

# How the German Republic Was Undermined

By BRUNO HEILIG

Half the area of the agricultural land in Germany is taken up by large estates which are in the hands of the old military nobility, the Junkers. The other half is cultivated by peasants, the number of peasants being nine times as great as the number of Junkers.

The large estates employ 2,500,000 persons; by contrast, those engaged in work on the peasants' farms (peasants and their dependents and paid laborers) number 7,500,000. The large estates have always been befriended by governments because they chiefly grow grain which is so important in war-time. They were protected by high customs duties and were favored by reduced taxation.

After the War of 1914-18 the question of land reform was much discussed in Germany. The republic, peace loving and led by socialists, was expected to make a radical departure from the old economic ideas. Millions of soldiers now demobilized could have been settled and the agriculture output could have been greatly increased since according to official statistics the value of the output of the small farms was up to 47 per cent higher than that of the large estates; in dairy farming even up to 69 per cent higher. After years of fatigue and starving, the physical condition of the people also needed improvement. Again, the statistical data were definitely in favor of the small farms. In countries where conscription is in force the state of health of the people is reliably shown by the proportion of those fit for military service, which on the small farms exceeded that of the people working on the large estates by no less than 150 per cent.

But nothing happened. No land reform was initiated, nothing but some timid steps towards market gardens and allotments near the

cities and towns. When later, owing to the competing imports from the grain-growing transatlantic countries, and to the fall of grain prices on the world market, the Junkers got involved in difficulties, the government helped them generously. Customs duties on corn and fodder were raised, which was a heavy blow to the small farmers, increasing the cost of stock-farming. In addition, what is known as the Osthilfe (the "East Help" to the landowners of East Prussia) was granted by Parliament amounting to 500,000,000 marks (\$125,000,000) cash subsidies to relieve the estates encumbered with debts and to modernize the equipment.

Even so the Junkers were not satisfied; they demanded and got more subsidies. I have the official figures for the year 1931. In that year alone they were paid 1000 million marks for storing corn, withholding it from the market in order to keep its price high. That meant that the people had to pay more taxes in order that they should pay dearer for bread. In the same year the interest on the debts of the Junkers was reduced by 365 millions and they were given tax relief of 160 millions. With various other subsidies added, the agrarians were presented with more than 1,000 million marks (\$250,000,000) in that year 1931! And with all that money in their pockets they eventually extorted from the Reichstag the famous, or infamous, law which generally prohibited the collection of debts from the agrarians.

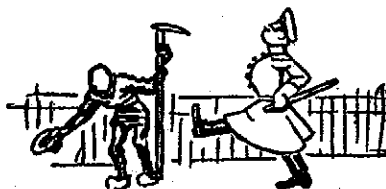
Under such conditions the value of agricultural ground of course rose enormously. I have no exact figures for those years but data of previous years will show how, as to one form of subsidy, protective tariffs are re-

flected in the increased rent of land. From 1892 to 1906, corn duties were stable in Germany and ground prices increased during the same period by 18 per cent, a figure which may correspond to the normal rise resulting from the increase of population and the improvement of production. In 1906 import tariffs on corn were doubled. At once the prices of ground belonging to large estates jumped by 200 per cent, with which trebling of the fortunes of Junkers is to be compared the increase of only 10 per cent in the land value of the small farms. After the law was passed prohibiting foreclosure of mortgages there were no ground prices at all in Germany for the simple reason that no one was so foolish as to offer to sell a single foot of land. The monopoly was complete.

The mines of Germany have been owned partly by big companies and partly by some aristocratic families. The masters of that part of the German land were as effectively buttressed and aided as the Junkers. I mentioned in my previous article the enormous prices the people had to pay for iron and cement. The price of coal in Germany was also twice as high as in England. In addition, heavy industry also got its subsidies in cash. I refer to only some outstanding data: the Upper Silesian Foundries got 36 millions, the Lower Silesian Mining Co. 11 millions, the Röchling Concern 37 millions, the Mansfeld Co. 16 millions, the Siegerländer Metal Works 10 millions and Ruhr Mines 25 millions.

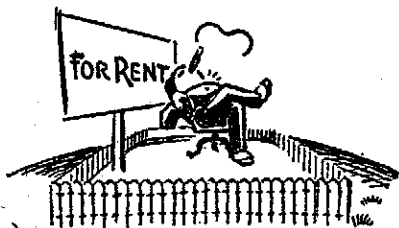
You may ask why the people tolerated all this.

