bassy. He reported to me that the commanding tone which the German ambassador adopted that afternoon had determined the Russian government: first, to order that night the mobilization of thirteen army corps against Austria-Hungary; second, to start secretly a general mobilization.

The last order made me jump: 'It is not possible to limit yourself, provisionally at least, to a partial mobilization?'

'No. The question has been thoroughly gone over by a council of our highest officers. They recognize that under present conditions the Russian government has no choice between partial mobilization and general mobilization; for partial mobilization is technically impossible without throwing the machinery for a general mobilization entirely out of joint. Consequently, if we confine ourselves to-day to the mobilization of thirteen army corps against Austria, and Germany should decide to-morrow to come to the military aid of its ally, we would be powerless to defend our frontiers on the Poland and East Prussia border. Is n't France as interested as we are in having us able to intervene promptly against Germany?'

'You are appealing to very strong arguments. I hope, nevertheless, that your General Staff will not take any measures before conferring with the French General Staff. Please tell Sassonoff for me that I wish to urge this most seriously upon him, and that I would like his reply this very night.'

[*Vossische Zeitung* (Berlin Francophile Conservative Liberal Daily), *January 1*]

THE ROOT OF THE EVIL

BY WALTHER RATHENAU

[Walther Rathenau, president of the German General Electric Company and Chairman of the Imperial Raw Materials Board during the war, is one of the most brilliant and radical economic theorists in Germany, and his numerous books and tractates on economic and social topics are widely read, not only in his own country, but also abroad.]

Had economic science not failed completely in dealing with this subject, public opinion would already have been clarified as to the ultimate cause of our depreciated currency.

Until we settle that, we cannot act intelligently regarding any other public question. Two answers are possible, which lead to two diametrically opposite methods of handling our domestic and foreign problems. A false solution will carry us farther from our goal with every step we take.

Our nation is like a man facing death from two diseases. A quack will recognize that each is dangerous, but he will not inquire which is the more dangerous, and will treat the symptoms first of one and then of the other, thereby merely aggravating the patient's condition. On the other hand, a skilled physician will first ascertain the fundamental cause of both diseases, and devote himself to removing that, even at the cost of temporarily aggravating superficial symptoms.

We all know that inflation and an unfavorable balance of trade coöperate to depreciate our money. We have hardly begun to inquire which of these is the fundamental evil, and which the secondary.

A shallow but attractive theory has been propounded by men who base their claims to being authorities in economics chiefly on their practical knowledge of the provisions trade. They insist that when business pays high profits the nation is prosperous; they overlook that nowhere else does business return so high a rate of profit as in backward and ruined countries.

Others say: Just stop printing banknotes and things will get better. How are you to do it? Well, economize. What do you mean by economizing? The government must cut down its expenses. People must work more and spend less.

Quite possibly more work could be done and less money might be spent by some government departments. But is it feasible to cut off unemployment relief? Is it possible to lower domestic freight rates by raising rates on articles exported? Is it possible to cease buying grain abroad, and to increase the price of bread at home? Is it possible to pay from taxes alone interest on the public debt, reparation claims, and current government expenses? Is it possible to discontinue supporting our public schools, and scientific and religious institutions? Let us assume that all this is possible. Aye, that it has been accomplished. We would have, as a result, increased unemployment, higher prices, famine, revolt, demoralization of the public service — but the value of our money would rise. We might temporarily accomplish that. We are leaving out of account, however, that factories must curtail operations in exact proportion with the decline of our export trade.

Does that secure the real object we are seeking?

No. For the value of our money would immediately begin to fall again.

We have forgotten to take into consideration the balance of trade. We have forgotten that when we woke up on New Year's day this year, we knew only one thing certainly as to our future: that we could live out the year only by managing to procure food stuffs and raw materials from abroad to the value of about five billion marks in gold — and to pay for them. Five billion marks in gold, however, are at a moderate estimate fifty billion marks in paper, and fifty billion marks represent the product of about four hours' work a day in all our industrial establishments.

Have people ever stopped to figure this out? Our industries employ some eight million workers. They labor annually about sixteen billion working hours. Under our present defective industrial organization, they produce goods to the value of about one hundred billion paper marks. One half of this sum must be devoted to purchasing abroad indispensable food stuffs, textile fibres, and metals; ten, or perhaps twenty, billion will inevitably be wasted in the purchase of superfluous and injurious foreign luxuries. Thirty billion it is proposed to collect for us each year as a minimum payment to our enemies. This leaves nothing whatever for housing, clothing, tools, and implements, and the support of the government.

