution of corn among internal purchasers. However, it should be pointed out that the Corn Monopoly was a special case necessitated by the fact that a treaty with Yugoslavia prevented Germany from raising the tariff on corn. Import monopolies were not extensively used until after the Nazis came into power.

Germany also resorted to a system of foreign exchange control by reducing the amount of foreign exchange which importers could purchase to an extent corresponding to the decrease in foreign prices and domestic incomes from 1930 to 1931. A first decree restricted the amount of foreign exchange which importers could acquire to 75 per cent of the amount used in a corresponding period of the preceding year. In May 1932 this was re-²duced to 50 per cent.

¹ For a fuller discussion of these devices see Chapter 7.

² Heuser, H., Control of International Trade, p. 128.

Thus foreign trade restrictions by Republican Germany took the form on the one hand of raising tariff rates and imposing import quotas, and on the other hand of limiting and rationing the amount of exchange legally available for payment of imports. The various internal market regulations, however, often overshadowed the foreign trade control measures, and the cumulative effect was particularly harmful to the United States because, under normal conditions, our sales to Germany are a great deal more than our total purchases from that country.

Foreign Trade and Exchange Policies Under the Nazi Regime

The measures undertaken in Republican Germany were of an emergency nature, designed to deal with the depression and the financial crisis. Readjustment was sought by a policy of drastic deflation, and by the end of 1932 the stage had been set for a gradual cyclical recovery along orthodox lines. The external debt had been substantially reduced, and a passive trade balance of 5.2 billion marks in 1927 and 1928 had been changed into an active trade balance of 5.6 billion marks during the three-year period 1930-1932. However, the vast amount of unemployment and the lowered standard of living were more than the German people were willing to endure, and so they turned to a dictatorship under Hitler.

The Nazis had two main objectives, the relief of unemployment and the creation of military preparedness. Unemployment was attacked first, as outlined by Hitler on May 1, 1933 in his First Four-Year Plan. This Plan was carried out largely through an expansion of public works projects, financed by authorizing contractors to draw special bills which would be accepted and endorsed by special institutions and thus be eligible for

rediscount at the Reichsbank as three-name paper. Then came the drive for military preparedness, beginning about 1935. At first, this program necessitated increased imports of essential raw materials in order to build up war industries and create reserve stocks, so that Germany would have a supply to fall back upon in case of war. The Reich's difficult foreign exchange position, however, meant that imports for domestic consumption would have to be drastically controlled while giving priority to imports of these strategic raw materials. These were to be paid for not only by curtailing less essential imports, but also by increasing exports and by suspending, as far as possible, German debt payments abroad.

In a final effort to unify and tighten the controls already in force, and to secure a powerful bargaining weapon in commercial negotiations, Dr. Schacht, Minister of Economics, on September 24, 1934 instituted the "New Plan", designed to hold imports strictly to the available amount of foreign exchange, to confine purchases as far as possible to countries which bought equivalent amounts from Germany, and to give preference to imports of raw materials, particularly those necessary for the armament industries.

Under the New Plan, debt payments were either suspended or made only to countries which bought more from Germany than they sold to the Reich. Such countries as Great Britain, France and The Netherlands were in a position to insure debt service on Dawes and Young Plan bonds held by their citizens, because they could threaten to withhold payments to German exporters if the Reich refused to pay its debts. The United States was unable to do this, however, since it had a favorable balance of trade with the Reich.

The Plan also drastically curtailed the amount of foreign exchange available for the purchase of new imports. The quotas, introduced in July 1931, had been repeatedly and drastically reduced, until in August 1934 they averaged only 5 per cent of basic requirements in 1930-31.¹ Dr. Schacht now went a step farther and allotted foreign exchange by commodities. Twenty-five commodity boards were established to supervise the entire import trade, and payments for foreign products were permitted only when the importer, prior to each importation, secured a foreign exchange certificate from one of these boards. In some cases, import monopolies were established, so that the government was the sole importer, and could determine how much would be imported, the price to be paid for it and where it would be purchased. This was the most effective method of import restriction used. Naturally, imports of essential raw materials received preference.

While Germany was limiting her imports, she was also taking steps to increase her exports, so as to increase her supply of foreign exchange. One method of increasing exports was by the use of subsidies, both direct and indirect. As early as 1932 the so-called "additional export" procedure had been introduced in order to counteract to some extent the export advantage obtained by other countries through the depreciation of their currencies.² Under the Schacht plan the money for the subsidies was obtained from profits made in the purchase and resale of:(1) blocked marks,

¹ Foreign Policy Reports, vol. 10 (1934), p. 234.

² Foreign Policy Report, vol. 10 (1934), p. 231.

or the mark equivalent of foreign balances frozen in Germany since the introduction of foreign exchange control; (2) scrip issued in accordance with the partial transfer moratorium effective from July 1, 1933 to June 30, 1934;¹ and (3) German bonds on foreign markets. The stimulation of exports became extensive only in 1933, when, according to German figures, about a fifth of the goods sold abroad was aided by subsidies averaging about 25 per cent of the sales price.² After 1934 most of the above sources of profit for export subsidy dried up, and thereafter funds were obtained primarily from special secret taxes on gross incomes of German business, assessed and collected through cartels.

Beginning in the autumn of 1934, the system of Aski marks was introduced under which Germany made large purchases of agricultural products, particularly in Balkan and Latin American countries. Payment for these imports was not made in free exchange, but in special classes of marks which could be used in purchasing in Germany only certain classes of goods which otherwise could not have been sold abroad. As these Aski marks were generally quoted at substantial discounts from the "free" rate, they acted as an indirect subsidy for those industries from which the purchases of commodities are limited.³ Aski compensation or barter has been particularly successful in promoting trade with Latin America. Compensation agreements⁴ have been called a sophisticated form of barter.

¹ cf. Dietrich, E. B., *World Trade*, pp. 135-36, for explanation of various types of blocked accounts.

² Weekly Report of the German Institute for Business Research, Supplement, September 12, 1934, "The Financing and Promotion of Exports in Germany".

³ Dietrich, E. B., *op. cit.*, p. 136.

⁴ *Ibid.*, pp. 224-27.

Clearing and payments agreements are other types of bilateral agreements which have been used by Germany in promoting foreign trade. Germany negotiated the earliest of these agreements in 1932 with countries in Central and Southeastern Europe. They established special accounts in the central bank of each state, into which payments for imports were required to be made, and out of which the claims of exporters were met. In this way the use of foreign exchange was obviated, except for the transfer of balances. Since these agreements enabled German importers to pay in marks, the Reich covered as much of its foreign requirements as possible through this procedure, while reducing imports from non-clearing countries, such as the United States. In 1937, according to German estimates, something like one-half of Germany's total foreign trade fell under the clearing principle; about 20 per cent was conducted on the basis of Askis accounts and barter arrangements; and another 15 per cent was with countries with which payment arrangements were in force.¹

This regimentation of imports has had an aggravating effect on United States exports to Germany, especially those of an agricultural nature. Since this country concluded no clearing agreements with Germany, but had a favorable balance of trade with her, the Reich retaliated by restricting imports from us. On the other hand, the United States charged that Germany, by her policy of bilateral clearing and exchange agreements, had pledged a large share of her foreign exchange, but refused to allocate to the United States a suitably proportionate share of the small remaining amount of free exchange. Accordingly, under Section 350 of the Trade Agreements Act, the

¹

Reichs-Kredit-Gesellschaft, "Germany's Economic Situation at the Turn of 1937-1938", p. 92.

United States government on July 11, 1936 imposed countervailing duties ranging from 22.5 to 56 per cent on a wide variety of German manufactures. On August 3, the Reich Foreign Exchange office issued an order banning the use of Aski and registered marks in trade with the United States, and this country then lifted the countervailing duties. Countervailing duties, however, were again invoked against Germany in March 1939. Moreover, this country has refused to grant to Germany the generalization of concessions provided for in the Trade Agreements Act.

As for Germany itself, trade has been diverted from its natural and most economic channels. Germany has bought not where she could buy most economically, but where she could conclude agreements, even though the goods purchased were often higher in price and inferior in quality. The Reich has secured the raw materials necessary for sustaining the internal economic boom and completing the rearmament program only at the expense of drastically reducing imports of foodstuffs and consumption goods.

Germany's Drive for Agricultural Self-Sufficiency

While the German government was extending its control over the country's foreign trade, it also undertook a drive to become more nearly self-sufficing in the production of agricultural products. This drive was another part of its program of military preparedness. One objective of the Second Four-Year Plan, announced by Hitler in September 1936, was to make Germany independent, as far as possible, of all essential foodstuffs and raw materials. General Goering was appointed supreme head, under Hitler, with overriding powers over all the other Ministers, including Dr. Schacht. Considerations of cost were to be subordinated to the interests of national self-sufficiency and defense. It was primarily in protest against the subordination of the

interests of the export industries to those of rearmament and the Four-Year Plan that Dr. Schacht resigned as Minister of Economics, and was replaced by Walther Funk in January 1938.

The economic inconsistencies inherent in the Four-Year Plan are perhaps nowhere more apparent than in connection with the agricultural program. Following the creation of the Reich Food Estate (Reichsnaehrstand) under the law of September 1933, coordinating all branches of German agriculture and the food processing and distributing industries, there was launched in the autumn of 1934 the "Battle of Production". The maximization of self-sufficiency in food supply was sought to be attained by means of adequate price incentives, combined with organization, demonstration and patriotic appeals. With the inauguration two years later of the Second Four-Year Plan, special emphasis was placed upon the expansion of the production of agricultural raw materials for industry, and an increasingly comprehensive measure of inspection and regimentation was instituted with respect to land utilization and crop deliveries.¹

Under the Food Estate farm products were placed under Reich monopoly offices, which had the power to control production, prices, marketing and the margins of processors, wholesalers and retailers. Efforts to encourage agricultural production, in addition to the price incentive, included the payment of subsidies to growers of oilseeds and textile fibers and also for the planting of fruit trees, a moderate reclamation of land and stimulation of agricultural improvements (irrigation, drainage, consolidation of scattered holdings), intensification of scientific efforts to raise more desirable breeds of livestock, increased use of fertilizers, the allotment

¹

Department of State, Adviser on International Economic Affairs, The Economic and Financial Position of Nazi Germany, August 29, 1938, p. 40.

of subsidies for building houses for farm workers and for various kinds of land melioration and improvements, mechanization of agriculture and¹ the elimination of waste.

The Plan called upon German agriculture to expand simultaneously the production of food crops, of feed crops, and of raw materials for industry (flax, hemp, wool, hides, oilseeds, potatoes for alcohol and wood for cellulose). In a country whose cultivated acreage has already reached its practical maximum and whose yields have long been among the highest in Europe, the possibilities of simultaneous expansion in both extensive and intensive land utilization are extremely limited. Moreover, Germany's population is constantly increasing. Physical volume of German farm production rose only about 6 per cent from 1933 to 1937.² An average domestic production of 85 per cent of total food and feed requirements is close to a maximum level under conditions of normal consumption. It should be mentioned here that the system of agricultural protection and regimentation gradually evolved in Germany under the National Socialist regime represents largely a planned agricultural economy rather than a system of farm aid and relief such as is found in most other countries, including the United States.

Diversion of German Trade

Where Germany has been unable to meet her total requirements of essential foodstuffs and raw materials by domestic production, she has been forced, of course, to continue importing them. Germany has sought

¹ "German Agriculture in the Four-Year Plan", Foreign Agriculture, March 1937, U. S. Department of Agriculture.

² "German Foreign Agricultural Policy", Foreign Agriculture, January 1938, p. 26, U. S. Department of Agriculture.

to divert these imports, however, not only to countries willing to acquiesce in her foreign trade policies, but also to countries less likely to be cut off from the Reich by a wartime blockade.

Accordingly, Germany has extended its trade relations with South-eastern Europe, imports doubling and exports trebling, from 1934 to 1937.¹ (See Table 5 for percentage shares of various countries.) The Reich can use the tobacco, fruit, eggs, lumber, fodder, fibers, oils, fats and ores of the Balkans, where in turn it finds a ready market for its iron and steel, chemical and pharmaceutical products, machines and a wide range of manufactures. German trade in Southeastern Europe is in accordance with Nazi ideas to reorganize trade along regional lines, particularly with countries with which communications would not be severed in time of war. Moreover, unlike most other customers of Germany, the Balkan and Danubian countries acquiesced in Germany's bilateral canalization and balancing of trade. It should be pointed out, however, that this area can supply only a small part of German imports of cotton, wool, silk, copper, manganese and mercury, and supply none of the need for coffee, cocoa, tea, rubber, tin, tungsten, vanadium, molybdenum, platinum, phosphates, jute, manila hemp, sisal, palm oil and copra.

The annexation of Austria greatly increased the trade dependence of Southeastern Europe on the Reich.² It placed Germany in a strategic position to control European railway communications between the Adriatic

¹ League of Nations, Review of World Trade, p. 39.

² The Economist, May 14, 1938.

Table 5. Distribution of Germany's Foreign Trade^a

	Percentage Share in German Exports				Percentage Share in German Imports			
	1929	1932	1937	1938 (9 mos.)	1929	1932	1937	1938 (9 mos.)
Southeastern Europe	4.3	3.5	9.4	10.1	3.8	5.0	10.5	8.9
Near East, including Turkey and Egypt	1.4	1.3	4.3	5.3	1.4	2.5	3.4	3.3
Latin America	7.3	4.1	11.0	12.2	11.4	9.6	15.5	15.5
Scandinavia, including Finland	10.2	9.4	12.1	12.6	7.3	6.4	10.2	11.8
Baltic countries, including Poland	4.6	2.6	2.8	4.2	4.1	3.1	3.1	3.3
British Dominions	3.9	3.9	5.3	5.6	10.6	8.3	7.7	7.6
Colonial Africa	1.0	0.7	1.6	1.5	3.3	3.5	4.7	4.1
Eastern Asia	5.1	3.8	6.1	5.6	6.4	7.4	6.6	7.5
Italy and colonies	4.5	3.9	5.3	6.0	3.3	3.9	4.1	4.6
Spain and Portugal	2.1	2.1	1.6	2.5	2.2	2.4	2.3	2.4
Low Countries, France and Switzerland	26.2	31.9	21.8	21.3	15.7	15.1	12.2	11.8
Great Britain	9.7	7.8	7.3	6.8	6.4	5.5	5.7	5.2
United States	7.4	4.9	3.5	2.7	13.3	12.7	5.2	7.5
Soviet Union	2.6	10.9	2.0	0.5	3.2	5.8	1.2	0.9
Czechoslovakia	4.9	4.4	2.6	2.4	3.6	3.0	2.6	2.7
Austria	3.3	2.8	2.1	----	1.5	1.4	1.7	----

^a Taken from Weekly Report, German Institute for Business Research, January 11, 1939.

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and the Baltic, as well as between France and the Balkans.¹ However, whereas the Reich can supply about 82 per cent of its total food requirements, Austria can supply only 74 per cent of its own needs and Sudeten Germany probably still less.² In 1936 Austria purchased half of its raw materials abroad; the Reich only one-fifth. On the other hand the two countries together can add greatly to Germany's timber resources. They can also supply some magnesite, iron, zinc, uranium, radium, brown coal and water power.³

Starting in 1935, Germany also undertook a trade drive in Latin America,⁴ which was for the most part willing to accept compensation agreements. German commercial policies have met with the greatest success in Brazil and Chile. Any permanent German competitive advantage in Latin-American markets will depend on the extent to which Germany continues to purchase Latin-American raw materials, and, aside from coffee, there are few commodities which could not be purchased elsewhere should it become expedient, economically or politically, to do so.

Table 5 shows the distribution of Germany's foreign trade in certain recent years. It is easy to see the decline in importance of the United States and the increased importance of Southeastern Europe and Latin-America. It is apparent that German commercial and agricultural policy has been especially effective in restricting trade with the United States and Russia.

¹ Financial News, April 26, 1938.

² Foreign Policy Reports, March 1, 1939, pp. 294-95.

³ Cf. Walter Hildebrand, "The Austrian Contribution to German Antarchy", Foreign Affairs, vol. 16, p. 719.

⁴ Foreign Policy Reports, September 15, 1937, pp. 160-61.

Chronology of German-United States Relations, 1914-1939.

Following is a brief chronology of events which have particularly affected trade relations between the two countries during the past quarter of a century:-

Date	In the United States	In Germany
August 1914		First World War began.
April 1917	U. S. entered the war.	
November 1918	Armistice.	Revolution - provisional republic proclaimed.
June 1919		Peace treaty of Versailles.
1921	Tariff Act of 1921.	
May 1921		London agreement. (Reparations provisions of the Versailles Treaty.)
November 1921	U. S. treaty of peace with Germany.	
1919-1923		Inflation of the mark.
1922	Fordney-McCumber Tariff Act.	
January 1923		Occupation of the Ruhr by French and Belgians.
December 1923	U. S. concluded commercial treaty with Germany	Collapse of the mark.
September 1924		Dawes Plan; Mark stabilized.
1925		Return to a protective tariff for agriculture.
1925-1929		Inflow of foreign funds.