The answer is that he who holds the land holds the real source of power. Henry George gives a minute explanation of this phenomenon. Germany has actually been ruled by 12,000 Junkers and some hundred aristocrats. With their own votes, they would not have succeeded in getting a single seat in any legislative body. Yet their parties, the German National Party and the



This is the second of two articles on Germany by Mr. Heilig. The first, which appeared in our July issue, dealt with the towns. These articles appeared originally in the British Georgist journal, "Land and Liberty."

German Peoples' Party, managed to get over 100 members into the Reichstag. In Prussia, which covers two-thirds of the Reich, the relations between the land-owners and the people had hardly changed since the time of serfdom, the people voting as the landlord wished they should.



Skilled in ruling for centuries, the landowners quickly accommodated themselves to changing political conditions. After the breakdown of the Hohenzollern regime they were tolerant of common people occupying government posts, and they even consented to the Constitution which was said to override their privileges and make the landlord formally equal to his laborers. But they maintained their influence undiminished. With the toiling folk on their estates and in the remote villages, no trouble was to be feared; the "normal" means of pressure which are at the disposal of the landowner (and tradition) were sufficient to keep them down. They used modern and politically democratic means to harness the townfolk and the band of republican bosses to their carriage. The biggest newspaper and news service establishment was theirs. It was the Hugenberg Concern which published the well-known Berliner Lokalanzeiger and some periodicals and the notorious "Generalanzeigers" (General Advertisers) cheap daily papers made up to the taste and the level of the man in the street which Hugenberg bought up after the War and established in every town. Moreover, he organized the Telegraph Union, which provided thousands of newspapers all over Germany with a splendid news service, and the service which supplied feature articles and even entire Sunday supplements in matrixes ready for print and therefore unalterable.

I need not explain what that propaganda organization meant in operation. Its effect was to sway public opinion into believing that the interests of the landowners were the interests of the nation. Subsidizing the landlords was the accepted policy for preserving and even saving the sources of subsistence of the people: the higher tariff walls were for the benefit of the wage earning population: increase in land values meant increase in the national wealth: and so on.

There were also, of course, in Germany independent newspapers, some of them of a high level and distinguished. But on the one hand, none of them realized the true position, and on the other hand all of them were, to a certain extent, terrorized by the ruthlessness of the Hugenberg propaganda which had monopolized patriotism.

The industrial boom lasted for about seven years. Again and again, intelligent men stood up and warned against the inevitable consequences of what was going on. I remember having read a book discussing the situation as early as in 1925 only a few months after the great boom had started. The author was definitely right from a point of view of what is called the capitalist system. He explained that standardizing industry would mean the loss of its elasticity of calculation. The invariable part of the costs of production, that is to say, the debt charges for land, buildings and equipment would increase enormously, and the variable part, wages, would decrease correspondingly. The producers would become quite helpless in time of lessening demand. Normally, they had been able to meet a crisis by reducing wages and laying off their laborers but overhead charges had to be paid without regard to boom or crisis. If demand fell, the author argued, prices would have to go up and the whole amount of overhead charge would weigh upon a smaller amount of goods produced; yet rising prices must inevitably lead to another decrease of demand and so on, in a vicious circle.

The author demanded that a limit be set to rationalization, and others

were just as emphatic. If right from their point of view, they were absolutely wrong from the point of view of sound economic thinking. The advance of industrial production must not and cannot be stopped; it has gone on ever since somebody made the first primitive tool. To try to prevent men from improving the means of production is as crazy an effort as to try to stop men breathing. No doubt under the conditions existing in our world, rationalization has to lead to a disastrous effect similar to that predicted in the book mentioned; but the only right conclusion was to alter the whole structure of German economic life, an idea which however was taboo. Thus, Germany's destiny took its fatal course. From the very beginning we can trace how the boom in industry was impelled and speeded and intensified as land values rose and then how the further speculation in land values rendered it definitely absurd.

The flow of capital which came over from America would have been of no use if there had not been hands to make the new machines. Now in a country where a large portion of land is covered with large estates there is always abundance of people seeking employment. I pointed to the fact that in Germany 7,500,000 people were engaged in working on the smaller farms and only 2,500,000 on the large estates though the two parts of the culti-



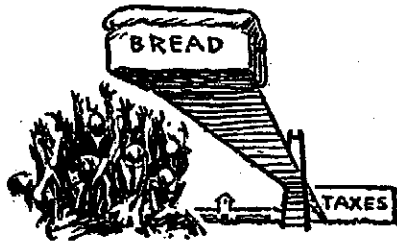
vated land were equal in extent. Thus the existence of big estates made a difference of 5 million people in the "labor market." Wages were low and low wages stimulate industrial investments. The increase of ground prices proved another incentive to investments and intensified the rationalization. But high ground prices increase the cost of living and he who continues to em-

ploy labor has to provide for its regeneration whether he likes to or not. The laborers began to press for higher wages. The employers were in a difficult position. With high prices for the ground on which their factories were built, high prices for building material and coal, increasing taxes weighing heavily on their budgets, how could they bear the burden of rising wages? They decided to speed up the modernization of their equipment, to get rid of those expensive workers as quickly as possible; in other words, "to rationalize." Yet in doing so they caused ground-prices to rise higher and the cost of production rose again—another vicious circle.

