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Memorandum on the Economic Situation in Europe (03.07.1919)

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Regest:

Der Leiter der American Relief Administration und spätere US-Präsident (1929–1933), Herbert Hoover, beschreibt in diesem Gutachten für den Völkerbund eindringlich die wirtschaftlichen und sozialen Probleme Europas, deren Hauptursachen er in den Spätfolgen des Weltkriegs, zerstörten oder gegenwärtig nicht funktionierenden Infrastrukturen sowie den massiven politischen Spannungen erblickte. Sollten diese Probleme nicht gelöst und der europäische Handel nicht wiederbelebt werden, seien 450 Millionen Menschen von Hunger und Krankheit bedroht. Die Lösung dieser Probleme könne aber auf die Dauer nicht die Aufgabe der Vereinigten Staaten sein. Vielmehr müssten die Voraussetzungen geschaffen werden, dass die europäischen Staaten aus eigener Kraft die Produktivität ihrer Wirtschaft wieder erhöhen könnten. Dazu seien Preiskontrollen und die Fortsetzung der Kriegswirtschaft im Frieden der falsche Weg.

3 July 1919

MEMORANDUM ON THE ECONOMIC SITUATION OF EUROPE

The economic difficulties of Europe as a whole at the signature of peace may be almost summarized in the phrase "demoralized productivity". The production of necessities for this 450 million population (including Russia) has never been at so low an ebb as at this day.

A summary of the unemployment bureaux in Europe will show that 15 million families are receiving unemployment allowances in one form or another and are in the main being paid by constant inflation of currency. A rough estimate would indicate that the population of Europe is at least 100 million greater than can be supported without imports and must live by the production and distribution of exports, and their situation is aggravated not only by lack of raw materials imports but by low production of European raw materials. Due to the same low production, Europe is today importing vast quantities of certain commodities which she formerly produced for herself and can again produce. Generally, not only is production far below even the level of the time of the signing of the armistice, but far below the maintenance of life and health without unparalleled rate of import.

Even prior to the war these populations managed to produce from year to year but a trifling margin of commodities over necessary consumption or to exchange for deficient commodities from abroad. It is true that in pre-war times Europe managed to maintain armies and navies, together with a comparatively small class of non-producers, and to gain slowly in physical improvements and investment abroad, but these luxuries and accumulations were only at the cost of a dangerously low standard of living to a very large number. The productivity of Europe in pre-war times had behind it[2] the intensive stimulus of individualism and of a high state of economic discipline, and the density of population at all times responded closely to the resulting volume of production. During the war the intensive organization of economy in consumption, the patriotic stimulus to exertion and the addition of women to productive labour largely balanced the diversion of man power to war and munitions. These impulses have been lost.

II.

It is not necessary to review at length the causes of this decrease of productivity. They comprise in the main as follows:

The industrial and commercial demoralization arising originally out of the war but continued out of the struggle for political rearrangements during the armistice, the creation of new governments, the inexperience and friction between these governments in the readjustment of economic relations.

The proper and insistent demand of labour for higher standards of living and a voice in administration of their effort has unfortunately become impregnated with the theory that the limitation of effort below physical necessity will increase the total employment or improve their condition. Nor can it be overlooked that this particular line of defence by labour - no matter what its economic results may be - are to some degree the result of offensives against it.

There is a great relaxation of effort as the reflex of physical exhaustion of large sections of the populations from privation, mental and physical strain of the war.

To a minor degree considering the whole volume, there has been a destruction of equipment and tools and loss of organization and skill due to war diversions with a loss to man power. This latter is not at present pertinent in the face of present unemployment.

(The demoralization in production of coal in Europe to-day is an example in point of all these three forces mentioned above[3] and promises a coal famine and with industrial disaster unless remedied. It is due to a small percentage from the destruction of manpower of the physical limitation of coal mines or their equipment. It is due in the largest degree to the human factor of limitation of effort.)

The continuation of the Blockade after the armistice has undoubtedly destroyed enterprise even in open countries, and of course prevented any recovery in enemy countries. The shortage in overseas transportation and the result of uncertainties of the armistice upon inter-national credits have checked the flow of raw materials and prevented recovery in the production of commodities especially needed for exchange for Imports from overseas. The result of this delay has been unemployment, stagnation, absorption of capital in consumable commodities to some extent all over Europe.

From all these causes, accumulated to different intensity in different localities, there is the essential fact that unless productivity can be rapidly increased, there can be nothing but political, moral and economic chaos finally interpreting itself in loss of life on a scale hitherto undreamed of.

III.