<u>Date</u>	<u>In the United States</u>	<u>In Germany</u>
1929	Beginning of world depression; tariff on most grains raised.	
1929		Young Plan.
1930	Smoot-Hawley Tariff Act.	
June 1931		Financial crisis; Hoover Moratorium on intergovernmental debts; First Standstill Agreement.
June 1932		Further increase in import duties.
July 1932		Lausanne Agreement reduced reparations to 714 million dollars.
November 1932		Von Papen's government resigns.
January 1933		Hitler becomes Chancellor.
March 1933	Roosevelt becomes President.	
April 1933	Repeal of the gold clause.	
September 1933		Nazis establish Food Estate; Hereditary Farm Laws passed.
January 1934	U. S. devalues the dollar.	
June 1934	President signs Reciprocal Tariff Bill	Germany suspends payments on Dawes and Young Loans.
September 1934		"New Plan" for strict adjustment of imports to exports.
October 1934		Germany denounces commercial treaty of December 8, 1923, with U. S., as from October 13, 1935.
February 1935	Breakdown of negotiations on the subject of exchange of American cotton for German industrial products. Commercial	
June 1935	treaty of December 8, 1923 prolonged for an unlimited period with the exception of the most-favored nation clause.	

<u>Date</u>	<u>In the United States</u>	<u>In Germany</u>
August 1935	Neutrality Resolution signed	Increases in agricultural prices forbidden.
November 1935		Decree issued controlling raw material and food exports; export of war materials prohibited.
March 1936		Denunciation of the Treaty of Locarno and remilitarization of the Rhineland.
June 1936	Anti-dumping duties become effective on imports from Germany.	
August 1936	Anti-dumping duties terminated.	Use of blocked marks prohibited in transactions with the United States.
September 1936		Hitler announces Four-Year Economic Plan.
November 1936	Roosevelt re-elected President.	
March 1937		Decree on four-years' programme of intensification of agricultural production.
July 1937		Decree ordering compulsory delivery of wheat and rye to the State.
October 1937		Dr. Schacht resigns as Minister of Economics.
November 1937		Walther Funk becomes Minister of Economics.
March 1938		Germany annexes Austria.
September 1938		German troops occupy Sudeten area.
November 1938	U. S. has concluded 19 reciprocal trade treaties.	
March 1939	U. S. again imposes countervailing duties on imports from Germany.	

PART II

RECENT CHANGES IN PRINCIPAL UNITED STATES AGRICULTURAL EXPORTS TO GERMANY

The graphs in the following chapters portray the fluctuations in United States exports to Germany of various individual, groups, and classes of agricultural commodities. The graphs also indicate the percentage which Germany receives of United States exports to all countries, in each instance. On a few of the graphs an additional line is used to show the total exports from the United States to all countries.

The data for all of the graphs has been taken either directly from or calculated from data obtained in copies of Foreign Commerce and Navigation of The United States.

CHAPTER IV

GENERAL COURSE OF UNITED STATES AGRICULTURAL EXPORTS TO GERMANY SINCE 1929.

Exports to Germany by Economic Classes

While United States exports to Germany fell from an annual average of 423 million dollars in the period 1926-29 (See Table 6) to 131 millions in 1932, a decline of 69 per cent, exports to all countries decreased by almost the same percentage (68). After 1932, however, exports to all countries recovered markedly, 1938 figures being 94 per cent above those for 1932. On the other hand, exports to Germany continued downward, and in 1938 they were 20 per cent lower than in 1932. The decline in our exports to the Reich is reflected in the decreased percentage taken by that country. In the period 1926-29 Germany took 8.6 per cent of United States exports. In 1932 this percentage was about the same, but by 1938 it had dropped to 3.4.

United States agricultural exports to Germany were not reduced to any greater extent during the early depression years than were our agricultural exports to all countries, the decline in both cases being 65 per cent from the late twenties to 1932. Our agricultural exports to Germany, however, continued downward from 105 million dollars in 1932 to 37 million in 1938, a decrease of 65 per cent. In the meantime, our agricultural exports to all countries increased 26 per cent, from 738 to 928 million dollars.

Table 6. Proportion of United States Agricultural Exports Taken by Germany

	1926-29										
	Average	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Total of all domestic exports-- millions of dollars.	4914	3782	2378	1576	1647	2100	2243	2419	3299	3057	3124
Total of all domestic exports to Germany--millions of dollars.	423	272	161	131	138	107	90	101	123	104	46
Per cent taken by Germany	8.6	7.2	6.8	8.3	8.4	5.1	4.0	4.2	3.7	3.4	1.5
^a											
Total agricultural exports to all countries--millions of dollars.	2062	1392	948	738	776	834	850	827	915	928	776
Total agricultural exports to Germany--millions of dollars.	302	184	112	105	109	69	54	63	59	37	
Per cent taken by Germany	14.6	13.2	11.8	14.2	14.0	8.3	6.4	7.6	6.6	4.0	
^a											
Total of agricultural exports to Germany as per cent of total domestic exports to Germany.	71.4	67.6	69.6	80.2	79.0	64.5	60.0	62.4	48.8	35.6	

(continued on next page)

^a Total of the five agricultural groups shown on this table.

Table 6. Proportion of United States Agricultural Exports Taken by Germany (continued)

	1926-29 Average	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Animals and animal products, edible-- to Germany--per cent.	14.2	9.6	12.7	17.1	14.7	4.9	2.0	3.4	1.6	1.0	
Animals and animal products, in- edible--to Germany--per cent.	9.3	9.9	9.7	13.9	7.7	5.9	3.0	2.2	1.7	1.4	
Vegetable food products and bever- ages--to Germany--per cent.	7.1	5.9	7.8	8.7	9.4	7.0	3.2	2.1	2.3	4.1	
Vegetable products inedible, except fibers and wood--to Germany-- per cent.	5.3	4.2	3.2	4.8	3.7	2.6	2.7	2.0	2.1	1.2	
Cotton and linters--to Germany-- per cent.	24.0	25.2	19.9	19.4	19.6	12.6	10.5	14.4	13.3	8.0	4.0

Sources: United States Department of Commerce--Commerce Yearbooks.
 -Foreign Commerce and Navigation of The United States.
 -Monthly Summary of Foreign Commerce of the United States.

While Germany took on an average of 14.6 per cent of United States agricultural exports in the years 1926-1929, and 14.2 per cent in 1932, this share was only 4 per cent in 1938.

It is thus clearly seen that the commercial and agricultural policies of the Reich, discussed in Chapter III, had a particularly harmful effect on our agricultural exports to that country. It can easily be observed from Table 6 that while agricultural exports constituted almost three-fourths in the late twenties and four-fifths in 1932 of the value of this country's total exports to Germany, in 1938 these same agricultural exports were responsible for little more than a third of our total exports to that country.

As for commodity groups, Table 6 indicates that exports to Germany of animals and animal products of the edible variety have suffered the most, on a percentage basis. In 1932 Germany took 17.1 per cent of this country's exports of this group of commodities, but in 1938 took only 1 per cent. Vegetable food products and beverages have been affected least, the percentage being 8.7 in 1932 and 4.1 in 1938. However, it should be noted that exports of all the groups have dropped markedly since 1932. This fall reflects the attempts of the Reich to become self-sufficing in food products, and divert such imports as are still essential to other countries.

Table 7 shows the extent of the decrease in United States exports to Germany by economic classes. It is readily seen that the fall has been most marked in the cases of crude materials, crude foodstuffs and manufactured foodstuffs and has been relatively light for semi-manufactures and finished manufactures. This is what one might expect from Germany's drive for agricultural sufficiency and her policy of shifting trade in raw materials to Southeastern Europe and Latin America.

Figure 1. Exports of Domestic Merchandise from United States to Germany, 1928-1938.

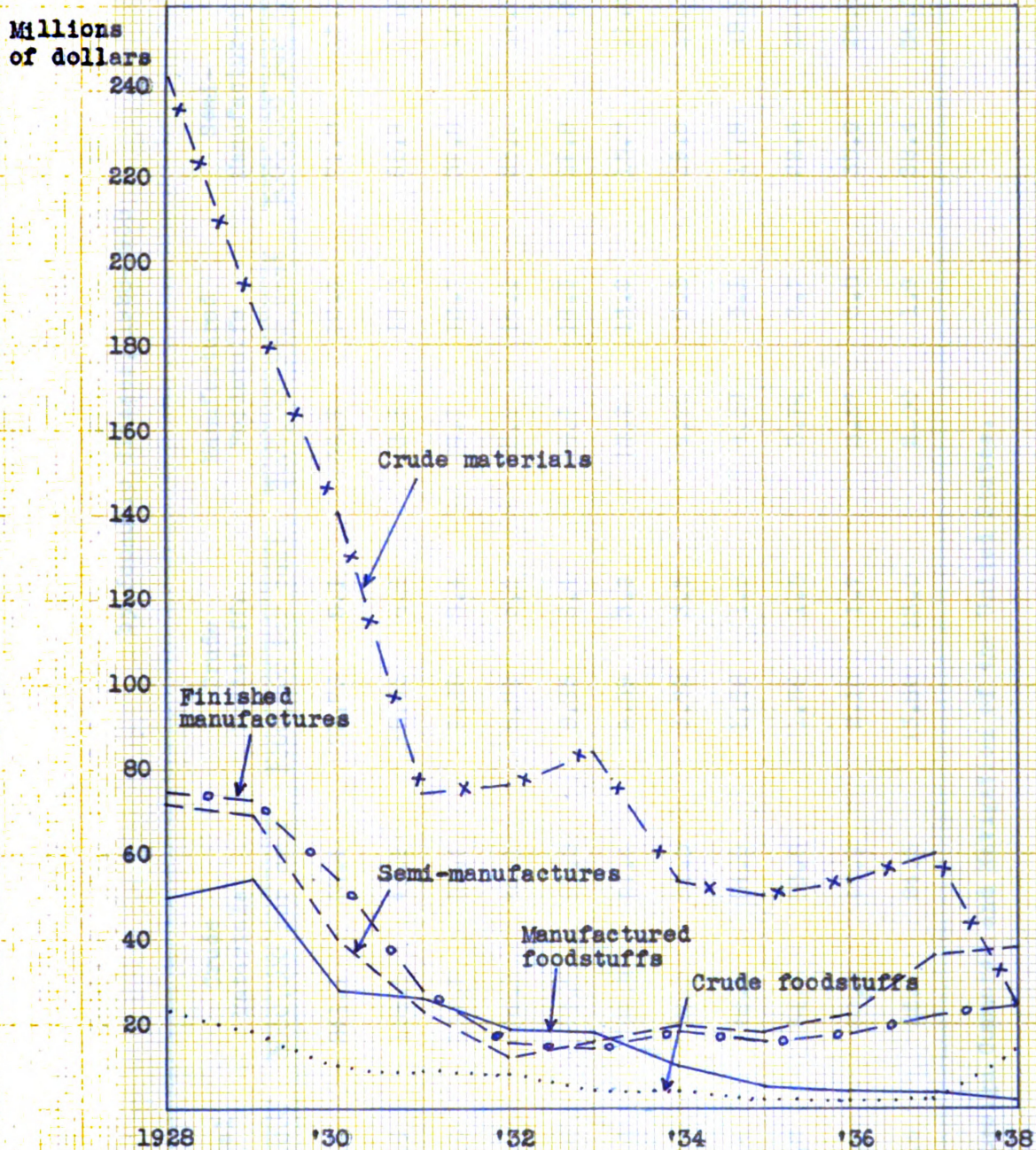


Table 7. Exports of Domestic Merchandise from United States to Germany,
by Economic Classes, 1928-1938

Year	Total \$100,000	Crude Materials		Crude Foodstuffs		Manufactured Foodstuffs		Semi- Manufactures		Finished Manufactures	
		\$100,000 Per cent		\$100,000 Per cent		\$100,000 Per cent		\$100,000 Per cent		\$100,000 Per cent	
1928	460.3	241.1	52.4	23.70	5.1	50.2	10.9	71.8	15.6	73.3	15.9
1929	401.9	188.5	46.9	18.43	4.6	53.3	13.3	68.9	17.2	72.6	18.9
1930	272.0	139.7	51.4	9.28	3.4	29.1	10.7	39.8	14.6	53.9	19.8
1931	160.9	74.2	46.1	8.79	5.5	25.9	16.1	23.0	14.3	23.8	17.9
1932	130.8	75.5	57.8	8.35	6.4	18.9	14.5	12.8	9.8	15.0	14.5
1933	138.2	84.8	61.4	4.39	3.2	18.2	13.2	15.7	11.4	14.9	10.8
1934	106.8	54.5	51.0	3.72	3.5	9.95	9.3	19.5	18.3	19.0	17.8
1935	90.4	48.8	54.0	1.58	1.8	4.57	5.1	17.9	19.8	17.4	19.2
1936	100.7	54.2	53.8	1.56	1.5	3.74	3.7	22.6	22.4	18.5	18.4
1937	123.0	60.1	48.9	2.10	1.7	3.67	3.0	35.9	29.1	21.2	17.3
1938	104.6	25.6	24.5	13.60	13.0	2.00	1.9	38.4	36.7	25.0	23.9

Source: Foreign Commerce and Navigation of the United States.

United States exports of crude materials to Germany dropped 76 per cent from 1929 to 1938. At the same time the decline was 26 per cent for crude foodstuffs, 96 per cent for manufactured foodstuffs, 44 per cent for semi-manufactures and 66 per cent for finished manufactures. If 1937 figures are used the decrease for crude foodstuffs was 89 per cent. It should be mentioned here that our exports of crude foodstuffs to the Reich in 1938 were abnormally high because of large exports of corn and wheat to that country. Germany undertook to build up her reserve supply of these two grains in 1938, and found the United States, with its large export surplus and low prices, a desirable place to purchase a large share of it.

From Table 7 it is also evident that in 1929 crude materials (consisting of such items as cotton, tobacco, coal, crude petroleum, phosphate rock, etc.,) was by far the most important United States export to Germany, absorbing almost one-half of the total. This was still true in 1937, but in 1938 crude materials accounted for only one-fourth of the total. Much of this decline was due to decreased cotton exports to Germany in 1938. Crude materials, in fact, ranked only second in 1938, just ahead of finished manufactures and well behind semi-manufactures. Crude and manufactured foodstuffs together furnished only about one-seventh of our total exports to the Reich in 1929, and the same proportion in 1938. In 1937, however, they constituted only 4.7 per cent of the total.

Table 8 brings out some interesting contrasts in United States exports of these economic classes to Germany. The table shows that Germany served as a market for 10 per cent of this country's total exports of semi-manufactures and 3.2 per cent of our finished manufactures in 1928. Both have fallen, on a percentage basis, since 1928, but the drop has not been so drastic as in the case of the other three economic classes, and it appears

**Table 8. Percentage of United States Exports by Economic Classes
Taken by Germany, 1928-1938.**

Year	Total	Crude Materials	Crude Foodstuffs	Manufactured Foodstuffs	Semi- Manufactures	Finished Manufactures.
1928	9.1	18.6	8.0	10.8	10.0	3.2
1929	7.8	16.5	6.8	11.0	9.5	2.9
1930	7.1	16.9	5.2	8.0	7.8	2.8
1931	6.7	13.1	6.9	10.5	7.3	2.6
1932	8.3	14.7	9.3	12.4	6.5	2.4
1933	8.2	14.4	9.1	11.8	6.6	2.4
1934	5.0	8.4	6.3	6.0	5.7	2.2
1935	4.0	7.1	2.7	2.9	5.1	1.8
1936	4.2	8.1	2.7	2.6	5.7	1.6
1937	3.7	8.3	2.0	2.1	5.3	1.3
1938	3.4	4.3	5.5	1.1	7.6	1.4

Sources: Foreign Commerce and Navigation of the United States; Trade of the United States With Germany in 1938.

to have been arrested in 1937, both showing an increase in 1938. On the other hand, crude materials, crude foodstuffs and manufactured foodstuffs did not decline, on a percentage basis, until after 1932, but since that time the decrease has been quite drastic, with crude materials and manufactured foodstuffs falling to record lows in 1938.

Exports of Specific Agricultural Commodities to Germany

Prior to the development of the depression in 1930, the United States enjoyed a substantial export business to Germany in a variety of farm products. The leading ones, ranked in order of dollar values, were cotton, wheat, lard, barley, fruits and nuts, rye, raw furs, oleomargarine, tobacco, fodder, wheat flour, cattle hides and calfskins, corn and meats.