Germany was in a state of intoxication at that time. Modernize, modernize at all costs, was the only idea that people could entertain. In 1930 the first signs of a crisis became manifest. Labourers stood off by machines met with difficulties when looking for other employment. Industrialists and merchants complained of difficulties in selling their merchandise. The position deteriorated month by month, week by week. In 1931 the crisis was in full swing. The ordinary means to meet the crisis had failed. By restriction of production things went from bad to worse. Amortization, rents, interest, taxes ate up everything. Workers were dismissed en masse but the employers hardly felt any relief in their budget and in any case with every worker lost to employment a consumer had been lost as well. The number of unemployed went up by tens of thousands, then by hundreds of thousands and the number of bankruptcies mounted correspondingly.

If those wise men I have mentioned had not stopped thinking at the point where they left off they might have reached the right remedy instead of recommending a halt to industrial progress. Had they only reflected a little upon the meaning of the word "invariable costs"! Whence came these costs or to whom were they to be paid? Land speculation had anticipated all possible increase of production and had fore-stalled all the value the land might

have decades hence. The mine-owners had doubled and trebled the price of their products so that the bare costs of building had risen to 180 per cent of the highest pre-war costs in spite of the new labor saving methods. Taxes were extraordinarily high because the State and the city had to redeem the costs of dearly bought land and generously built roads and railways, or a splendid river harbour like that in Berlin, the owners of which were now extorting inordinate transport fees out of the working people. All had gone to the land-owners, that was the true meaning of the term "invariable costs." One had worked for them during all those years.



The breakdown of the German banks in the summer of 1931 further proved the truth of the theory of the invariable costs. The industrialists and the merchants were unable to meet debts and interest and therefore the banks had to stop payment. Yet the debts in question were nothing other than the capital invested during the prosperity, that is the money the landowners had swallowed. The invariable costs had quickly become insupportable and were simply not paid.

The government rushed in to help the banks which got accommodation at the expense of billions of marks drawn from the people's taxes. Then began the flow of other subsidies such as those to the Junkers and heavy industry to which reference has been made, and light industry had also to be subsidized by way of helping it to meet those "invariable costs."

The crisis grew, ever deepening. You will hardly believe what means the government applied in attempts to deal with it. Herr Brüning, then Chancellor, initiated a general lowering of wages by 15 per cent. That would, he said, bring about lower

prices of commodities and in consequence an increase in consumption with the further consequence that unemployment would decrease, altogether overlooking the fact that if there was an equivalent decrease in both wages and prices the amount of goods produced and consumed would remain as before and such a scheme could never result in finding new employment for the workers who were in search of it.

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Seven million men and women (one third of the wage earning people) unemployed, the middle class swept away: that was the position about one year after the climax of prosperity. Progress, conditioned as it was, had rapidly produced the most dreadful poverty. You can hardly imagine a more striking example worked out in practice vindicating Henry George's theory of the private appropriation of the rent of land as the cause of social distress.

No less exactly is worked the Georgist theory with regard to the political consequences of the unequal and unjust distribution of wealth. In the first year of the crisis the number of Nazi deputies to the Reichstag rose from eight to 107. A year later this figure was doubled. In the same time the Communists captured half of the votes of the German Social Democratic Party and the representation of the middle class practically speaking disappeared. In January 1933 Hitler was appointed Reichskanzler; he attained power, as I said before, quite legally. All the forms of democracy were observed. It sounds paradoxical but it was in fact absolutely logical. For, to quote literally what Henry George has written about the inevitable effect of poverty on political developments under popular government:

To put political power in the hands of men embittered and degraded by poverty is to tie firebrands to foxes and turn them loose amid the standing corn; it is to put out the eyes of a Samson and to twine his arms around the pillars of national life.