Coincident with this demoralization in production, other disastrous economic phenomena have developed themselves, the principal one of which is that the very large wage paid special workers and the large sums accumulated by speculation and manufacture during the war have raised the standard of living in many individuals from the level of mere necessities to a high level of luxuries. Beyond this class there is a reflex in many other classes from the strenuous economies against waste and the consumption of non-essentials in all countries, and as a result there is to-day an outbreak of extravagance to a disheartening degree.¹

[4]

Another economic change of favourable nature from a human point of view, but intensifying the problems of the moment, has been the rise in the standard of living in large sections of the working classes through the larger and better wage distribution, separation allowances, etc., during the war. Parallel with these classes are those of fixed income, the unorganized workers, the unemployed to whom the rising cost of living is inflicting the greatest hardship.²

IV.

During some short period, it may be possible for the Western Hemisphere, which has retained and even increased its productivity, to supply the deficiencies of Europe. Such deficiencies would have to be supplied in large degree upon credits; but aside from this the entire surplus productivity of the Western Hemisphere is

1 Hoover gibt hier einen kulturkritischen Topos wieder. Ob tatsächlich der Luxuskonsum nach dem Ersten Weltkrieg zugenommen hat, scheint angesichts der enormen Versorgungsschwierigkeiten insbesondere auf dem Kontinent als unwahrscheinlich. *Feldman, Great Disorder*, 221–23.

2 Zu den (nominal teilweise beträchtlichen) Lohnsteigerungen gerade in der Industrie während des Krieges s. *Feldman, Great Disorder*, 54–57.

totally incapable of meeting the present deficiency in European production if it is long continued. Nor, as a practical fact, could credits be mobilized for this purpose for more than a short period, because all credits must necessarily be simply an advance against the return of commodities in exchange and credits will break down the instant that the return of commodities becomes improbable. Further, if such credits be obtained in more than temporary purposes, it would result in economic slavery of Europe to the Western Hemisphere and the ultimate end would be war again.

The solution, therefore, of the problem, except in purely temporary aspects, does not lie in a stream of commodities on credit from the Western Hemisphere, but lies in a vigorous realization of the actual situation in each country of Europe and a resolute statesmanship based on such a realization. The populations of Europe must be brought to a realization that productivity must be instantly increased.

V.

The outcome of social ferment and class consciousness is the most difficult of problems to solve. Growing out of the[5] yearning for relief from the misery imposed by the war, and out of the sharp contrasts in degree of class suffering, especially in defeated countries, the demand for economic change in the status of labour has received a great stimulus leading to violence and revolution in large areas and a great impulse to radicalism in all others. In the main these movements have not infected the agricultural classes but are essentially a town-phenomena.

In this ferment Socialism and Communism has embraced to itself the claim to speak for all the downtrodden, to alone bespeak human sympathy and to alone present remedies, to be the lone voice of liberalism. Every economic patent medicine has flocked under this banner, Europe is full of noisy denunciation of private property as necessarily being exploitation. Considerable reliance upon some degree of Communism has been embraced by industrial labour even in non-revolutionary countries. Its extremists are loud in assertion that production can be maintained by the impulse of altruism alone, instead of self-interest. Too often they are embracing criminal support and criminal methods to enforce their ideals of human betterment. Every country is engaged in political experimentation with varying degrees of these hypothesis (sic), and so far every trial has reduced production. The Western Hemisphere with its more equitable division of property, its wider equality of opportunity still believes that productivity rests on the stimulus from all the immutable human qualities of selfishness, self-interest, altruism, intelligence and education. It still believes that the remedy of economic wrong lies not in tampering with the delicate and highly developed organization of production and distribution, but in a better division of the profits arising from them. It still believes in the constitutional solution of these problems by the will of the majority while Europe is drifting toward the domination of extremist minorities. The Western Hemisphere's[6] productivity is being maintained at a surplus over its own needs.

The first and cardinal effort of European statesmanship must be to secure the materials and tools to labour, and to secure its return to work. They must also secure a recognition of the fact that whatever the economic theory or political cry it must embrace the maximum individual effort for there is no margin of surplus productivity in Europe to risk revolutionary experimentation. No economic policy will bring food to those stomachs or fuel to those hearths that does not secure the maximum production. There is no use of tears over rising prices; they are, to a great degree, a visualization of insufficient production.

VI.

During the period of reconstruction, and recovery from reduced productivity, the conservation in the consumption of non-essential commodities is more critical than any time during the war. The relaxation of restriction on imports and on consumption of articles of this character since the armistice is disheartening in outlook. It finds its indication in the increased consumption of beverages and articles de luxe in many countries, even above a pre-war normal. Never has there been such a necessity for the curtailment of luxury as exists to-day.

VII.