Since 1930, however, such items as wheat, wheat flour, feed barley, rice, minor dried fruits, pears, pork, and occasionally rye and corn, have become of little or secondary importance in trade between the two countries. The disappearance of the trade in cereals reflects Germany's achievement of a high degree of self-sufficiency in grain production and the diversion of imports to other sources, and has the appearance of permanency, as does the drop in pork products, other than lard. Special circumstances govern the trade in the minor fruits, both fresh and dried. Imports from the United States were generally restricted, being secured so far as possible, from countries having clearing arrangements with Germany.¹

United States exports to Germany of grains, meats, oleomargarine and cattle hides and calfskins declined drastically even in the early depression years. Since the advent of the Nazis to power in 1933, exports of these

¹ Foreign Crops and Markets, May 11, 1936, p. 547.

products have practically ceased. Exports of cotton, lard, tobacco and fedder have fallen rather steadily throughout the thirties; but the drop has been particularly apparent since 1933. On the other hand, exports of fruits and raw furs failed to decrease, even in dollar values, in the early depression years, but have dwindled away since 1933, as the Nazis have curtailed non-essential imports.

Leading United States agricultural exports to the Reich in 1938, ranked in order of dollar values, were cotton, corn, wheat, fruits, tobacco, sausage casings, cottonseed and linseed cake, lard and undressed furs. All of them, with the exception of sausage casings, were exported on a much smaller scale than in the late twenties.

Table 9 shows the extent on a quantity basis of some of our agricultural exports to Germany in certain specified years. Practically every commodity declined sharply about 1934, and by the fiscal year 1936-37 Germany was importing either none or insignificant quantities of many of them. Grains, animal products and fats and oils were most drastically reduced. This was due not only to German restrictions, but also to the increased price of these commodities in the United States, as a result of the drouth and the A. A. A. program. Variations in production in other countries, of course, also help to make the figures fluctuate rather unevenly. The sharp downward trend, however, is easy to observe.

From Table 10 can be seen the decreased relative importance of the United States in supplying German imports of some of the leading agricultural products since 1928. Although the number of commodities included is small, the results are quite definite and striking. Whereas

Table 9. Domestic Exports of Principal Agricultural Products from
United States to Germany--Year Ended June 30

Commodity	1929-30	1931-32	1933-34	1935-36	1936-37	1937-38
Cotton & linters (1,000 bales)	1,840	1,688	1,562	899	795	837
Cottonseed cake (tons)	19,752	14,027	923	672	0	18,308
Cottonseed meal (tons)	9,876	9,474	73	0	0	686
Tobacco, flue-cured (1,000 lbs.)	8,150	7,611	7,838	6,619	2,726	4,641
Tobacco, Kentucky & Tennessee (1,000 lbs.)	8,329	7,602	6,078	5,509	2,828	2,266
Tobacco, dark, Virginia (1,000 lbs.)	2,156	1,783	1,101	1,382	1,162	864
Wheat (1,000 bushels)	4,769	3,530	0	0	0	1,313
Wheat flour (1,000 barrels)	452	145	15	18	21	6
Barley (1,000 bushels)	1,521	77	0	0	0	288
Corn (1,000 bushels)	0	114	58	0	0	10,589
Rice (1,000 lbs.)	37,915	41,670	18,172	2,854	796	1,494
Lard (1,000 lbs.)	180,074	142,354	72,599	6,125	1,772	2,846
Bacon (1,000 lbs.)	8,468	2,043	2,541	33	0	138
Pork, pickled (1,000 lbs.)	328	54	156	7	21	5
Oleo oil (1,000 lbs.)	14,630	11,570	4,755	320	163	30
Prunes (1,000 lbs.)	44,789	62,539	64,463	29,347	7,097	17,499
Raisins (1,000 lbs.)	14,059	16,899	14,730	781	753	2,386
Apples, dried (1,000 lbs.)	11,425	12,055	19,971	6,666	1,599	1,561
Apricots, dried (1,000 lbs.)	6,091	11,798	12,450	2,271	1,228	1,493
Pears, fresh (1,000 lbs.)	1,217	1,538	2,954	1,525	1,188	2,962
Pineapples, canned (1,000 lbs.)	11,472	4,768	5,952	2,315	845	615

Source: Agricultural Statistics.

the United States supplied over four-fifths in 1928 and nearly three-fourths in 1932 of German lard imports, in 1937 this country furnished only a small fraction of one per cent of the Reich's purchases of this item. American trade in lard has suffered from arbitrary German restrictions more than have other sources of supply. The share of cotton imports furnished by the United States fell from four-fifths in 1928 and 1932 to one-third in 1937. This decline reflects not only a diversion to other sources, but also decreased total imports, because of a drop in German textile exports and an increased production in the Reich of fiber substitutes. The percentage reduction for wheat, fruits and meats was in the face of drastic curtailment of total purchases of these items, reflecting Germany's drive for sufficiency in food products. Even sausage casings, a product in which the United States did not become important as a source until the thirties, has shrunk notably since 1932. Tobacco is the only commodity of importance in which the United States has even come close to maintaining its relative position. Germany has shown a preference for certain of the American brands. (See chapter V for a fuller discussion.)

Imports of meats were so curtailed after 1934 that this item ceased to be of much importance in trade between the two countries. The same thing has been true of a number of other articles, notably fats, oils, oilcake, fodder, hides and skins, rice and other grains. Thus Germany in 1937 was securing a very small share of these important agricultural products from the United States. Future trends will depend largely on the commercial and agricultural policies of the two countries, especially those of the Reich.

Table 10. German Agricultural Imports
from United States

Commodity	Percentage of total imports coming from U. S.					
	1928	1930	1932	1934	1936	1937
Lard	84.4	79.3	73.2	54.8	6.6	0.15
Sausage Casings			18.1	18.9	5.6	3.5
Wheat	20.1	15.1	20.1	2.5	2.9	1.4
Fruits and nuts	14.1	13.2	15.5	13.3	2.2	0.9
Tobacco, leaf	8.3	9.8	8.7	6.0	5.9	4.8
Cotton and linters	80.9	74.2	78.9	63.2	36.0	33.3
Meat, game, poultry	2.0	4.4	2.0	3.9	a	a

^a Insignificant.

Source: Commerce Yearbook; Foreign Commerce Yearbook
(data are compiled from figures given in above sources.)

CHAPTER V

COTTON AND TOBACCO.

Cotton

Germany produces none of its own cotton, and for many years raw cotton has been the leading export from the United States to the Reich. In the twenties Germany and Great Britain were virtually tied for first place as markets for American cotton. One of the most important of the German exports in these years was cotton textiles and reexported cotton. This country supplied the Reich with both long and short staple fiber, the varieties being American upland, American-Egyptian and American-sea island. Most of our exports to her, however, consisted of American upland of the short staple type.

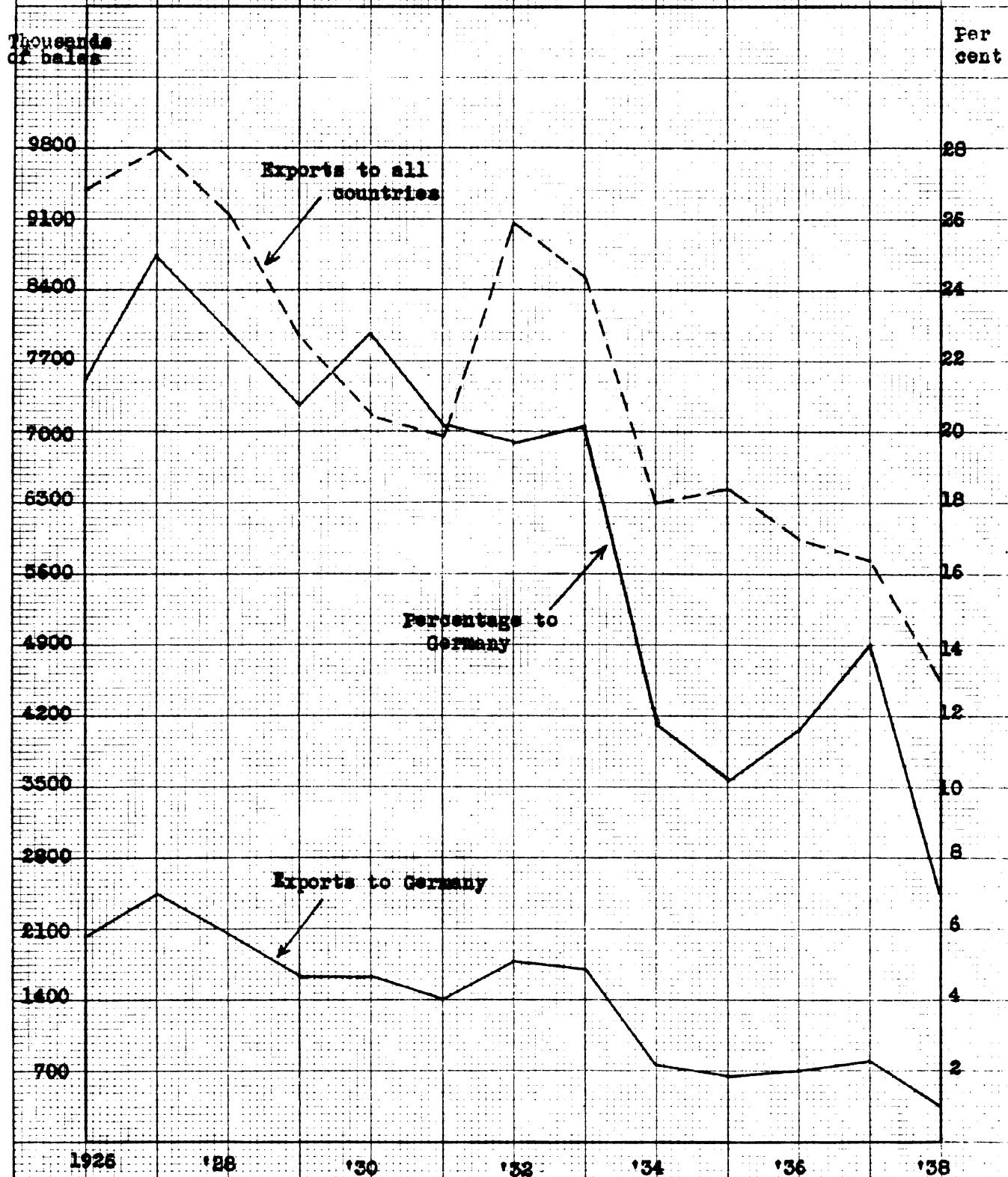
Table 11 shows United States exports of unmanufactured cotton, 1926-1938. Figure 2 portrays this information graphically. It should be remembered, in examining this table, that United States statistics of exports of cotton to Germany have always included goods consigned to the free ports of Hamburg and Bremen, a part of which is reexported to various Central European countries. As a result, these statistics have generally overstated the trade with Germany proper. From the table it is apparent that United States exports, both to all countries and to Germany, reached their peak in 1927, in which year this country exported nearly 2.5 million bales to the Reich. During the late twenties Germany consistently purchased between one-fourth and one-fifth of our total cotton exports.

**Table 11. United States Exports of Unmanufactured
Cotton, 1926-1938.
(Thousands of bales)**

Year	Total to all countries	Total to Germany	Percentage to Germany	Rank of Germany as a market
1926	9,384	2,021	21.5	2
1927	9,794	2,452	25.0	1
1928	9,158	2,038	22.8	1
1929	7,964	1,652	20.8	2
1930	7,176	1,637	22.7	1
1931	6,956	1,402	20.2	1
1932	9,060	1,787	19.7	2
1933	8,530	1,715	20.1	1
1934	6,297	740	11.8	2
1935	6,448	655	10.2	5
1936	5,948	691	11.6	3
1937	5,728	800	14.0	4
1938	4,562	319	7.0	4

Source: Foreign Commerce and Navigation of the United States.

Figure 2. United States Exports of Unmanufactured Cotton, 1926-1938.



Since 1927 United States exports of cotton have fallen steadily, with the exception of the years 1932 and 1933. Our total exports dropped from 9,060,000 bales in 1932 to 4,562,000 in 1938, a decrease of 50 per cent. Between the same years exports to Germany fell 82 per cent. The more drastic decline to the Reich is reflected in the smaller percentage going to that country. Whereas in 1932 Germany took 19.7 per cent of our exports, in 1938 she took only 7 per cent. It is interesting to note, however, that in spite of the great reduction in cotton exports to Germany, cotton has remained our largest agricultural export to the Reich, in 1938 accounting for 43 per cent of all agricultural exports to that country.

American cotton exports, both to all countries and to Germany, declined in the period 1929-1931. This was the result of the high prices for cotton prevailing under the Federal Farm Board's stabilization operations. With government control removed in 1932 and most of 1933, our cotton exports were greater than at any time since 1928. It was only after 1933 that our exports declined steadily, and it was also after 1933 that the proportion going to Germany decreased.

Germany also lost her top rank as a market for this country's cotton during these years. Since 1933 Japan has been the principal outlet for our cotton. Low labor costs and the low exchange value of the yen have made it possible for Japan to undersell competitors in international textile markets. In 1938 Germany ranked fourth, behind Great Britain, France and Japan, as a market for American cotton exports.

From Table 12 can be seen the reduction in total German imports of raw cotton. The 1933 figure is higher than the annual average from 1926 to 1930, but from 1933 to 1936 total imports fell from 1.9 to 1.1 million

Table 12. German Imports of Raw Cotton, by Countries, 1926-1938^a
(Bales of 478 pounds net.)

Year ended Dec. 31 Average	Total	United States	British India	Egypt	Brazil	Argentina	All other countries	Per cent from United States
1926-30	1,817,939	1,465,397	199,048	93,890	6,241 ^b	12,133	41,898	80.6
1931-35 Annual	1,608,377	1,024,421	142,799	170,432	107,529	29,632	163,253	63.7
1933	1,921,220	1,444,064	164,534	179,804	^c	24,354	108,464	75.2
1934	1,461,589	875,389	160,404	203,976	38,242	26,058	157,520	59.9
1935	1,429,690	345,482	128,612	181,132	379,933	66,455	328,076	24.2
1936	1,092,145	326,029	136,200	134,296	159,436	44,404	291,780	29.8
1937	1,129,013	301,772	116,943	181,999	288,235	27,048	213,016	26.7
1938	1,153,206	208,067	101,593	208,813	373,846	74,840	186,047	18.0

^a Excludes linters.

^b Four year average.

^c If any, included in "other countries".

Source: Compiled from Der Auswärtige Handel Deutschlands and Monatliche Nachweise über den Auswärtigen Handel Deutschlands, December issues.

bales, a drop of 43 per cent. There was a slight increase in 1937 and 1938.

There have been two chief reasons for the reduction of German cotton imports from all countries: (1) The decline in German exports of cotton textiles and (2) the development of substitute fibers. The progress made by agricultural and raw-material countries in the manufacture of textiles has had an adverse effect upon German textile exports. Increased competition from cheap Japanese textiles in the thirties has been especially harmful. In addition, the German armament program diverted labor and capital to other enterprises. Thus cotton textile production for export purposes was reduced, thereby necessitating a reduction of raw cotton imports. Germany's total exports of finished textile products fell from 1,021 million Reichsmarks in 1929 to 361 millions in 1937, a decline of 66 per cent. During the first nine months of 1938 exports were about 14.3 per cent lower than in the corresponding months of 1937.¹

Another reason for decreased German imports of cotton has been the increase in German production of textile raw materials. The German Institute for Business Research has estimated that whereas domestic production of textile raw materials in 1932 was only about 5 per cent of consumption requirements, production in 1937 was more than 22 per cent of domestic consumption.

For more than twenty years, Germany has been experimenting with the use of wood cellulose in the production of artificial textile fibers. Processes of manufacturing continuous filament rayon were

¹

Reichs-Kredit-Gesellschaft, Germany's Economic Situation at the Turn of 1938-39, p. 23.

developed; but it was not until the advent of its program of self-sufficiency that Germany attempted production of staple fiber on a large scale. From 1933 to 1937 the production of staple fiber was increased from less than 6,000 short tons to more than 110,000 short tons. Meanwhile, production of rayon increased from 31,600 short tons to 62,800 short tons.¹ German production of natural fibers such as flax, hemp and wool also has increased. Table 13 shows the combined production of textile raw materials in Germany for selected years.

Table 13. German Production of Textile Raw Materials
(Short tons)

Year	Agriculturally Produced	Industrially Produced	Total	Percentage Industrially Produced
1925	42,500	14,000	56,500	24.8
1928	20,700	25,400	46,100	55.1
1933	9,400	37,600	47,000	80.0
1936	46,200	101,400	147,600	68.7
1937	53,900	173,100	227,000	76.5

Source: German Institute for Business Research.

In 1938 production of home fibers increased 24 per cent over 1937, staple fiber being the main source of the increase. New plants under construction in 1938 are expected to further increase the production of staple fiber.