When the disparity of condition (in the distribution of wealth) increases, so does universal suffrage make it easy to seize the source of power, for the greater is the proportion of power in the hands of those who . . . tortured by want and embittered by poverty are ready to sell

their votes to the highest bidder or follow the lead of the most blatant demagogue; or who, made bitter by hardships, may even look upon profligate and tyrannous government with the satisfaction we may imagine the proletarians and slaves of Rome to have felt, as they saw a Caligula or Nero raging among the rich patricians.

(Modern tyrants prefer the looting of Jews.) Under such circumstances:

To turn a republican government into a despotism the basest and most brutal, it is not necessary to formally change its constitution or abandon popular elections. Forms are nothing when substance has gone, and the forms of popular government are those from which the substance of freedom may most easily go. Extremes meet, and a government of universal suffrage and theoretical equality may, under conditions which impel the change, most readily become a despotism. For there despotism advances in the name and with the might of the people.

No doubt in all political changes the national character also plays its part. Yet particular conditions really provoke the reaction. I do not believe that the Germans would have followed Hitler under normal conditions. True, Adolf Hitler may be the particular German specimen of what Henry George calls the most blatant demagogue. But do you consent to Mussolini, the Latin speaking tyrant? And what about Norwegian, Dutch, French, Hungarian and Romanian Fascists? The German people—or a large proportion of them—were only the first to follow Hitler. Others joined in later under the lead of their most blatant demagogues. All Europe is either Communist or Fascist, with few exceptions. It was not fear or downright political stupidity that prevented so many European countries from joining in the fight against Hitler and it was not mere incompetence that defeated France. It was the strong Fascist forces existing in those countries and the influence of the respective blatant demagogues (though not yet in official power) that paralysed the peoples; and the outcome is that the superlative of all the blatant demagogues has become the leader of the lot. Thus, national character is but of subordinate effect. The circum-

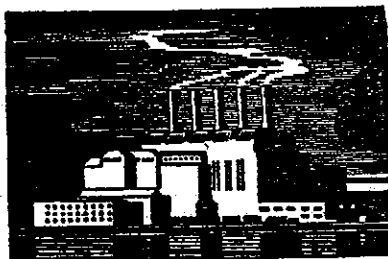
stances are the determining factor.

The unequal distribution of wealth makes government corrupt, Henry George says, and "a corrupt, democratic government must finally corrupt the people, and when a people become corrupt there is no resurrection."

I have dealt with only some outstanding cases of corruption and have not mentioned any of the many cases not directly connected with the land question. But I believe I have shown that corruption was the essence of what was called German economic life; and corruption naturally became the feature of political life as well.



Money also was the chief weapon the enemies of democracy applied to overthrow democracy. Germany's masters, the owners of agricultural and industrial land, the Junkers and the Ruhr industrialists, had no actual love for Nazidom as such, but they were willing to use it to destroy the hated Republic. "A mere aristocracy of wealth will never struggle while it can hope to bribe a tyrant," Henry George says, which is just what the German landlords did. Nazidom was financed as everyone knows by heavy industry in the first place; but the Junkers also contributed to the millions of marks which were paid to the leaders of the Nazi party. It is interesting to notice how quickly the old German aristocracy had accommodated itself to customs that had been strange to them. They did so because with the abolition of privileges they had really turned into a "mere aristocracy of wealth," and it proves their highly develop-



ed political instinct that they at once realized the new position and acted accordingly. It is a particularly ironical side of the story, that the landlords bought Nazidom with part of the money they obtained from the Republic both in cash subsidies and through the rise in land values. The State had provided its enemies with everything they needed for its destruction: with progress, with popular government, and with the material funds necessary to achieve the thorough organization of tyranny. The wall painter and corporal was of course not to the taste of the German landlords but in the most important problem he has not betrayed his sponsors. He did not touch the land problem. He only added to the class of Junkers that of the "Erbhofbauern" (peasants owning land under entail and prohibited from mortgaging) thus creating a new hereditary class of middle-sized land monopolists. So we see how the land question repeatedly got into the focus of political life at every turning point of the German Republic's fate.

Similar conditions will be of the same effect everywhere. What happened in Germany will inevitably happen anywhere that similar conditions prevail. In some continental countries it has happened already. The Nazi regime is not Hitler's, the man's achievement. Nazidom has grown organically out of a rotten democracy, and the rottenness of that democracy is the natural consequence of unequal economic conditions; and unequal economic conditions obtain all over the world owing to the instituted private appropriation of the rent of land. Therefore every country is potentially a Fascist country. Germany is but the model of a development which no country can escape except by the establishment of the equal right to the occupation and use of land. Therefore also there can be no lasting peace even after the defeat of Nazism if the present economic structure of the civilized countries remains. The private appropriation of the rent of land is the deadly enemy of mankind.