As a matter of fact, we have not supported ourselves since the war ended. We have consumed more than we have produced, and have made up the balance from the proceeds of such previous property as we could sell, and by the loans we were able to worm out of our creditors.

So, assuming we did succeed by the utmost sacrifice in stabilizing the value of our money, or even in increasing its value, it would start at once to depreciate again, because we must buy goods, and we have nothing with which to pay for them. Importers, of course, fancy things would readjust themselves some way; for their business would be profitable, and free competition is in their imagination a universal panacea.

Men are utterly mistaken, who assure us that we can reconstruct business and restore the value of our money by limiting our expenses to a minimum, levying the highest possible taxes, making our budgets balance, and stopping the emission of paper money. Those measures would do us both great harm and great good; but they would not save the situation.

Let me say in passing, that efforts to 'consolidate' our public debt by a forced loan will prove useless and do injury. Such illusory measures may reduce for a moment our nominal indebtedness. It is easy to manipulate capital and credit; but it makes no real difference whether we must pay an inexorable debt in June or in September.

This problem may be stated with workable accuracy in the form of figures. We can demonstrate without much trouble that inflation is a smaller present and future evil than underproduction; that the depreciation of our money has harmed us far less than the deficit in our foreign trade balance, and that consequently our ruin or recovery depends first and foremost upon the latter.

I have tried for years to make plain in my economic writings the distinction between physical wealth and tokens of wealth. Let us apply to our whole national estate the same bookkeeping laws which we would apply to the business of a commercial house; and we shall speedily discover that money in itself is merely a traditionally recognized separate item in a larger group of conventional wealth tokens.

If a person were able to watch the economic activities of the earth from the planet Mars, with a telescope powerful enough to reveal all our processes of production, but not powerful enough to read writing, the Martian observer would be able to study intelligently our vast — and in many ways logical — machinery for creating and distributing wealth. But he would never suspect for a moment that all kinds of paper wealth tokens were passing from hand to hand among us. He would get no clue to the existence of private property in wealth; he would not know that such things as money, credit, and debit exist.

In other words, he would have studied the physical wealth side of our balance sheet, which he could comprehend perfectly without knowing anything of its paper token side. Crops grow, mills grind, furnaces melt, machinery manufactures, goods are carried on rails and in vessels, distributed in markets and shops, and taken thence to houses where they are consumed. That is all logical and comprehensible of itself alone. The operations of the left side of the ledger would be visible to the observer. The entries upon the right side he would know nothing of. Yet he would have a complete picture in itself. He would see us with the eyes of a single entry bookkeeper, while we have unconsciously adopted the habit of thought of double entry bookkeeping. We discuss tokens of wealth more than we do the wealth which those tokens represent. It was quite different in Homer's day. At that time people thought of real things. Tokens of wealth, even mortgages, were unknown. Cattle and bars of metal were the circulating medium and the measures of value.

To-day, practically all visible possessions in the western world are ticketed with value tokens. Land and buildings are conceived as deeds and mortgages; factories as shares of stock; public property as government bonds; raw materials and wholesale commodities as bills of exchange and bank acceptances; retail goods as checks, bills collectable, and currency.

The only property which is not covered by some such paper are equities in land, works of art, and household furniture, so far as the latter is not insured. But to compensate for this, most government property is obligated for several times its value. Upon the whole, we can say that physical wealth and tokens of wealth practically balance each other.

Now, everybody recognizes that what we call money, whether money in the form of book credits or currency, is only a small portion of the total volume of wealth tokens. Therefore, an inflation of the currency proper will never produce a proportional inflation in all the tokens of wealth. The situation was different in the French Revolution. At that time, a large share of the property in France had not been covered by paper tokens. The currency then constituted by far a greater fraction of all the wealth tokens in existence.

In this connection, we should observe a fact which ought to be self evident, but which unhappily many money reformers overlook; that you cannot accelerate or improve fundamentally the production and distribution of real wealth, which follows its own laws, by a mere manipulation of the tokens of that wealth.

We measure these symbols of wealth in Germany in marks. They are labelled as so many marks. You can fix the true value of the mark at any point of time by dividing the aggregate physical wealth of the nation by the total sum represented by all the tokens of wealth with which this physical wealth is ticketed. The quotient is the real value of the mark, which may be either higher or lower than its value abroad; for the latter is influenced by the balance of trade.