¹

U. S. Department of Agriculture, Bureau of Agricultural Economics,
The Agricultural Situation, May 1938, p. 11.

The greater reduction in German cotton imports from the United States than from the world at large is accounted for by: (1) high prices for American cotton and (2) diversion of German cotton imports to other sources.

Under the A. A. A. program American cotton prices reached levels out of line with cotton prices in other exporting countries. The high loan value on cotton made it more profitable for American farmers to store cotton than to sell it. In spite of reduced acreage, the United States had large carry-over stocks of cotton in the thirties. There was a large exportable surplus but the price made it difficult to sell, the loan value being as high as 12 cents per pound in 1934. German cotton imports from the United States fell to a record low in 1938 (see Table 12.)

Partly as a result of the high American price, Germany has diverted her cotton imports to other countries. This is reflected in the decreased share coming from the United States. In the late twenties the Reich secured four-fifths of all her cotton imports from this country, and in 1933 this share was still three-quarters. By 1938, however, only 18 per cent of German cotton imports came from the United States. In this year Brazil was the chief German source, and Egypt had moved into a virtual tie with the United States for second place. American upland cotton has suffered especially from competition with Brazilian cotton. In general, these other sources have been willing and able to accept German goods in exchange, and trade with them has been largely on a clearance basis.

Tobacco

The United States leads the world in tobacco production, followed by British India, Russia and Brazil. Germany produces only small quantities

of tobacco, normal production being only about 5 per cent of normal production in the United States. Germany has expanded production by approximately 50 per cent in recent years, but still produces only about one-fourth of its consumption requirements.

Tobacco is the oldest export crop of the United States, and this country ordinarily exports about 40 per cent of its annual production. Flue-cured tobacco is the most important type exported. It constitutes about one-half of our annual production, and about 60 per cent of it is customarily sold abroad. A large share of it is used in the manufacture of cigarettes. The United States also exports large amounts of dark types, notably dark-fired Kentucky and Tennessee and Dark Virginia.

In the late twenties the United States annually exported about 27 million pounds of tobacco to Germany. The peak year was 1927, in which year 6.1 per cent of our tobacco exports went to the Reich. Germany ranked fourth, behind Great Britain, China and Australia as a market for American tobacco. (See Table 14). Exports to Germany were checked in 1928 and 1929, and in the latter year Germany ranked only eighth as an outlet. Among the factors responsible were: (1) heavy government taxes on tobacco in Germany, (2) increased consumption of cigars and decreased consumption of cigarettes and pipe tobacco, and (3) increased competition from Burley and flue-cured tobacco in Canada, cigarette tobacco in the British African colonies and dark tobaccos in Europe.

American tobacco exports to Germany declined to some extent in the early depression years, but the reduction was no greater relatively than the decrease to all countries. Among the factors limiting our tobacco exports to Germany in the early depression years were: (1) Increased

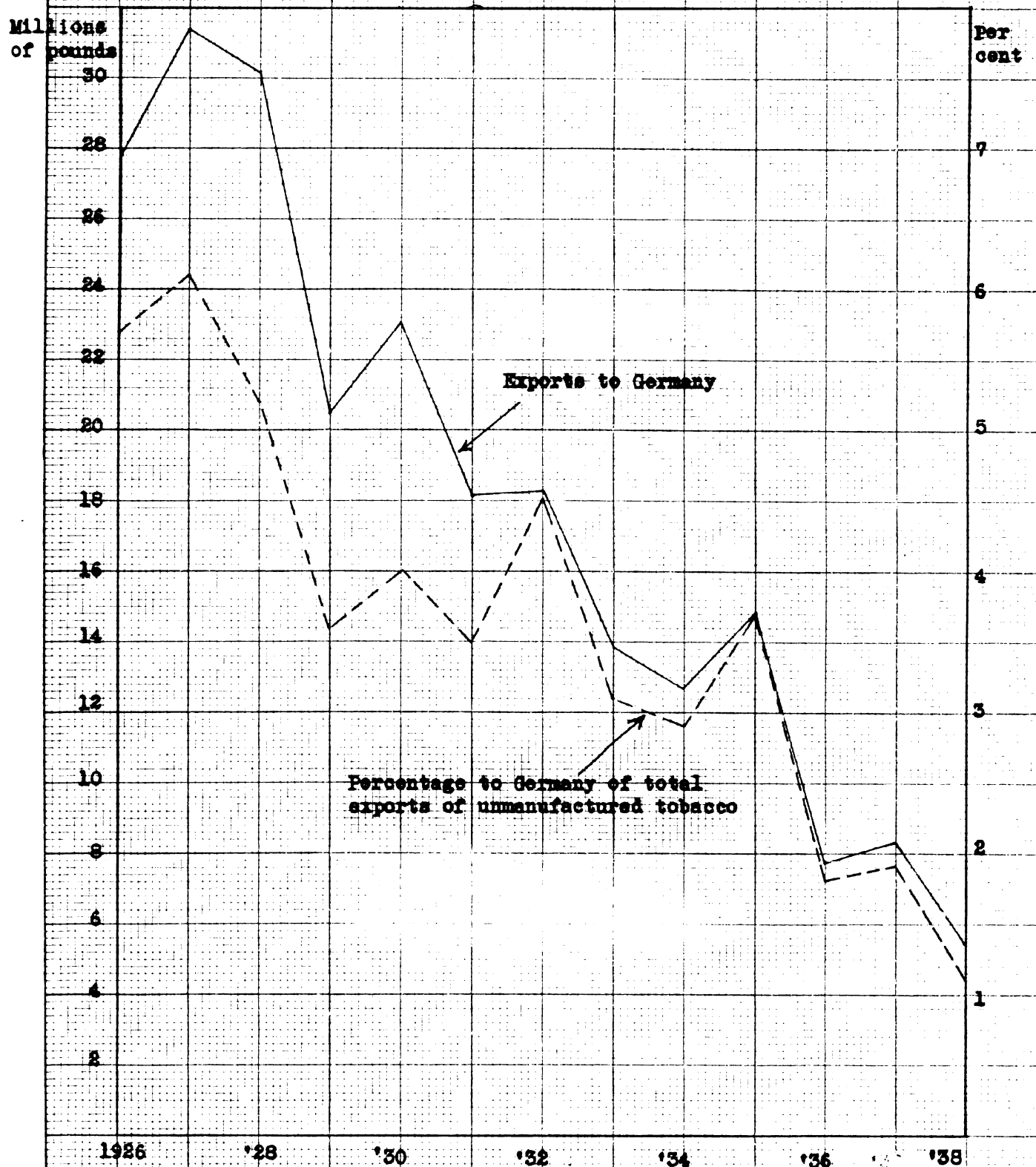
Table 14. United States Exports of Unmanufactured
Tobacco, 1926-1938.

(Thousands of pounds)

Year	Total to all countries	Total to Germany	Percentage to Germany	Rank of Germany as a market
1926	487,000	27,854	5.7	5
1927	512,000	31,387	6.1	4
1928	584,000	30,164	5.2	4
1929	566,000	20,461	3.6	8
1930	580,000	23,044	4.0	6
1931	524,000	18,100	3.5	7
1932	411,000	18,300	4.5	5
1933	438,000	13,800	3.1	7
1934	441,000	12,700	2.9	8
1935	396,000	14,800	3.7	7
1936	425,000	7,700	1.8	9
1937	435,000	8,300	1.9	8
1938	489,000	5,500	1.2	10

Source: Foreign Commerce and Navigation of the United States.

Figure 3. United States Exports of Unmanufactured Tobacco to Germany, 1926-1938



substitution of European growths in smoking mixtures, (2) reduced stocks because of poor business conditions and credit facilities; (3) exchange difficulties, (4) increased German production, (5) the relatively high price of American tobacco and (6) increased competition from Turkish tobacco.

Since 1932 total United States exports to all countries have risen, 1938 figures being 19 per cent above those for 1932. On the contrary, our exports to the Reich dropped from 18.3 million pounds in 1932 to 5.5 millions in 1938, a fall of 70 per cent. This is reflected in a decline in the percentage share going to Germany from 4.5 in 1932 to 1.2 in 1938. In the former year the Reich ranked fifth as a purchaser of American tobacco, in the latter year she ranked tenth. The principal outlets for our tobacco in 1938 were Great Britain, Australia, China and The Philippine Islands.

Table 15 indicates German imports of leaf tobacco and stems, by countries. Total imports from all sources were down somewhat in 1933, but have climbed steadily since that time until in 1938 they were equal to the annual average from 1926 to 1930. At the same time imports from the United States declined from over 20 million pounds to less than 10 millions, a drop of more than 50 per cent. The percentage supplied by this country decreased from approximately 10 per cent in the late twenties and early thirties to 4.6 per cent in 1938. In 1929 the United States ranked fourth, behind Netherland India, Greece and Turkey, as a source of German tobacco imports; in 1938 this country ranked a poor sixth. The United States, Netherland India and Dominican Republic have been the chief losers in trade with Germany during recent years. Greece, Bulgaria and Brazil have been the chief gainers.

Table 15. German Imports of Leaf Tobacco and Stems, by Countries, 1926-1938. (1,000 lb.)

Calendar Years	Netherlands and				Latin America	b			Per cent from United States
	a	United States	Southeastern Europe	Netherland India		Russia	China	Other Countries	
Average	Total								
1926-30	210,665	20,771	74,836	69,294	37,727	1,917	2,201	3,918	9.9
1931-35	185,172	18,615	78,034	51,993	26,595	4,389	2,084	3,467	10.1
Annual									
1933	185,662	20,090	78,988	51,463	26,420	4,239	2,321	2,141	10.8
1934	201,683	18,611	85,845	58,008	29,181	5,016	2,454	2,588	9.2
1935	201,201	15,690	88,468	57,043	30,869	4,310	2,179	2,642	7.8
1936	200,162	16,782	90,329	50,811	34,158	2,167	2,250	3,666	8.4
1937	205,498	12,927	96,609	47,059	40,524	444	1,994	5,941	6.3
1938	211,713	9,780	109,917	39,756	43,259	457	1,937	6,607	4.6

^a Includes Bulgaria, Greece, Hungary and Turkey.

^b Includes Cuba, Dominican Republic, Brazil, Colombia and Paraguay.

Source: Compiled from Monatliche Nachweise über den Auswärtigen Handel Deutschland.

There have been several reasons for the decrease in imports from the United States. After 1931 the increase in domestically grown tobacco in Germany replaced some of the dark types previously imported from this country. Also, there was a tendency for consumption to shift toward cigarettes and cigars containing domestic and imported tobacco other than American, and away from smoking mixtures and chewing tobacco, in the manufacture of which the greater part of American leaf heretofore¹ imported was used.

After November 1, 1936, the German industry was limited in its use of North American tobacco, with the exception of United States flue-cured, to 90 per cent of the quantity used in the period from October, 1935 to September, 1936. This order covered American dark types. For flue-cured tobacco, the order covered both United States and Japanese leaf, taken together or separately, limiting total imports of these types to 90 per cent² of the total basic quantity of both types.

By 1938, American tobaccos coming into the German market arose from three sources: (1) small quantities of bright Virginia and dark Kentucky tobaccos obtained against old barter contracts; (2) small quantities purchased with foreign exchange on special approval; and (3) small quantities resulting from the exportation or barter of foreign tobaccos, the proceeds of which were allowed to be used for purchasing American tobacco.

Tobacco in Germany is under government monopoly. It provides large and steady revenues for the State, and has social and even political implications

¹ Foreign Crops and Markets, October 5, 1936, pp. 403-405.

² Foreign Crops and Markets, February 1, 1937, p. 63.

which make the maintenance of supplies highly important. Thus imports seem quite likely to be well maintained. However, most of the imports now come from countries which have clearing or compensation trade arrangements with Germany, and it is problematical whether the United States will benefit from continued high imports into the Reich.

CHAPTER VI

GRAINS AND FEEDSTUFFS

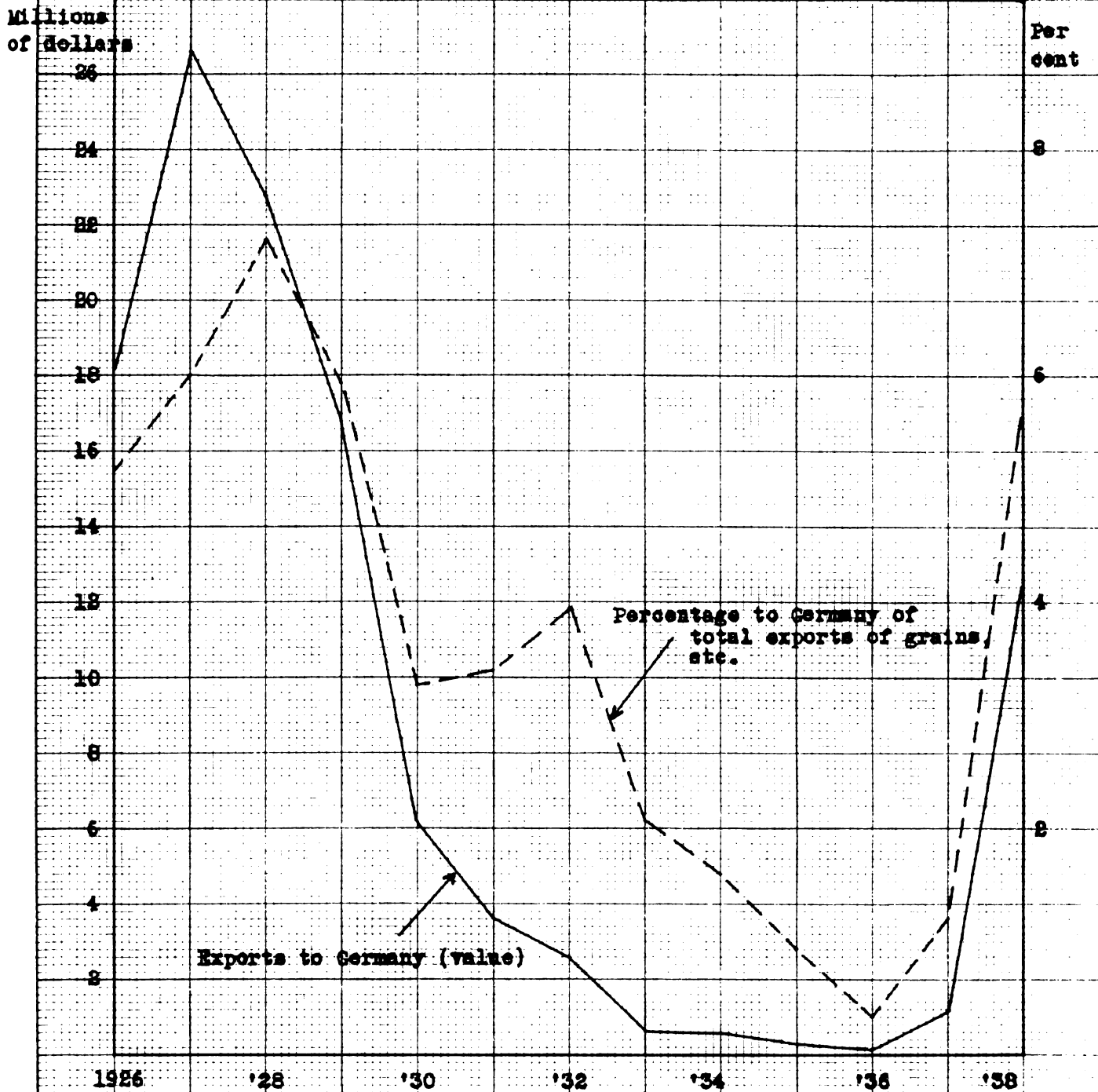
Introduction

In the late twenties Germany ranked fourth, behind Canada, Great Britain and The Netherlands, as a market for United States exports of total grains and preparations. Germany took on an average about 6 per cent of our total exports of all grains. Germany commenced restricting imports of grains, however, even before the depression, our exports to the Reich falling steadily from 1927 to 1936. That the decrease was even more marked than the decline in exports to all countries is seen by the fact that the share going to Germany dropped until in 1936 it was only .35 of one per cent. Total exports to all countries increased considerably in 1937 and 1938, but the increase to Germany was even greater, and in 1938 the Reich again took nearly 6 per cent of our grain exports. Germany ranked sixth as an outlet in 1938. Much of this rise in 1937 and 1938 was due to increased imports, particularly of corn and wheat, for war reserve purposes. (See figure 4.)

Germany also ranked fourth (behind The Netherlands, Denmark and Belgium) in the late twenties as a market for United States exports of total fodders and feeds (includes hay, oil cake and oil-cake meal, fish meal for feed, mixed dairy and poultry feeds, oyster shells and bran, middlings, etc.)

