

tion with the outside world should have continued to be very effective after peace was established, is not to be wondered at. Possibly German chemical plants can to-day obtain trained technical men in large numbers at far lower wages than American firms can do; but this condition existed before the war, and the comparative advantage of Germany is no greater now. Probably, all things considered, it is less. It is undoubtedly necessary, if an American chemical industry is to develop,

to give it protection from German competition; but, if the facts in regard to German competition in general as outlined in this article are true, we can more readily meet that competition to-day both at home and abroad, than we could in pre-war years. This is not to say that Germany is not able, in certain industries, to give effective, perhaps destructive, competition; but, with internal conditions as they are, that competition is less effective now than before the war.

German Competition¹

As Affected by the Depreciation of the Mark

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GERMAN exchange during the month of September fell to 5 cents a hundred marks, compared with its pre-war value of 23.8 cents a mark. This extreme depreciation caused the Germans to turn to foreign currencies—mainly to the dollar—as a standard of value, particularly in drawing up long-term contracts, such as insurance policies, long-term loans, and the like. Even a court of justice recently rendered a decision declaring that, in view of the cataclysmic dislocation of German economic life, certain contracts drawn in pre-war marks cannot be satisfied by payment in paper marks, 1922 model. This decision gives official recognition to the fact that the mark is no longer a respectable member of the community of national currencies. The mark is thus declared an outlaw and fair game for sharp-shooting speculators.

Ever since the rapid decline of the mark set in soon after the armistice, there has been a widespread alarm among Germany's competitors at the danger of Germany underselling them in the world markets. This apprehension arose from the fact that the mark was much cheaper in the international market than in the domestic market, which means in simple terms that a dollar would buy more goods in Germany than in the United States, because the dollar could be exchanged for a sum in marks sufficient to buy a larger amount of goods in Germany than the dollar would buy at home. In other words, prices in Germany have not advanced as fast as the mark's exchange value has declined.

The depreciation of German exchange has kept many persons interested in international trade awake at night, and has resulted in widespread agitation for embargoes, high protective tariffs, American valuation, and similar efforts to deprive Germany and other countries with depreciated currencies of their alleged competitive advantage. This fear of commercial invasion has by this time largely subsided as a result of straight thinking and the nonappearance of the invader. With the minds of the people thus cleared of the economic fallacies involved in the panic fear of German commercial invasion, it may be worth while to point out some phases of the situation which make it advisable to combine with a full realization of the groundlessness of the panic a cautious attitude toward such competition as Germany may be able to offer.

While there is little danger of Germany conquering world markets under existing conditions, there may be the possibility of considerable competitive advantage for German manufactured products, at least temporarily, in certain lines of industry. The degree of this advantage may be estimated along the following lines:

(1) It is clear that industries depending on foreign raw materials will not benefit greatly by the depreciation of the mark, for they will lose in the purchase of the raw material whatever advantage they may have in the sale of the finished product. This eliminates a large part of Germany's export industry, which has always depended to a great extent on imported raw materials.

(2) The larger the labor cost in proportion to the total value of a product the greater will be Germany's temporary advantage arising from the depreciation of the mark. The reason for this may be briefly stated as follows: The wholesale price index in Germany on September 1 was about 29,000 on the basis of pre-war prices as 100, compared with an index of the value of the dollar expressed in marks of about 30,000 on the basis of the par rate of 4.2 marks to the dollar as 100, showing that so far as the wholesale market is concerned the price level in Germany has very nearly adjusted itself to the depreciation of the mark in the exchange market. A dollar would not buy much more in Germany at wholesale than at home; but this is not true to the same extent of the purchasing power of the mark in buying the necessities of life for a family. The cost of living index in Germany in July, the latest available date, was about 5000, while the corresponding index of the cost of living in America converted to marks was about 8000, indicating that it cost more than one and a half times as much to support an American family as a German family, even though the index numbers presumably allow for the difference in standards of living. This means that the ultimate cost of labor entering into a manufactured product in Germany is much less than in America, and even allowing for the loss of efficiency through lower standards of living, it still remains unquestionably true that in certain industries, whose raw materials are of domestic origin and whose products derive most of their value from the labor expended upon them, Germany will have a competitive advantage over America as long as the mark has not been stabilized and the domestic price level has not adjusted itself to the depreciation of the mark.

(3) A factor in the situation is also the extent to which German manufacturers have an advantage in established trade connections, reputation, and previous control of markets. In such enterprises as the chemical industry, more particularly the production of dyes and the manufacture of toys, the Germans have the advantage of a world-wide reputation, together with established trade machinery which will help them make the most of whatever temporary advantage the exchange situation may afford.

(4) The German government's policy of subsidizing the public by keeping down rents and the price of food cannot benefit the country in the long run. This policy, however, may effect

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