Consequently, if our paper symbols of wealth total a billion, or a thousand billion at any particular time, we merely mean that a mark is at that moment one billionth, or one thousandth billionth, of the physical wealth of the nation.

Before the war, the property of the German people amounted perhaps to three hundred and fifty billions of gold marks. Assume that it has now fallen to two hundred billion marks by waste, loss, and sales. Assume further, that prices, reckoned in gold, have risen from fifty to one hundred per cent above the pre-war level. Then add twenty-five percent to our appraisal of Germany's wealth on account of this technical appreciation. We have as a result two hundred and fifty billion gold marks.

Opposite this we must set first of all the paper tokens of this wealth which were in existence before the war, or three hundred and fifty billions. To this we must next add the total of all tokens of wealth we have issued since the war began, against which there was no increase of real property whatever. Those new tokens of wealth include the floating and funded debts of the commonwealth, the federal states, and the local governments, the addition to the currency, and our growing foreign obligations. Furthermore, they include also the shares and securities issued by our corporations and business firms in order to purchase goods in the world market at higher prices, reckoned in paper marks after their earlier stocks—bought at the former gold mark prices — were exhausted. For these shares, securities, and other obligations stand for an increase in the paper tokens of wealth over and above the physical wealth they would have represented at pre-war prices.

We shall not overstate the total of these four groups by making it five hundred billion. Adding the three hundred and fifty billions of wealth tokens in existence when the war began, the sum amounts to eight hundred and fifty billions. This is balanced by physical property worth two hundred and fifty billions. So the true value of the mark, as compared with its value before the war, is as two hundred and fifty is to eight hundred and fifty; in other words, it is something less than thirty pfennige. This is about three times its value abroad.

Let us not be deterred by intimidating possibilities from conjecturing how these figures will stand at some future date. It makes no difference what year the reader selects. After balancing the forces encouraging inflation against the forces retarding it, I personally believe that, whether we wish it or not, we shall have to calculate upon the total of our wealth symbols reaching eventually the gigantic sum of 1850 billions. Assuming that our physical wealth remains stationary, the true value of the mark will fall to the neighborhood of fourteen pfennige.

This demonstrates clearly one thing; no juggling with the currency will save us. We are being ruined by the deficit in our trade balance. It has reduced the true value of the mark to one third what it was before the war; and it will continue to reduce that value no matter what purely accounting devices we may adopt to check the movement. The only thing that can save us is to produce more wealth. To create more and consume less. Let 'business' suffer for the time being if necessary. A nation which consumes more than it produces is on the road to ruin.

The gentlemen who represent the Great Powers at the Allied Conferences should likewise bear this in mind. The first principle of a reparation policy should be not to weaken the productive power of our nation, but to levy upon its surplus product. We must labor, we shall labor, as far as we are permitted to do so. We can only labor effectively to the extent that our labor profits us.

What is the significance then of depreciation, which thus interpreted is merely an automatic adjustment between the volume of physical wealth and the volume of its various tokens? It will signify very little one hundred years from now, when the situation has been stabilized. It will make little difference to our posterity whether their money of account has the value of a dollar or a nickle, so long as their business is on a sound basis and their income, measured by whatever unit they may use, exceeds their outgo. However, for the time being the effects of depreciation are very serious. They may be summarized as follows:

First, unearned income, which is in substance creditors' income, has lost its purchasing power. Two generations ago a merchant could retire if he had saved a hundred thousand marks as a result of twenty years of labor. With the income from this he could purchase service, and as much meat, butter, and beer, as he desired. To-day, a man who retired before the war with ten times that amount of property, or a million marks, will not have, after paying his taxes, enough to live on from his interest. He either must consume his capital or go to work again.

The second effect is that merchandise is in great demand, since the country is stripped of it, and a person whose property consists of physical wealth finds himself in very comfortable circumstances. That is why many people who owned merchandise, estates, and similar forms of physical property, have profited by the war and revolution. Their estates multiplied in value over and over again. The effect has been to enrich the possessors of physical wealth at the cost of the owners of wealth tokens. An impoverished country endeavors to escape its obligations, even by robbing part of its own citizens. There has been a sort of automatic redistribution of wealth, such as occurred at fixed periods in ancient Judea.

The government is the first to take advantage of this contingency. Its annual burden of interest counted in hours of labor is not much higher to-day than it was before the war. On the other hand, however, its richest sources of income have dried up.