Both exports and the proportion going to the Reich fluctuated unevenly until 1933, in which year there was a sharp drop in both. Exports

Figure 4. United States Exports of Grains and Preparations to Germany, 1926-1938.



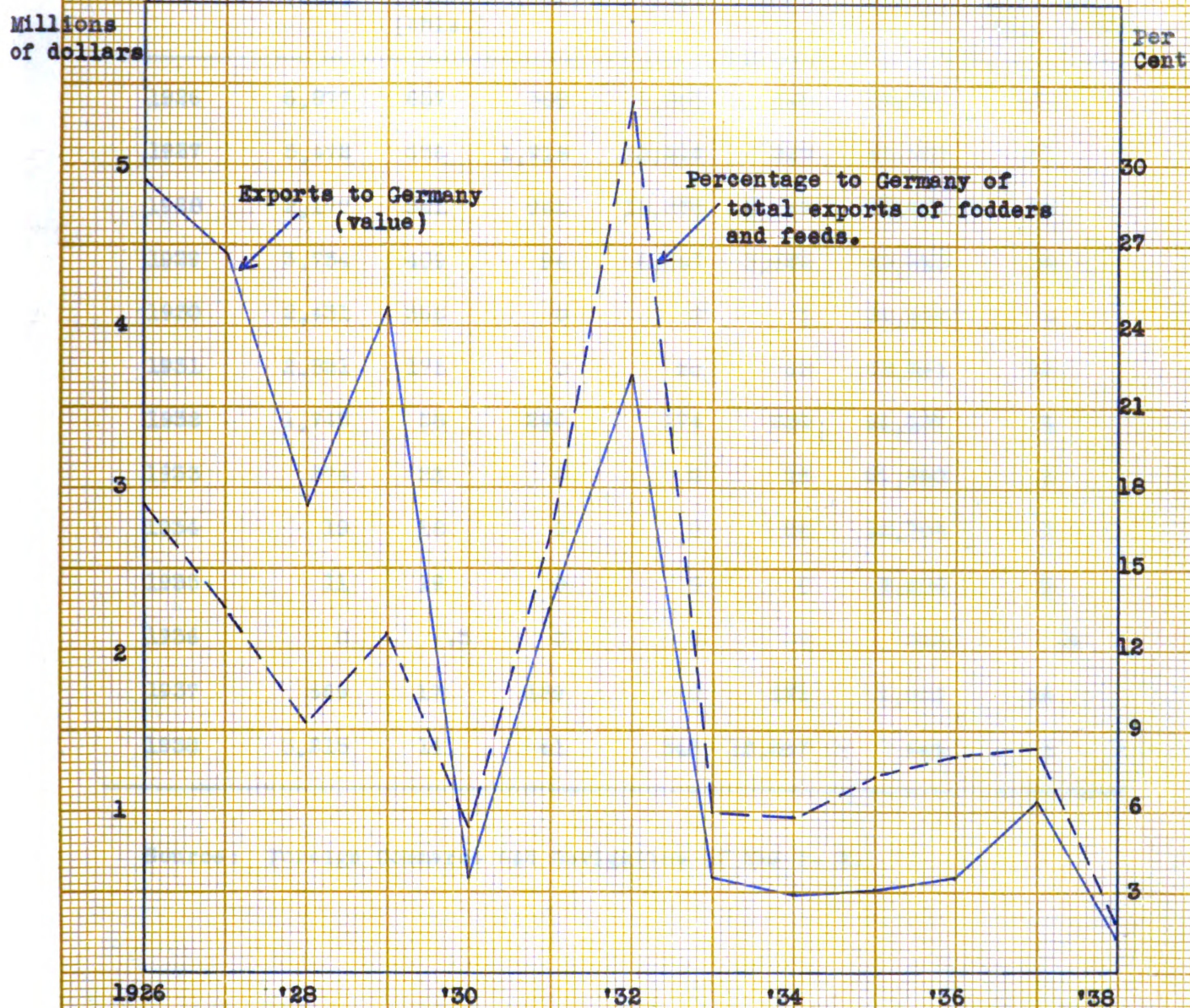
reached a new low in 1938, with Germany taking less than 2 per cent of the total (as compared with a high of over 32 per cent in 1932) and ranking only ninth as a market. (See figure 5.) Much of the decline has been the result of the Reich's attempts to become independent of external sources of supply. Table 17 shows the extent of increased German production of certain grains and feedstuffs in recent years, and Table 18 indicates the decline in German net imports of most grains and feeds in recent years.

Much of the German reduction in imports of grains and feeds after 1927 can be attributed to government measures to protect cereal producers and feeders of livestock. It reflects (1) the regional conflict of interest between the large grain growers of the Northeast and the small farmers of the South and West who must buy feed grains to feed to livestock and poultry, and (2) the fact that domestic production of certain grains fluctuates from a deficit to a surplus basis from year to year. This resulted in an intricate system of measures which at the same time were highly elastic and could be adapted to changing conditions of supply and demand. The government attempted to isolate the German grain market from world-market developments.

Germany has also tended to bring about changes in the utilization of grains that can be used for more than one purpose, for instance, wheat, rye and corn. This has been done by various milling and feeding regulations. As an example, the shortage in bread grains (wheat and rye) in 1936 resulted in a variety of measures in 1937 to restrict consumption, to prevent the feeding of bread grains to livestock, and to accumulate supplies in government hands.¹ The utilization of bread grains for distilling purposes was

¹ "German Foreign Agricultural Policy," Foreign Agriculture, January 1938, p. 23, U. S. Department of Agriculture.

Figure 5. United States Exports of Fodders and Feeds to Germany, 1926-1938.



**Table 16. United States Grain and Feed Exports to
Germany, 1926-1938.**

(Thousands of the unit specified)

Year	Wheat (bu.)	Wheat flour (bbls.)	Rye (bu.)	Barley (bu.)	Corn (bu.)	Rice (lbs.)	Cottonseed Cake and Meal (tons)
1926	6,877	657	588	1,205	520	10,560	125
1927	5,472	656	1,918	10,315	310	41,000	87
1928	2,177	341	943	12,870	2,765	42,500	34
1929	3,754	409	94	4,543	3,685	42,285	35
1930	2,431	368	0	0	1	33,944	4
1931	2,821	173	0	26	68	38,241	11
1932	1,743	58	290	174	256	41,137	4
1933	274	23	0	0	13	21,960	1
1934	19	18	0	0	58	14,768	0
1935	11	19	0	0	0	3,500	0
1936	0	.5	0	0	0	585	.6
1937	669	17	189	0	171	1,353	14
1938	3,215	14	41	348	13,897	444	2

Source: Foreign Commerce and Navigation of the U. S.

Table 17. German Production of Grains and Feedstuffs,
1925-1938.
(Millions of units unless otherwise specified)

Year	Wheat (bu.)	Rye (bu.)	Oats (bu.)	Barley (bu.)	Potatoes (bu.)	Sugar beets (Metric tons)	Hay, Alfalfa and clover (Metric tons)	Fodder Beets (Metric tons)
1925	118	317	385	119	1,533	10,326	33,169	24,752
1926	95	252	436	113	1,103	10,495	33,536	23,073
1927	121	269	437	126	1,380	10,854	35,407	24,389
1938	142	335	482	154	1,516	11,011	30,185	22,644
1939	123	321	509	146	1,473	11,091	31,237	24,208
1930	131	302	390	131	1,628	14,919	36,988	30,402
1931	156	263	427	139	1,612	11,039	37,015	29,826
1932	184	329	458	148	1,728	7,875	37,058	34,486
1933	206	344	479	159	1,619	8,579	32,836	30,717
1934	167	299	376	147	1,719	10,394	26,424	33,805
1935	171	294	371	156	1,507	10,569	33,181	34,708
1936	163	291	387	156	1,702	12,095	40,180	37,601
1937	164	266	405	167	2,032	10,091	37,272 ^a	50,349
1938	202	333	432	192	1,870	14,966	37,225	

^a Meadow hay and lucerne clover.

Sources: Commerce Yearbooks; Foreign Commerce Yearbooks;
Reichs-Kredit-Gesellschaft (Berlin).

Table 18. German Net Imports of Grains and Feeds, 1925-1937
(German Statistics - Thousands of unit specified)

Year	^a Wheat (bu.)	^a Wheat flour (bbls.)	^a Rye (bu.)	^a Corn (bu.)	^a Barley (bu.)	^a Oats (bu.)	^a Rice (lbs.)	Fodder (tons)
1925	54,000	4,400	c	21,900	42,800	c	1,070,000	c
1926	69,000	1,400	b	27,700	79,900	12,000	531,000	898
1927	92,000	700	26,000	82,900	91,900	12,400	441,000	1,360
1928	80,000	400	b	50,600	88,600	b	244,000	757
1929	67,000	300	b	26,300	81,100	b	92,000	592
1930	43,000	250	b	25,600	69,900	b	73,000	406
1931	19,000	120	900	20,000	34,700	3,300	154,000	386
1932	20,000	90	22,000	30,000	26,000	400	850,000	786
1933	9,000	b	b	10,000	11,000	b	680,000	499
1934	17,000	b	b	15,000	25,000	b	630,000	113
1935	5,000	b	7,200	11,100	7,300	b	420,000	298
1936	3,000	b	b	6,800	2,700	b	381,000	88
1937	45,000	b	7,100	85,000	11,100	b	486,000	150 ^d

^a Approximate.

^b Negligible, if any.

^c Data not available.

^d Estimated.

Source: Foreign Commerce Yearbooks.

prohibited. Total quotas for all grains to be delivered to the government by farmers every year were set up for each farm and included specified minima for bread grains alone. This measure prevented a restriction of bread-grain growing (because of the surrender obligation) in favor of feed grains, which were not requisitioned.

Wheat and Wheat Flour

In the twenties the German policy was to both import and export wheat and wheat flour. Domestic German wheat is of the soft variety. In addition, durum wheat cannot be produced in Germany. Thus the policy was to export part of the domestic crop, chiefly to Baltic countries, and import some of the better grades of bread-making wheat to mix with the German soft wheats. The predominating type of bread consumed in Germany is, in some sections, mixed wheat and rye bread and, in other sections, rye bread. Very little wheat bread of the loaf type is consumed, but consumption of wheat flour rolls is quite high, amounting to about 30 per cent of the total bread consumption. "Straight" and "baker's" grade wheat flours of less than medium gluten strength are used in the production of the common quality rolls and loaf breads. Short extraction and patent wheat flour of medium strength is used in the production of the best quality rolls and loaf breads.

Total net imports of wheat into Germany from all sources reached a peak of 92 million bushels in 1927. The United States ranked third, behind Canada and Argentina, as a country of origin. On the other hand, this country's exports of wheat to the Reich reached the highest level in 1926,

the figures being 6,877,000 bushels of wheat and 657,000 barrels of wheat flour. This represented about 5 per cent of our total exports, and Germany ranked seventh as an American market for these commodities. (See figures 6 and 7.) After 1926, our exports to the Reich fell (as did our exports to all countries in the thirties) until in 1936 they vanished entirely (see Table 16).

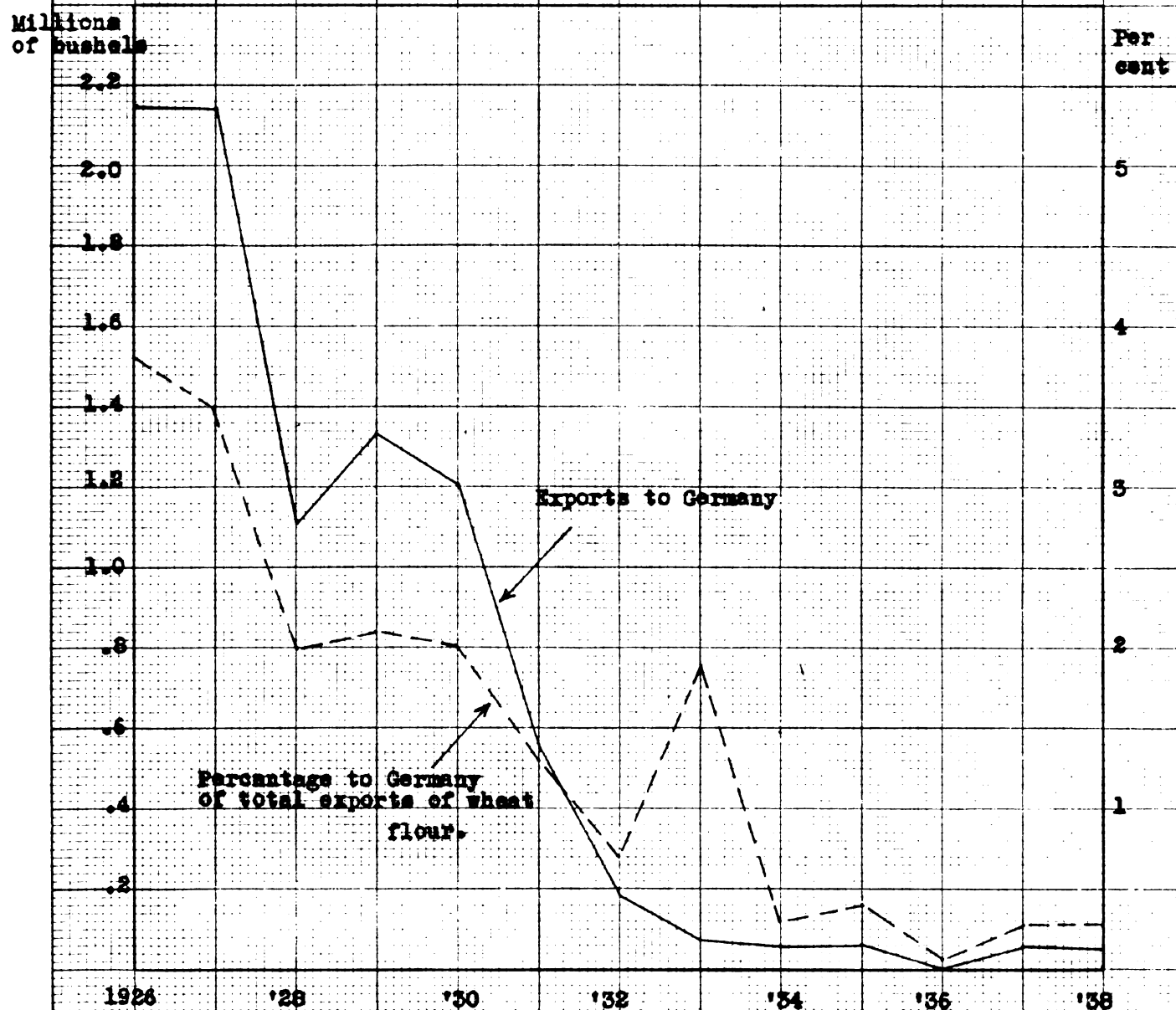
In August 1931 the old import-certificate system was replaced by a so-called "grain-exchange plan". The purpose of the "plan" was to allow German mills to cover their most urgent needs for hard and high-gluten varieties of wheat which were not grown within the country. Wheat could be imported at reduced tariffs or duty free, but only to the extent to which a foreign market was found for German wheat and flour. Additional wheat imports were subject to the full amount of the high tariff prevailing at that time.

By 1932 a duty of \$1.62 per bushel, together with milling quota systems¹ had greatly reduced American exports to Germany. By 1933 Germany was practically self-sufficient in bread grains. Moreover, under clearing agreements completed in the middle thirties, the Danube Basin gained prominence as a German source, not for reasons of price or quality (these countries do not produce hard spring wheat of high protein content), but because these countries were willing to take German goods in payment.

By the end of 1935, German agronomists were of the opinion that if the country were to become permanently independent of foreign sources of supply for wheat, it would be necessary to develop varieties that not only had a high

¹ Foreign Crops and Markets, July 5, 1932.

Figure 7. United States Exports of Wheat Flour to Germany, 1925-1938.



gluten content but also gluten of desirable quality. The various artificial price maintenance measures of the previous ten years had increased wheat production in Germany to the extent that the country was quantitatively self-sufficient. The rapid increase in production, however, had been accomplished partly at the expense of feed grains, and partly either by seeding wheat on land that was unsuitable for that crop or by neglecting desirable crop rotation with a consequent sacrifice of soil fertility. Yields per acre, on the other hand, had been showing an upward tendency due to the use of higher yielding varieties and to the increasing use of fertilizers. Thus there remained the serious problem of the baking quality of the wheat.

Total wheat imports into Germany reached a low point of only 3 million bushels in 1936. The large increase in 1937 and 1938 followed the government's policy of accumulating reserve stocks for war purposes. In 1938 Germany imported 48 million bushels of wheat. The United States was the leading country of origin. This country had a large exportable surplus in 1937 and 1938, and the increase to Germany was a part of the rise in exports to all countries. Other leading sources of German wheat imports in 1938 were Rumania, British India, Argentina, Hungary, Canada, Yugoslavia and Australia.