The universal practice in all the countries at war of raising funds by inflation of currency is now bringing home its burden of trouble and in extreme cases the most resolute action must be taken, and at once. In other countries of even the lesser degree of inflation, such currency must be reduced and included in the funded debt or alternately the price of wages, living and international exchange must be expected to adjust[7] itself to this

depression. The outcry against the high cost of living, the constant increase of wages and the fall in exchange that is going on, is in a considerable degree due to this inevitable readjustment.

VIII.

The stimulation of production lies in the path of avoidance of all limitations of the reward to the actual producer. In other words, attempts to control prices (otherwise than in the sense of control of vicious speculation) is the negation of stimulation to production, and can only result in further curtailment of the total of commodities available for the total number of human beings to be fed, clothed and housed. There still exists in Europe great bureaucracies, created from the necessity of control of price and distribution by the conditions of the war, who are loath to recognize that, with world markets open, no such acute situation exists, and that their continued existence is not essential, except in the control of speculation. The argument so much advanced that world shortage may develop, and justifies continued control of distribution and price, is based upon the fallacious assumption that even if the world markets are freed of restraint, that there is a shortage to-day in any commodity so profound, as to endanger health and life. From any present evidence, thanks to the high production outside Europe, no shortage exists that will not find its quick remedy in diminished consumption or substitution of other commodities, through minor alteration and price. All attempts at international control of price, with view to benefiting the population in Europe at the cost of the producer elsewhere, will inevitably produce retrogression in production abroad, the impact of which will be felt in Europe more than elsewhere. A decrease of 20 per cent of Western Hemisphere wheat would not starve the West, it would starve Europe. It must never be overlooked that control of price and distribution cannot stop with a few prime commodities, but once started its repercussions drive into a[8] succeeding chain of commodities and that on the downward road of price control, there can be no stoppage until all commodities have been placed under restriction, with inevitable stifling of the total production.³ It is also often overlooked by the advocates of price control that whereas the high level of production was maintained during the war even under a restraint of price, this high production was obtained by the most vivid appeal to patriotic impulse on both sides of the front. This stimulus to production and distribution no longer maintains and the world must go back to the prime impulse, and that is the reward to the individual producer and distributor.

That body of advocates who have deduced from war phenomena that production and distribution can be increased and maintained by appealing to altruism as the equivalent of patriotism or self-interest should observe the phenomena of Russia where the greatest food exporting country is to-day starving.⁴

IX.

It must be evident that the production cannot increase if political incompetence continues in blockade, embargoes, censorship mobilization, large armies, navies and war.

X.

There are certain foundations of industry in Europe that no matter what the national or personal ownership or control may be they yet partake of the nature of the public utilities in which other nations have a moral right. For instance, the discriminatory control of ships, railways, waterways, coal and iron in such a manner as to prevent the resumption of production by other states will inevitably debar economic recuperation and lead to local spats of economic chaos with its ultimate infection abroad, to say nothing of the decrease in productivity. These mis-uses are already too evident.

[9]

XI.

The question of assistance from the Western Hemisphere during a certain temporary period, and the devotion of its limited surplus productivity to Europe, is a matter of importance and one that requires statesmanlike handling

3 Hoover entwickelt hier ein liberales Standardargument, dass Preiskontrolle und staatliche Eingriffe zahllose weitere Regelungen nach sich ziehen, die schließlich in der umfassenden Regulierung der gesamten Wirtschaft münden müssen. *Köster, Außenseiter*, 300.

4 Russland hatte in den Jahren nach der Oktoberrevolution 1917 und dem nachfolgenden Bürgerkrieg mit großen Hungersnöten zu kämpfen, die ihren Höhepunkt in den Jahren 1920/21 erreichen sollten. Hoovers politische Reputation fußte nicht zuletzt im Kampf gegen den Hunger in Russland. Vgl. *Leuchtenburg, Hoover*.

and vision. It is but a minor question compared to those stated above and it is in a great degree dependent upon the proper solution of the factors already touched upon. It is a service that the Western Hemisphere must approach in a high sense of human duty and sympathy. This sense will, however, be best performed by the insistence that their aid would not be forthcoming to any country that did not resolutely set in order its internal financial and political situations, that did not devote itself to the increase of productivity, that did not curtail consumption of luxuries and the expenditure upon armament and did not cease hostilities and did not treat their neighbours fairly. If these conditions were complied with, it is the duty of the west to put forth every possible effort to tide Europe over this period of temporary economic difficulties. Without the fulfilment of these conditions, the effort is hopeless. With Europe turned toward peace with her skill and labour alligned (sic) to overcome the terrible accumulation of difficulty, the economic burden upon the West should not last over a year and can be carried and will be repaid. To effect these results the resources of the Western Hemisphere and here must be mobilized.

HERBERT HOOVER