The third effect is, that individuals no longer are able to purchase abroad whatever they like. Imported articles cost at least fifty or one hundred per cent more than formerly at their point of production; while a German, who desires to acquire them, will have to pay twenty times their former price in marks. Unhappily, when it comes to luxuries, even that is not enough to stop their importation. But the general effect is to compel an impoverished nation to produce as much as possible at home; to export all that it can, and to import and consume a minimum of foreign productions. Consequently, the depreciation of our money in exchange will necessarily continue and get worse, until we have reëstablished an equilibrium between home production and consumption.

Last of all, it signifies, and this is the most painful feature, a permanent lowering of the income of labor relatively to the cost of living. We have failed to recognize this properly hitherto. The general public fancies that wages must finally reach a 'world level,' meaning a level equal to the normal cost of living. But unfortunately that cannot happen. Here we have a condition which will stay with us so long as we are not producing a surplus. I might call it the *privation factor* in our economy.

Were there no privation factor in our economic life to-day; in other words, if wages were to rise until they would purchase all the reasonable necessities of life, new wants or different wants would at once make themselves felt, and great quantities of goods would be consumed which otherwise are available for export, or for restoring our productive machinery at home. As a consequence, imports would increase for which we would have no way of paying, and thereupon the value of our money would fall rapidly.

So long as the country is not producing more than it consumes, prices will inevitably continue to rise faster than wages. There can never be a fixed relation between them. We must anticipate in all probability that every new burden placed upon the shoulders of our people will only widen the existing gap between labor's income and labor's outgo.

Reviewing now the results of the facts here presented, we come to the following conclusion:

So long as we rest in doubt whether inflation or a production deficit is the greater and primary evil, we shall hesitate, undecided between two courses of policy.

If inflation were the greater and primary evil, the proper remedy would be to deflate the currency, to refund the public debt, to levy a compulsory loan, to raise taxes, to introduce every conceivable economy in public expenditures, even at the cost of our appropriations for cultural purposes, and to restore the equilibrium of the budget. Practically all the reforms so far proposed lie in this direction.

There is no reason in the world why we should not do all these things with moderation. But if we go to work too radically, we are likely to precipitate a financial panic, and to set going a process of gradual decay in our economic, technical, cultural, and administrative institutions. Such reforms as these, moreover, will never lead us to our goal. Whether our public indebtedness reaches a maximum number of billions a year earlier, or a year later, is relatively unimportant. Our debt may pass any limit we now conceive; but if our production increases fast enough, our money may be worth more then than to-day. We can live with billions of inflation, if production and consumption, imports and exports, balance each other. We cannot survive — even were our debts and our inflation by some miracle to vanish — if we continue to have a deficit in production.

Since, then, it is not inflation but a deficit of production — which latter is not due to inflation, but rather somewhat mitigated by it — which is the root of our evil, it is clearly imperative that we direct our policies toward a different goal from the one we have recently pursued.

We must concentrate our attention upon production; and not upon commercial profits and the like. It is not important if our debts do temporarily increase. It is important that we keep what few raw materials and half manufactured goods we have at home, and export merchandise which embodies the largest possible labor value. It is important that we find markets for our goods. It is above all important to perfect our system of production by still greater subdivision and specialization of labor, as between organizations as well as individuals, and by every technical device which economizes labor and materials. It is important for us to exercise a wise control over consumption and importation. It is also imperative that we regulate the application of labor, so as to make it serve primarily the welfare of the nation and not the welfare of private promoters.

The only real asset which we have kept even approximately intact, is our labor power. Neither national laws nor technical difficulties, but ignorance and indolence, prevent our increasing our labor product indefinitely. Our enemies cannot prevent that. On the contrary, they will be forced to recognize that their claims will never be paid so long as our physical condition remains what it is to-day. They will be forced to help us increase our production in order to collect their claims against us. Control of our public finances would be as sterile for them as for ourselves. What we need is increased opportunity for labor, and scientifically organized production.

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A VISIT TO BEETHOVEN

BY BARON DE TRÉMONT

[This article is from the unpublished memoirs of the Baron of Trémont, who was a Councillor of State during the reign of Napoleon. In later life he was known as an intelligent musical critic and patron of musicians.]

I WAS an admirer of Beethoven's genius and knew his works by heart when, in 1809, I was commissioned as Auditor of the Council of State to take