Rye

Of the total area used for agricultural purposes in Germany, 60¹ per cent consists of light soil. Since a light soil is at a greater disadvantage in a cold than in a warm climate, Germany is doubly handicapped.

¹ "Germany's Capacity to Produce Agricultural Products", Foreign Agriculture, May 1937, p. 221, U. S. Dept. of Agriculture.

There are but few crops that can withstand cold and at the same time flourish in a light soil. Some lands can produce only rye and lupines. The latter crops are usually plowed under for the succeeding rye crop, which, because of the short season, is harvested every other year. The soil requires heavy applications of fertilizers, in addition to the lupines plowed under; consequently the cost of producing rye is quite high. In spite of this, Germany has made efforts to maintain production on a high level and to minimize imports. Rye is a very important crop in the Reich, and during the thirties the production of it has annually exceeded wheat production by 50 to 100 per cent (see Table 18). In 1938 Germany produced 333 million bushels of rye as compared to 202 million bushels of wheat.

Germany fluctuates in its rye trade, being on an import basis in some years, while exporting rye in others, depending mainly on the size of its harvest. Germany was on a total net import basis in 1927, 1931, 1932, 1935, 1937 and 1938, and an exporting basis during the other years of the period 1926-1938. United States exports of rye to Germany have been relatively unimportant, the peak being only 1,918,000 bushels in 1927. Since 1929 this country has exported rye to the Reich in only three years (1932, 1937, 1938). The exports to Germany in 1932 came at a time when the United States government was not influencing production or prices, and although it amounted to only 290 thousand bushels, this represented one-fourth of our total rye exports to all countries.

As a result of the scarcity of bread-grain supplies in Germany, the minimum extraction percentage for rye flour was raised on March 27, 1937 from 75 to 80 per cent,¹ and beginning on November 1, 1937 all rye flour

¹ Foreign Crops and Markets, April 12, 1937.

for bread making was required to carry an admixture of 6 per cent of potato flour.¹ On October 1, 1938, following a season of good crop yields, the compulsory admixture of 6 per cent of potato starch-flour was abolished and the admixture of ground potato-flour was reduced from 3 to 2 per cent.² At the same time the milling percentage was shortened once more. The embargo upon the use of bread cereals for feed purposes was maintained.

In November 1938 Germany and Poland completed a barter arrangement whereby Germany agreed to take 23,000,000 dollars worth of Polish cereals over a period of nine years, and Poland agreed to take 23,000,000 dollars worth of German-made industrial machinery. The principal cereal involved is rye. The arrangement, however, may benefit American exporters of grain to other Western European markets since it gives assurance that the Polish grain export surplus will not be a competitive factor in markets outside of Germany for a number of years.³

Feed grains

Corn - The common feed grains are corn, barley and oats. A limited amount of American corn was used in Germany in the late twenties and early thirties for the manufacture of corn products such as corn flour, starch, syrup and meal. The big outlet, however, was for hog feeding. In 1932, for the first time in many years, United States corn prices achieved parity in Germany with the two competing types, Danubian Galfox and Argentine River Plate. United States number 2 mixed and number 2 yellow were

¹ "German Foreign Agricultural Policy", cited, p. 23.

² Germany's Economic Situation at the Turn of 1938-39, p. 39, Reichs-Kredit-Gesellschaft.

³ Foreign Crops and Markets, November 26, 1938.

recognized as having superior hog fattening value per unit of weight¹ over the other competing varieties. After 1932, however, practically no United States corn entered Germany until 1938 (see Table 16). Factors responsible were (1) restrictions imposed by the German Corn Monopoly, (2) relatively high United States corn prices, (3) restriction in United States production under the A. A. A., and (4) drought in 1934 and 1936. Argentina, Rumania and Yugoslavia accounted for practically all of Germany's² much-reduced corn imports during these years.

The basic German bread law of June 9, 1931, was modified March 2, 1937, whereby up to 10 per cent of potato flour, dried potato products, dried buttermilk and milled corn could be mixed with rye or wheat flour for bread making without notice being given to this effect or markings placed on the flour containers;³ and beginning March 15, 1937, it became obligatory to mix corn meal with wheat flour, in the making of bread and bakery products, to the amount of 7 per cent.

Imports in 1937 were increased to replenish depleted stocks, supplement⁴ barley and domestic root crops, and encourage an increase in hog production. The embargo on the use of bread grains for feed purposes brought about a considerable increase in imports from the United States, as well as total imports, in 1937 and 1938. Imports into the Reich for war reserve purposes in 1938 resulted in United States exports of corn to that country reaching a record total in the year mentioned.

¹ Cf. Foreign Crops and Markets, issues for August 1, August 29, and December 27, 1932.

² Foreign Crops and Markets, May 11, 1936, p. 553.

³ Foreign Crops and Markets, April 5, 1937.

⁴ Cf. Foreign Crops and Markets, issues for January 4, 1937 and November 27, 1937.

Barley - Exports of feed barley to Germany have suffered a very marked decline, and vanished entirely from 1933 to 1937. This was partly the result of increased domestic supplies, barley acreage in Germany increasing about 13 per cent from 1927 to 1937.¹ Also, the position of American barley was undermined after 1928 by unfavorable feeding experience with fungus-infected importations. Argentina and Rumania have often exported large quantities to Germany and now account for the bulk of the reduced imports.

Oats - In most years Germany has been on a net exporting basis in regard to oats. Only in 1926, 1927, 1931 and 1932 was Germany a net importer. Germany was a net importer from the United States until 1930, but since that time our exports to the Reich have disappeared. In contrast to the increase in barley acreage, oat acreage in Germany has declined in recent years.² This redistribution of the grain acreage has resulted in a much better balance between domestic production and consumption.

Other Feedstuffs

Feedstuffs play a very important part in the agricultural economy of Germany. The production of animal products is largely a question of the availability of feedstuffs. Feedstuffs include, besides the grains mentioned in the preceding sections, such items as potatoes, sugar beet pulp, legumes,

¹ "Germany's Capacity to Produce Agricultural Products", cited, p. 247.

² Ibid., p. 240.

oil-cake meals and various hay crops. In accordance with the German Government's policy of helping livestock, dairy and poultry producers, cheap feedstuffs for farmers has been the rule.

Two groups of feeds have to be considered in connection with the German feed situation, carbohydrates and proteins. Grain and potatoes are the chief carbonaceous feeds, while legumes, cover crops, and oil cakes (which are imported either as a finished product or as raw material) make up the chief protein feeds. The climate and the soil favor the production of the former, but Germany has always been largely dependent upon imports of the latter in order to meet domestic requirements for the production of dairy products and fats.¹ Two factors of great importance in solving the problem are: (1) The arable land available in Germany cannot be significantly increased, and (2) yields fluctuate greatly because they are easily affected by changes in the extremely variable climate. An increase in the acreage of feed crops can only take place at the cost of the crops which are also of importance. To overcome this Germany is trying to increase yields, shift acreage to more valuable crops and cultivate crops grown in between two annual crops, i. e. inter-²mediary or cover crops.

There was a marked reduction in German net imports of carbohydrate feeds after 1927, largely the result of import restrictions on feed barley and corn, these being replaced by domestic rye, potatoes and sugar beets. Net imports of protein feeds were fairly well maintained from 1927 to about

¹ Cf. "Germany's Capacity to Produce Agricultural Products," cited.

² Foreign Crops and Markets, March 4, 1939.

1933, but since then there has been a significant decline, and this is reflected in the reduced production of oilcakes and bran resulting from restricted imports of oilseeds and wheat and high milling extraction ratios for bran supplies.

The case of cottonseed cake and meal is a good example of what has happened to United States exports of feedstuffs to Germany. In 1926 this country sent 125 thousand tons of cottonseed cake and meal to the Reich, in which year Germany took nearly one-fifth of our total exports and ranked second only to Denmark as a market. By 1934 these exports had vanished entirely and have remained quite low since then. (See figure 8).

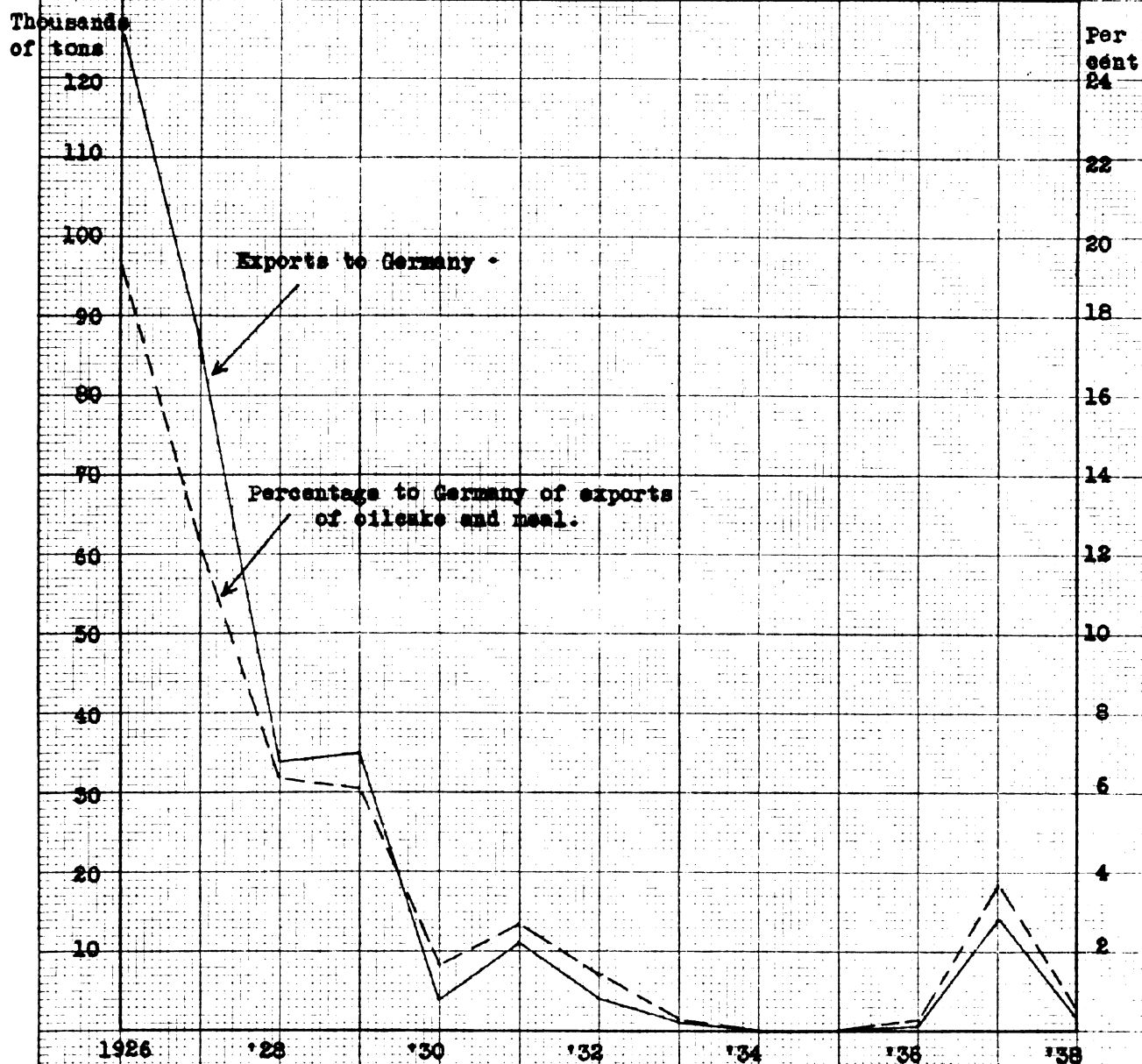
Our small export totals of feedstuffs to the Reich since 1934 have been partly caused by Germany's attempts to replace high-value imported concentrates with domestically produced feedstuffs, potatoes, sugar beets, catch crops, etc.--in other words to replace proteins largely with starch.¹ Moreover, the German government has guaranteed high prices to growers of oilseeds and has subsidized the oilseeds crushing industries. Consequently, the area sown to oilseeds is gradually expanding, notably that of flax.² Also, the root crop harvest reached record levels in 1937 and 1938.

Thus American exports of grains and feedstuffs to the Reich in recent years have fallen drastically, not only because of increased German production but also because of diversion of imports to other countries willing to enter into agreements with Germany. Under the circumstances, the increase in 1937 and 1938 appears to be only temporary, and our exports to the Reich will probably remain low.

¹ "German Agriculture In The Four-Year Plan," Foreign Agriculture, March 1937, pp. 110-111, U. S. Department of Agriculture.

² "German Foreign Agricultural Policy", cited, p. 24.

Figure 8, United States Exports of Cottonseed Cake and Meal to Germany, 1926-1938.



CHAPTER VII

ANIMAL PRODUCTS

Animal products have represented another important group in our agricultural export trade with Germany. This group includes such commodities as lard and other animal fats and oils, meats and meat products, dairy products, fish, eggs, sausage casings, cattle hides and calfskins, etc. Germany's drive for maximum self-sufficiency has been well adapted to a number of these articles, and all of them have been affected to some extent. Exports of animals and animal products from the United States to the Reich dropped in value from 46 million dollars in 1929, at which time such exports to Germany represented 12.7 per cent of exports of this class to all countries to only 1.3 million dollars in 1938, amounting to only 1.2 per cent of the total. At the same time, United States exports of edible animal products (includes edible animal oils and fats, meat products, dairy products, fish and eggs) to Germany declined in value from 34 million dollars to only 694 thousand dollars, a decrease of 98 per cent. Exports of edible animal products to all countries fell 72 per cent within the same period. In 1929 Germany took 14.2 per cent of our exports of these products; in 1938 she took only 1 per cent.

Lard

In the late twenties the United States exported nearly 200 million pounds of lard annually to Germany. The Reich ranked second only to

Great Britain as a market, and took between one-fourth and one-fifth of our total exports of this product. This country supplied over four-fifths of all lard imports into the Reich. Our exports of lard to Germany held up well in the early years of the depression, but after 1932 they dropped sharply (as did our total lard exports), from 158 million pounds in 1932 to 1.5 million pounds in 1936, a decline of over 99 per cent. In 1938 our lard exports to the Reich fell to a new low, with Germany taking only 8 per cent of the total (see figure 9) and ranking ninth as a market.

Total imports of lard into the Reich varied from a high point of 237 million pounds in 1932 to a low of 66 million pounds in 1936. From 1928 to 1934 the United States was the principal country of origin, but by 1938 this country was supplying only 1.6 per cent of Germany's total imports of 94 million pounds. In 1938 Denmark, Hungary, China and Yugoslavia accounted for 80 per cent of Germany's takings of foreign lard.

In Germany lard is used not only for cooking but also as a spread for bread, being actually preferred to butter in some parts of Germany. There are also other substitutes available, such as oleomargarine and marmalade. In the late twenties, our exports of lard to Germany depended largely on production and price factors. The controlling factors were hog production in Germany, the United States, and other countries, and the export prices for lard and the various other fats, as well as business conditions (purchasing power) in Germany. Exports in 1930 fell sharply, reflecting the reduction in German purchasing power. On a volume basis, exports actually increased in 1931 and 1932, as greatly reduced lard prices checked the upward trend in the production of lard substitutes. Even in

the years 1925 to 1932, however, there was a steady downward trend in total German lard imports, because of increased lard production within the country. German hog numbers increased from 16.2 millions in 1926 to 23,8 millions in 1932. Hog slaughterings rose from an annual average of 11.7¹ millions in the period 1923-1937, to 20.5 millions in 1931. During this period, the Reich refused to restrict imports to any great extent, since this would have caused some increase in the domestic hog supply in an effort to increase domestic lard production, with a resulting excess supply of pork² and a lowering of German hog prices.

Prior to February 15, 1933, the import duty on lard was \$1.08 per 100 pounds, but the duty was subsequently raised from time to time until on July³ 19, 1933 it became \$15.70 per 100 pounds.

Effective February 23, 1934, imported and domestic lard came under the control of the Reich office for Dairy Products, Oils, and Fats. Importers were required to secure a "certificate of acceptance" from the monopoly administration covering proposed imports, in addition to paying special monopoly fees. These fees were superimposed on the regular import duties and were designed to keep imported lard from competing on a price basis⁴ with the domestic product.

Beginning with March 1934, monthly imports of lard were limited to 40 per cent of the average imports for the corresponding months of 1931-⁵ 1933. Each country was placed on a quota basis. Finally, in July and

¹ Cf. Commerce Yearbooks.

² Foreign Crops and Markets, November 28, 1932.

³ Cf. Foreign Crops and Markets, 1933 issues for January 30, April 3, May 22, and July 31.

⁴ Foreign Crops and Markets, March 5, 1934, p. 241.

⁵ Foreign Crops and Markets, April 2, 1934, p. 361.

August of 1934 German imports of American lard were entirely stopped because of the unavailability of dollar exchange. The government fats monopoly, however, continued to grant exchange permits for imports from European sources, especially Denmark and Hungary, and also some from Yugoslavia, France and Latvia.¹ Since that time our lard exports have remained at a low level, with Germany not only increasing hog production but also the production of lard substitutes.² The War which broke out in September 1939 stopped our lard exports to the Reich. The benefit from any increase in German lard imports following the War would probably be mostly secured by countries with which Germany has trading agreements. Production of lard in the United States was considerably reduced after 1933 largely because of the A. A. A. corn-hog program and the drought of 1934 and 1936. These factors made American lard prices relatively high in regard to world prices and greatly reduced our total exports as well as our exports to Germany. Moreover, German exchange restrictions militated against the United States more than against other sources of supply.

Edible Animal Fats and Oils, Other Than Lard.

As in the case of lard, United States exports of other edible animal fats and oils (includes oleo oil, oleo stock, tallow, neutral lard, oleo stearin and oleomargarine of animal or vegetable fats) have fallen drastically in recent years. In 1926 this country exported 152 million pounds of this group of commodities, Germany taking 35,330,000 pounds. Thus the Reich furnished an outlet for 23.2 per cent of the total, and ranked third, behind Great Britain and The Netherlands, as an American export market. Germany

¹ Foreign Crops and Markets, May 11, 1936, p. 550.

² Foreign Crops and Markets, November 5, 1938, p. 292.

continued to rank high as a market and to account for approximately one-fifth of our exports until 1934. However, these exports, both to all countries and to Germany had already dropped considerably (see Table 19). After 1933 the decline was accelerated. Between 1926 and 1938 United States exports to all countries fell 94 per cent, but exports to the Reich practically disappeared, being only 66 thousand pounds in 1938. In 1938 Germany took only .7 per cent of our exports and ranked only twelfth as a market.

Even in the late twenties there was a definite tendency to substitute vegetable oils for animal fats. Margarine made of a mixture of cottonseed oil, sesame oil and peanut oil was chiefly used as a substitute for butter, while compound lard made of a mixture of pork fat and peanut, sesame and cottonseed oil was used as a substitute for lard.

In February 1932 Germany levied a generally higher scale of duties on imports of edible fats and oils.¹ Effective April 1, 1933, an order gave the German government the power to compel margarine manufacturers to utilize butter, tallow and lard and their by-products in the manufacture of margarine; and it also granted the government power to require that imported margarine² be mixed with the animal fats indicated before being offered for sale. The purpose was to stimulate and aid domestic production of fats and oils.

Also in April 1933, the German program for the protection of the domestic animal fat industry was advanced by the establishment of production quotas for margarine and a government sales monopoly of competitive products, together with higher import duties and new domestic taxes covering those

¹ Foreign Crops and Markets, February 15, 1932.

² Foreign Crops and Markets, April 3, 1933.

Table 19. United States Exports of Edible Animal Fats
and Oils, Other Than Lard, 1926-1938
(Thousands of pounds)

Year	^a		Percentage to Germany	Germany's Rank as a market
	Total to all countries	Total to Germany		
1926	152,000	35,330	23.2	2
1927	133,000	30,952	23.3	3
1928	105,000	23,295	22.2	3
1929	107,000	22,481	21.0	3
1930	60,000	16,051	26.8	3
1931	76,000	13,081	17.2	3
1932	67,000	14,574	21.8	1
1933	61,000	11,642	19.1	2
1934	42,000	3,097	7.4	4
1935	16,000	191	1.2	10
1936	16,000	390	2.4	7
1937	10,000	31	.3	16
1938	9,000	66	.7	12

^a Approximate.

Source: Foreign Commerce And Navigation of the United States.

products. The result of these measures to raise domestic fat prices was to raise the price of farm milk and decrease the aggregate consumption of fats, largely at the expense of margarine and foreign lard. And in addition, the government subsidized the production of neutral lard from domestic hogs, in order to increase the domestic supply of fat, create a new outlet for grain and support hog prices.

By the end of 1935, however, it was still necessary for the Reich to import about 45 per cent of the country's total food requirements of animal, vegetable and margarine fats and oils.¹ It was decided, therefore, to reduce fat consumption on the average of 25 per cent from recent levels, bringing it back to the 1931 level of about 40.8 pounds per capita. The result was a program of rationing fats in 1936. As German fat supplies continued low, this program was expanded in 1937.

The increase in the national income in 1938 brought about a further demand for fats.² Since, however, the home production of butter and lard had fallen somewhat, considerable sums had to be spent on imports. But the United States failed to reap much of the benefit. The principal sources in 1938 were Denmark, Hungary, The Netherlands, Sweden, Finland and Yugoslavia.

Meat Products

Germany has never been very dependent on the outside world for its supplies of these commodities. Even in 1933, the Reich produced 97 per cent of its meat requirements.³ Germany is the most important Continental

¹ "German Agriculture in the Four-Year Plan", Foreign Agriculture, March 1937, p. 113, U. S. Department of Agriculture.

² Reichs-Kredit-Gesellschaft, Germany's Economic Situation at the Turn of 1938-39, p. 42.

³ "German Agriculture in the Four-Year Plan", cited, p. 107.

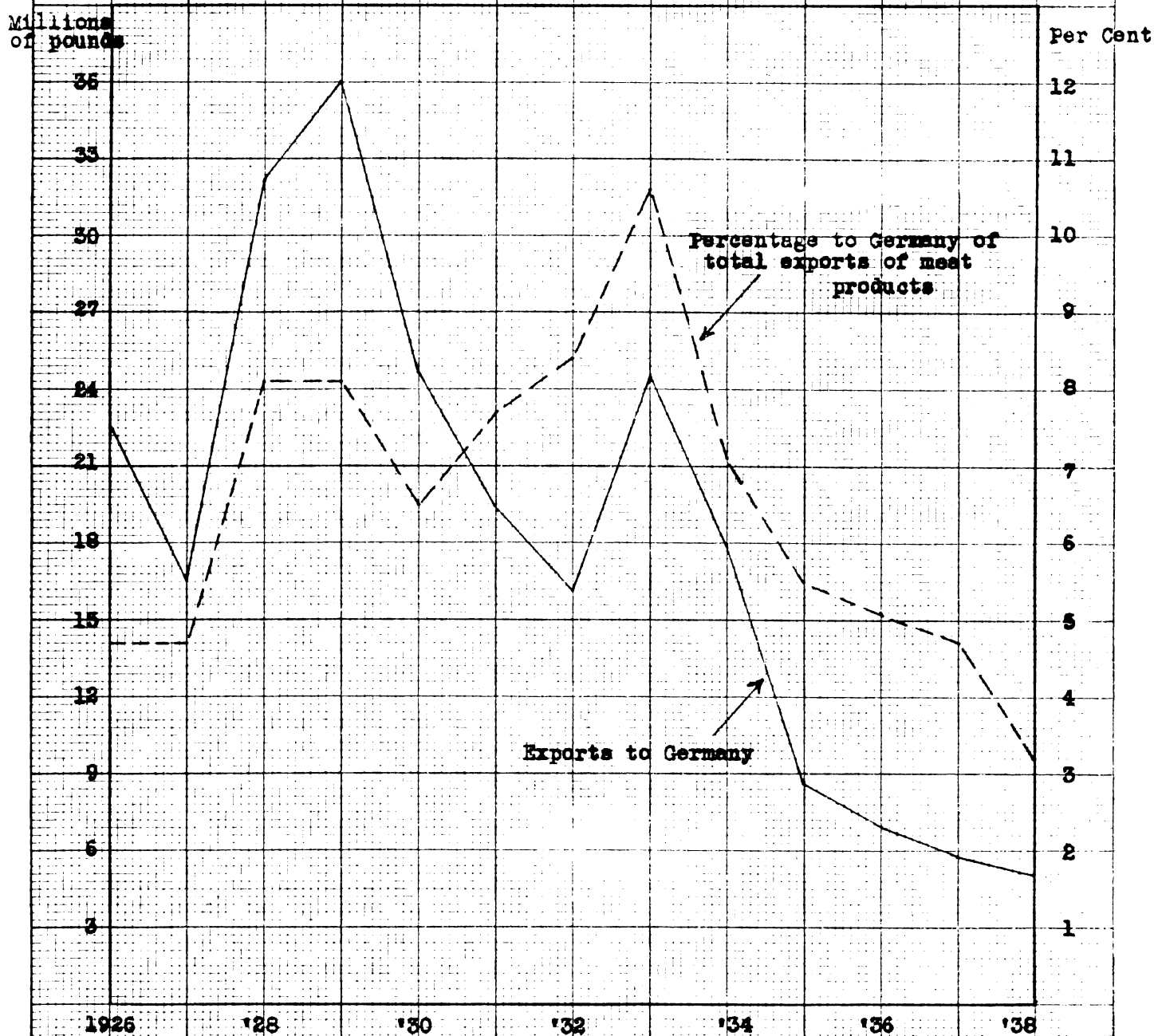
European hog producing country. Pork is the most important article in the German meat diet, with consumption varying somewhat with economic conditions. In times of prosperity total meat consumption tends to rise, and beef becomes more important relative to pork. Thus our exports of pork to the Reich have depended largely on German slaughterings, which in turn have depended a great deal on supplies and prices of the various feedstuffs.

United States exports of meat products (exclusive of lard and other edible animal fats and oils) to Germany reached a peak of 36 million pounds in 1929, in which year the Reich ranked third, behind Great Britain and Cuba, as a market, taking 10.6 per cent of the total. Since 1929 our exports to Germany have fallen steadily until in 1938 they were only 5 million pounds. In this year the Reich took only 3.2 per cent of the total, and had dropped to fifth position as an outlet.

At the same time our exports to all countries decreased from 446 million pounds in 1929 to 158 million pounds in 1938, a reduction of 65 per cent. The drought of 1934 and 1936 and the A. A. A. corn-hog program were very effective in reducing our exportable surplus after 1934 and in increasing prices to the point that it was difficult to sell these products abroad.

As indicated in figure 10, Germany has taken on an average only 6 to 8 per cent of our total exports of these commodities, and inasmuch as only a very small share of the total American production of meat products is marketed abroad, exports to Germany alone have had only a very limited effect on the American livestock industry. Nor has the United States ever been a very important source of German imports of meat products. Since 1934 this country has become even less important from both an absolute and

Figure 10. United States Exports of Meat Products to Germany, 1926-1938.^a



^a 1926 and 1927 figures are for meats.

a relative viewpoint. Our exports of meat products to the Reich continued to fall after 1933, but total German imports rose steadily from the low point in 1933, and in 1938 they were back to pre-depression levels.

After 1929, United States exports were hampered by the German government measures to support domestic prices of agricultural products. For instance, in 1930 imports of frozen meats were discontinued and import¹ duties on other meats and on livestock were considerably raised. Further² increases in duties followed in 1931 and 1933. Although the slump in livestock prices was overcome, they remained relatively the lowest prices of all major agricultural products. Subsequently, price policies under the system of market regulation became a very important instrument for influencing the course of the "Battle of Production" launched under that³ slogan in the autumn of 1934.

The drought in Germany in 1934 resulted in a feed shortage and consequently in heavy slaughterings of livestock, especially cattle. This eventually led to a more liberal attitude with respect to imports, and in 1936 Germany resumed imports of South American beef, which had been stopped in 1935. These imports came from Argentina and Uruguay by means of clearing agreements then in existence. A number of agreements were also reached, in the latter part of 1935 and early 1936, between Germany and such countries⁴ as Poland, Denmark, Holland, Hungary and certain Baltic states.

¹ "Germany's Capacity to Produce Agricultural Products", Foreign Agriculture, May 1937, p. 235, U. S. Department of Agriculture.

² Foreign Crops and Markets, July 24, 1933.

³ Foreign Crops and Markets, July 16, 1934 and October 8, 1934.

⁴ Foreign Crops and Markets, July 13, 1936.

These involved undertakings on the part of Germany to import materially increased quantities of such products as live pigs, lard, butter, eggs, cheese, etc., in exchange for German exports of industrial products. Thus imports from all sources rose while imports from the United States continued to fall.

Beginning in 1935, Germany increased its fishing fleet and made attempts to increase its catch of fish, to be substituted for other foods, particularly meats. This was intended to be a means of saving foreign exchange.¹ The plan was more or less successful, and in 1937 and 1938 American exports of salmon to the Reich were cut in half. Meat exports, of course, were also affected adversely.

German livestock numbers continued high in 1937 and 1938, in spite of a shortage of stockmen. By 1938 Argentina, Denmark, Hungary, Uruguay, Poland and Yugoslavia were the most important sources of German imports of meat products. In 1938 these countries accounted for 86 per cent of the total.

Thus it is seen that German imports of animal products, with the exception of meat products, have been markedly curtailed in the last decade, particularly since 1934. These commodities are consumer's goods and have been restricted in order to give preference to materials having military significance. The United States has only a small share in the remaining imports. This is so partly because of relatively high American prices and partly because of diversion of German imports to countries willing to conclude trade agreements and more favorably situated in case of a war blockade, notably the Danubian countries.

¹ "German Agriculture in the Four-Year Plan", cited, p. 114.

CHAPTER VIII

FRUITS

In The Twenties, 1926-1929. The United States exported a wide variety of fresh, canned, and dried and evaporated fruits to Germany in the late twenties. Many of them were relatively unimportant when considered singly, but taken as a group they accounted for 3 per cent of this country's total exports to the Reich in this period. Germany took large amounts of such individual commodities as apples, prunes and raisins.

On the whole, United States exports of fruits to the Reich increased steadily in the late twenties (see Table 20). During these years Germany ranked third, behind Great Britain and Canada, as a market for our total fruit exports, and purchased, on an average, about 10 per cent of the total (see figure 11). Germany ranked second only to Great Britain as an outlet for American dried and evaporated fruits, and in the case of prunes was in first place. United States exports of fruits to all countries rose during this period, but not to as great an extent as did sales to the Reich.

The increase in American fruit exports to Germany in the late twenties was part of a general increase into Germany from all sources during this period. There was a growing demand for fruits in the diets of the people. Dried fruits were considered an important article of consumption among the working classes. According to German statistics, total imports of fruits and nuts increased from 1,734,000 pounds in 1926 to a peak of 2,487,000 pounds in 1930. This country was annually furnishing approximately one-

seventh of the Reich's fruit imports. All imports in this period were largely financed by the huge foreign loans made to Germany. A considerable part of the dollar exchange thus made available was used to purchase fruits abroad, and since the United States was the largest lender, it was only natural that the Reich should in turn make heavy purchases from this country.

In The Early Thirties, 1930-1934. United States fruit exports, both to all countries and to Germany, held up well in the early depression years, even showing a decided increase in the case of apples. In fact, our exports of most fruits to the Reich reached record totals, on a volume basis, in 1931 and 1932. Dollar values of exports fell, of course, because of the drop in prices. The proportion of this country's fruit exports going to Germany also tended to rise. In 1933 the Reich took 14.9 per cent of the total, the greatest proportion taken during any year from 1926 to 1938.

One would infer from what has been said that the Germans had developed quite a liking for American fruit. This was true, but it should be pointed out that German imports from all sources were higher in the early thirties than in the late twenties. In this regard, it is also well to observe that the fruit industry is a long time proposition and production cannot be readily altered in response to changes in business conditions. The supply is inelastic, and fruit exports were probably maintained at considerable loss to producers.

During this period, the United States was the principal source of German fruit imports. This country annually supplied about four-fifths of German prune imports and about one-fifth of her raisin imports. On the other hand, the Reich continued to rank third as a market for our total fruit exports and second as an outlet for dried and evaporated fruits.

Table 20. United States Fruit Exports to Germany, 1926-1938.
(Thousands of the unit specified)

Year	Total Fruits and Nuts		Total dried and evaporated fruits		Apples, fresh		Prunes		Raisins	
	Total to Germany (dollars)	% to Germany	Total to Germany (pounds)	% to Germany	Total to Germany (boxes)	% to Germany	Total to Germany (pounds)	% to Germany	Total to Germany (pounds)	% to Germany
1926	8,800	7.9	62,000	17.2	855	12.3	28,888	18.3	15,888	11.3
1927	12,686	10.4	115,000	23.9	1,038	16.2	70,009	30.4	17,415	9.8
1928	15,412	11.9	132,914	22.7	1,575	19.3	76,147	28.4	27,329	12.1
1929	15,552	11.4	110,738	25.7	1,827	19.3	65,369	33.2	14,071	9.4
1930	13,277	12.0	105,647	24.2	2,235	23.3	66,324	28.2	12,850	10.4
1931	13,388	12.3	131,000	26.1	2,442	24.5	77,927	30.2	18,729	13.8
1932	8,796	11.4	95,100	22.6	2,689	26.2	48,885	23.3	15,440	13.4
1933	10,463	14.9	104,000	26.3	1,832	25.4	51,755	26.8	12,695	13.9
1934	8,143	11.0	64,800	19.2	1,495	20.3	30,422	17.7	11,638	12.6
1935	3,853	4.1	37,500	9.3	698	10.0	20,562	10.4	935	.9
1936	2,093	2.6	18,900	5.6	687	11.5	15,284	9.1	370	.4
1937	2,218	2.7	24,081	5.7	520	9.6	16,589	8.8	2,666	1.8
1938	2,036	2.1	19,650	4.0	800	10.0	15,237	6.5	1,360	.9

a 1938 figures are for total fruits and preparations.

Source: Foreign Commerce and Navigation of The United States.

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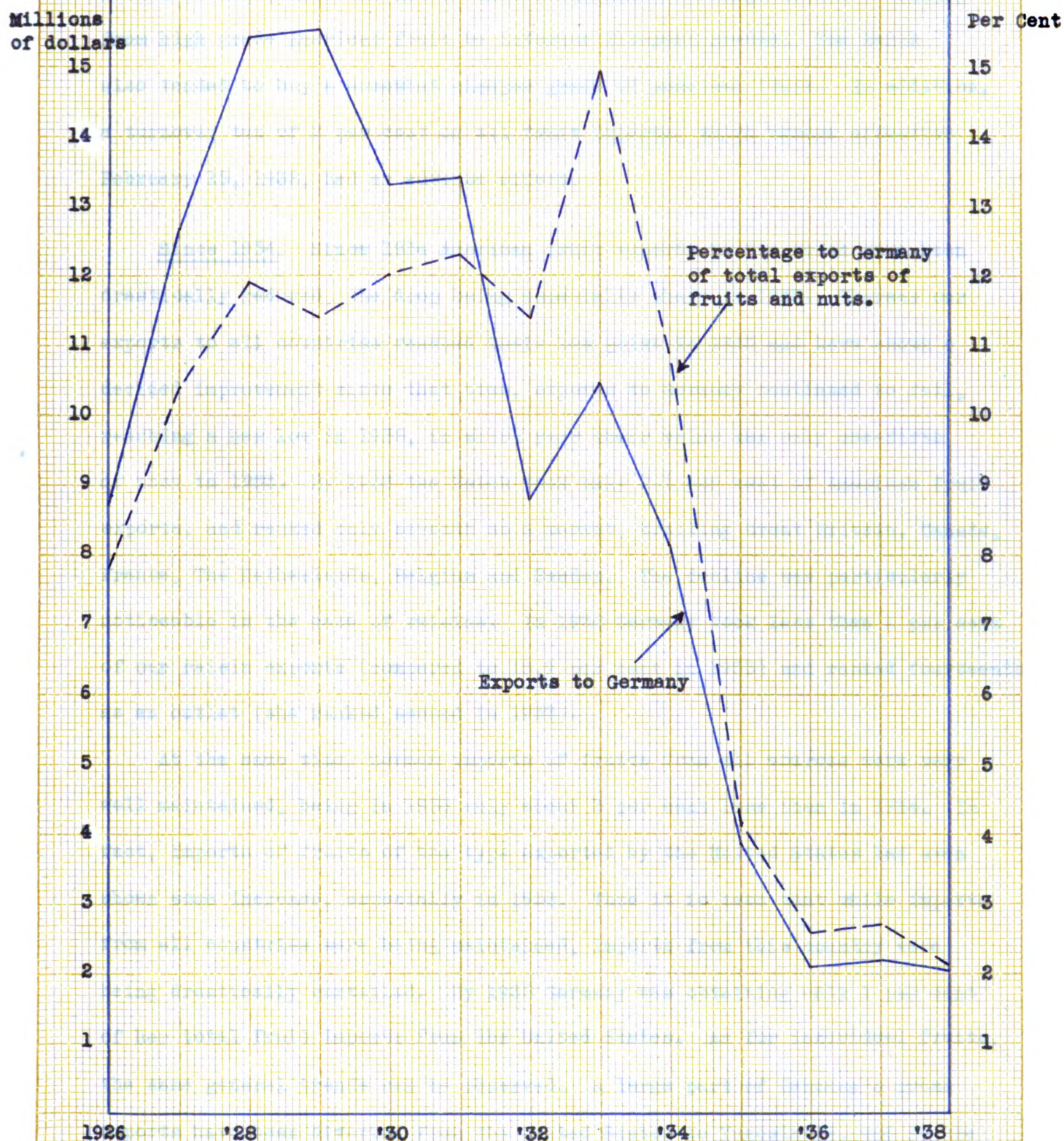
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Figure 11. United States Exports of Fruits and Nuts to Germany, 1926-1938.



^a 1938 figures are for fruits and preparations.

There was some decrease in German fruit imports from the United States in 1932, 1933 and 1934. This reflected to a large extent a turning from high grade American fruit to inferior European grades. The Reich also tended to buy a somewhat cheaper grade of American fruit. In addition, a turnover tax of 2 per cent on all fruit imports, which became effective February 15, 1932, had an adverse effect.

Since 1934. Since 1934 American fruit exports to the Reich have been drastically reduced, the drop being especially sharp in 1935. Whereas our exports to all countries reached their low point in 1933 and have shown a decided improvement since that time, exports to Germany continued to fall, reaching a new low in 1938, in which year their value was only one-fifth of that in 1933. By 1938 the Reich took only 2.1 per cent of American fruit exports, and ranked only seventh as a market, trailing Great Britain, Canada, France, The Netherlands, Belgium and Sweden. The decline was particularly noticeable in the case of raisins. In 1938 Germany took less than 1 per cent of our raisin exports (compared to 13.9 per cent in 1933) and ranked fourteenth as an outlet (she ranked second in 1933).

At the same time, German imports of fruits from all sources were very well maintained, being in 1938 only about 3 per cent less than in 1934. In fact, imports of fruits of the type exported by the United States had even shown some increase, especially in 1938. Thus it is seen that while imports from all countries were being maintained, imports from this country were being drastically curtailed. By 1938 Germany was obtaining only 1 per cent of her total fruit imports from the United States. As for individual fruits, the same general trends can be observed. A large part of Germany's prune imports have been diverted from the United States to Yugoslavia, and in the

case of raisins, Greece and Turkey now receive many of the orders which formerly went to this country.

Much of the reduction in fruit imports into the Reich after 1934 can be attributed to the New Plan which diverted dollar exchange to the purchase of essential raw materials and foodstuffs. Since fruits were not generally regarded as essential, imports were reduced.

The desire to keep the domestic market for apples and pears as free as possible from foreign competition in 1935 and 1936, led the Import Control Board to refuse to permit barter transactions except in such unfavorable ratios for American exporters as to exclude, in most instances, the possibility¹ of any compensation business being closed. The increased sale of aski marks at a substantial discount in the United States killed, to a great extent, the remaining possibilities for barter trade, as this discount was greater than² Hamburg importers could afford to absorb on straight compensation business. In addition, the German mass purchasing power remained low in 1935 and 1936 because of the fact that wages remained low while living costs rose.

A heavy European prune crop in 1936, together with a short crop in the United States, and increased competition from Australia in the raisin market, contributed to the further decline in our fruit exports to the Reich in that year.

The small increase in 1937 was made possible by larger exports of fresh pears and dried fruits, and reflected a relatively small German fruit crop. In 1937, Germany had a record apple crop as well as a large crop of most of the other fruits. Moreover, treaty obligations with surrounding countries required her to take considerable quantities of fruit. It was small wonder then that American fruit exports to the Reich fell to a new record low in 1938.

¹ Foreign Crops and Markets, January 13, 1936.

² Cf. Foreign Crops and Markets, issues for January 14, 1935, March 18, 1935 and May 11, 1936.

In recent years Germany has improved its storage facilities and has subsidized the planting of more and more fruit trees. Also, the policy of concluding trading agreements with countries other than the United States has persisted. These facts make for a gloomy outlook for American fruit exports to the Reich.

German imports of dried fruits have been increased in recent years because of their importance as a food among the working classes. Turkey and Greece have been the chief beneficiaries, and in 1938 these two sources supplied four-fifths of all German imports. Yugoslavia, Bulgaria and Iran have also showed considerable increases in recent years, although imports from the first two were sharply curtailed in 1938. As for total fruit imports in 1938, Italy, Turkey, Bulgaria, Yugoslavia, Spain and Colombia, in the order named, were the principal countries of origin and accounted for nearly three-fifths of the total, on a value basis. The United States supplied only 1.2 per cent of the total and ranked only eleventh as a source.

CHAPTER IX.

SUMMARY AND OUTLOOK

Summary

The Late Twenties. During the period covered by this thesis (1910-1938) two wars involving Germany have taken place. In both of them United States exports to the Reich were eliminated as a result of British blockades. However, even in peace years significant changes in our exports to Germany have occurred.

In the years immediately preceding the first World War, this country annually exported approximately 210 million dollars worth of agricultural products to Germany. This accounted for one-fifth of our agricultural exports to all countries, and Germany was exceeded as a market only by Great Britain. Seventy per cent of all our exports going to the Reich were of an agricultural nature. Germany took large amounts of our cotton, lard, wheat, cottonseed cake, tobacco, oleo oil and prunes. Cotton and lard were especially important, with the Reich purchasing more than one-fourth of our total exports of these commodities.

After being interrupted by the war, this trade was restored in the twenties, but under different conditions. Germany emerged from the war a debtor country, while the United States was a creditor country, the exact reversal of the pre-war situation. At first, trade between the two nations was relatively small in amount because of the reduced purchasing power of the Reich. Inflation made the mark worthless by the end of 1923. However, a commercial treaty concluded in December 1923, and involving the unconditional

most-favored-nation clause, laid the foundation for increased trade between the two countries. Following the stabilization of the mark in 1924, with the aid of the Dawes gold loan, foreign credits poured into Germany. As a result, Germany recovered rapidly and her trade with the United States flourished.

In the period 1926-1929 the United States annually exported 300 million dollars worth of agricultural commodities to Germany. This represented one-seventh of our agricultural exports to all countries, and the Reich was again second, behind Great Britain, as a market for these products. As in the pre-War years, agricultural commodities accounted for about 70 per cent of this country's total exports to the Reich. Cotton was the most important single item, followed by wheat, tobacco, fruits, lard and meat products, in the order named. Approximately one-fourth of our exports of cotton and lard went to Germany.

Trade in these years was carried on under conditions of relatively free competition. The amount of a commodity entering into world trade depended upon such things as tariffs, production and the exportable surplus (or deficit) in the various countries, prices and economic conditions in general, and consumption tastes in the potential importing countries. German trade, however, was largely financed by foreign credit. The United States was the principal source of foreign loans, and it was only natural that Germany should respond by buying heavily from this country. Germany's imports exceeded her exports every year until 1929, and, in addition, she was trying to make reparations payments. Thus she was laying the foundations for foreign exchange difficulties in subsequent years.

The Early Thirties, 1930-1933. When foreign capital ceased to flow in after 1929, and the effects of a widening depression began to be felt,

Germany found herself unable to meet her obligations. Her gold reserves were drained to a low point and holdings of foreign exchange dwindled rapidly. In June 1931 the Reich suffered an acute financial crisis, resulting in the Hoover moratorium on intergovernmental debts and the First Standstill agreement, in an effort to alleviate the situation. Germany refused, both for psychological and for financial reasons, to devalue the mark, with the result that German products became high in price relative to those of many other countries, and exports dropped sharply. The decline in the value of imports, however, was even more pronounced, because of the arbitrary restrictions placed upon them, and also because of the fact that the prices of raw materials and foodstuffs which Germany imported fell more than did prices of the manufactured goods which she exported. As a result, the Reich had an active balance of trade from 1929 to 1933.

Under these conditions, it was inevitable that United States agricultural exports to Germany should suffer. However, while our agricultural exports to the Reich dropped from 269 million dollars in 1929 to 109 millions in 1933, a decrease of 59 per cent, our agricultural exports to all countries fell 61 per cent. Germany continued to serve as an outlet for about one-seventh of our agricultural exports, and to be exceeded in importance as a market only by Great Britain. The decline in this country's agricultural products going to the Reich despite the drastic fall in prices, was not as great as the decline in total exports to that country, and in 1932 and 1933 agricultural commodities accounted for four-fifths of all of the exports which this country marketed in Germany. Cotton continued to be our leading agricultural export to the Reich. Tobacco and fruits had become relatively more important, while grains and animal products

had become relatively less important. Apart from wheat, the physical volume of our agricultural exports to Germany during these years was not markedly below that of the twenties.

The Late Thirties. When the National Socialists came into power early in 1933, they began a policy of making Germany more economically independent of the rest of the world. The idea was to save foreign exchange and become as nearly self-sufficient as possible, regardless of the cost. More foreign exchange would then be available for buying raw materials for armament purposes, and in case of war the self-sufficiency program would make the Reich less dependent on foreign food supplies, and less vulnerable to blockade.

As an aid to carrying out this policy, German trade became regimented with various arbitrary restrictions, such as export subsidies, import control boards, blocked accounts and bilateral trade agreements.

The "New Plan", instituted in September 1934, aimed at adjusting imports strictly to exports, with individual countries. Imports of agricultural commodities were particularly hard hit because raw materials to be used in the rearmament program were considered essential, and many of them could not be produced in Germany. As a result, foreign exchange for agricultural imports was restricted so it could be saved for use in securing these strategic materials.

Exports of agricultural products from the United States to Germany were very seriously affected for a number of reasons. One was the large "favorable" balance of trade which this country had with the Reich. The German government attempted to balance its trade with each individual country, and inasmuch as we refused to take more German goods, they retaliated by restricting their imports from us. Also, the German policy

of export subsidization and bilateral trading is in direct conflict with the commercial policy of the United States under the Trade Agreements program, and has led us to deny them the most-favored-nation privileges accorded other countries. Partly because of this, much German trade has been diverted to other countries, notably Southeastern Europe and Latin America, which were willing and able to take German goods and do business under clearing agreements and other arrangements. In addition, Southeastern Europe is looked upon in Nazi circles as an important source of foodstuffs and raw materials, which are easily accessible and not so apt to be cut off in case of war. Moreover, the A. A. A. program in the United States, together with the droughts in 1934 and 1936, raised the prices of our products above competitive world levels, thus making it more difficult to sell them abroad.

Thus United States agricultural exports to Germany fell in value from 109 million dollars in 1933 to 37 million dollars in 1938. At the same time our agricultural exports to all countries rose from 776 to 928 million dollars. By 1938 the Reich was taking only 4 per cent of our total agricultural exports, and ranking only sixth as an outlet. Moreover, agricultural products now accounted for only ~~three-eighths~~ of all our domestic exports to Germany. The curtailment was most pronounced in the cases of lard and grains. Cotton was still the leading single item, but by 1938 Germany was taking only 7 per cent of our total exports of this commodity.

Outlook

The war which began in September 1939 has, of course, wiped out our direct trade with Germany, and the British blockade is now affecting our trade with Europe as a whole. The result is that the United States is

accumulating large surpluses of agricultural commodities, and prices of these products are falling. At the same time, Europe greatly needs our products. As a consequence of war destruction, unfavorable weather conditions and diversion of man power to other occupations, Europe is already facing a famine.

Naturally, the course of this country's future trade with Germany depends to a large extent upon the outcome of the war. For the present, it is possible only to speculate on the results of a possible German victory or defeat. If the Reich is victorious, Dorothy Thompson¹ believes their plan is to make a customs union of Europe, with complete financial and economic control centered in Berlin, and with Germany enjoying special privileges. The planners of the World Germanica say that the United States will be forced to trade with them, since there will be no other important foreign market for the raw materials and agricultural products of this country.

Under this system our immense gold reserve would be worthless. The international currency would be a managed currency, the German mark, with all external trade based upon clearing agreements. The United States would have to deal with government import monopolies, and unless this country made loans, trade would be on a compensation basis with Germany determining what would be exchanged and also the rate of exchange.

In case of victory, Germany will probably relax her efforts towards self-sufficiency. The large imports of war materials will be reduced, because they will have served their purpose. Germany will want to compensate her people for the war sacrifices which they have made, and will thus import foodstuffs more freely. She will compel countries under her control

¹ "The World Germanica", p. 115, The Reader's Digest, July 1940.

to turn over their food surpluses (largely wheat and animal products) to her. Her cotton will probably be imported largely from Brazil and Argentina.

Should the Nazis be defeated, the situation might very well be like that which existed in the twenties. In that event, if a liberal government came into power in Germany, this country might open her commercial and financial markets to the Reich. This would probably lead to a much increased trade, under relatively free competition, between the two countries.

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