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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT ON WESTERN GERMANY

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Report on Western Germany

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REPORT ON WESTERN GERMANY

I.

Introduction

1. The purpose of the Bank's mission was to appraise the economic impact upon international trade of a reviving and expanding Western German economy aiming at viability, at a rising standard of living. Western Germany contains the greater part of the industrial resources of pre-war Germany and, since it is now in the recovery phase and about to become an independent political unit, such an appraisal at this stage would seem to be opportune.

2. The Mission was headed by Mr. D. Crena de Iongh, Treasurer of the International Bank; he was accompanied on his visit to Western Germany by Mr. J. Herbert Furth, economist, on leave of absence from the Board of Governors of the Federal Reserve System, and by Mr. Walter Hill, representative of the Bank in Europe.

3. The Mission was in Germany from June 16 to July 4; assisted by the fact of its international character, it was given every opportunity to pursue its task in the three Western Zones and in Berlin. While it has not been possible to visit all the countries of Europe with whom Germany had important trade relations before the war, one or more members of the Mission visited the United Kingdom, France, Holland, Belgium, Denmark, Switzerland and Austria for the purpose of obtaining the views of responsible persons on the subject of their inquiry. The Mission thus had an opportunity of becoming acquainted with the views and plans of a responsible cross-section, both within Germany and in a number of other countries, of the banking and business community, of government officials and of officials of ECA, OEEC and ECE.

4. The considerations that have guided the approach of the Mission to its task are these:

First, before the war, Germany, the leading industrial country on the Continent of Europe, played an important role in the exchange of goods and services in Europe. For nearly a decade the German economy has been all but withdrawn from peaceful economic intercourse with other countries. More recently, however, the Western German economy has been expanding again and is likely to become increasingly important in international economic relations.

Secondly, while the growing economic strength of Western Germany is an impressive fact, the question is how it will influence the wealth and prosperity of other countries, especially in Europe. The answer to this question lies as much in the policies and actions of other countries as it lies within Germany itself.

5. These considerations form the frame of the Mission's report. We present it, not as an exhaustive and comprehensive political and economic analysis of the position and prospects of Western Germany and of the detailed effect of an expanding German economy upon each of the surrounding countries, but as an attempt, within a deliberately limited number of pages, to set in its perspective the Western German economy in international trade as we see it today and as, in our opinion, it may evolve in the future. To this end, we have reviewed in broad outline, under the following chapter headings, the present state and prospects of the Western German economy, both internally and in its commercial relations with other countries:

(a) The present state of the Western Germany economy in relation to its pre-war position (i) internally and (ii) in its commercial and financial relations with other countries.

(b) The probable development of the German economy (i) internally and (ii) in its commercial and financial relations with other countries; the choice of policies and their implications.

(c) The position and attitude of other countries in relation to Western Germany; the choice of policies of other countrier and their implications.

We have deliberately excluded any discussion of the political aspect of the problem of Germany, both internal and external. We have taken as a fact the consolidation of the three western zones into one independent political unit. The special problems of Berlin are not being discussed.

Since the purpose of our Mission was essentially fact-finding and informative, we have deliberately refrained from making specific recommendations.

Many of the issues raised will require more detailed study, such as that of the detailed effect of growing German competition on specific industries in other countries or that of new foreign investment in relation to Western Germany's existing foreign debt.

Finally, all the statistics quoted are official ones, or based on official ones, unless otherwise stated.

6. Conscious of the many unknown elements in any appraisal such as that attempted in this report, we recognize the highly tentative nature of any quantitative estimates and opinions relating to the future.

Summary of Findings

7. The economic problem of Western Germany - potentially still the leading industrial area of Continental Europe - is only one aspect of the problem of the European economy as a whole.

The economic potential of Western Germany has been consistently underrated. The general impression emerging from a comparison of the economic resources of present-day Western Germany with those of pre-war Germany is not one of a truncated body, incapable of achieving viability and prosperity. On the contrary, behind the facade of half-ruined towns that will impose a lower housing standard than before the war for some years to come there are, in Western Germany, substantially intact, at least two-thirds of the industrial capacity of pre-war Germany, an industrious people of some 50 million, led by business and government executives who are as ambitious as they are conscious of the potential economic strength and influence of their country.

8. If Western Germany's present volume of production is still relatively lower by comparison with pre-war than that of other countries in Western Europe, this is not due to lack of capacity but to the fact that the latter have had a start of two or three years. In Western Germany, the first post-war phase, that of economic prostration and disorganization, came to an end in the summer of 1948. A year of recovery has brought the volume of industrial production within 10 - 15 per cent of the level of 1936. In its present setting, the country is likely to catch up with its western neighbors within a year or two - despite some recent loss of momentum in recovery.

9. Except for housing, in which war damage and a heavy influx of immigrants have combined to produce a serious shortage, the standard of living has greatly improved and, in food, is said to compare not unfavorably with that enjoyed by other countries in Western Europe.

10. The authorities in Western Germany have prepared an ambitious long-term investment program, calling for a rate of saving (including

depreciation) equivalent to one-fifth of a rising national gross product. The projected investment program, if consistently carried out, would enable the country to rebuild a modern and expanded industrial capacity within a few years. The projected rate of saving was already attained in 1948, when the national income was still very low, though account should be taken of the facts that foreign assistance contributed 5 per cent of the national gross product and that windfall profits obtained by industrialists gave a non-recurring stimulus to investment. The will to restore the industrial strength of the country is reflected in the proposed distribution of new investment which emphasizes the modernization and expansion of industry rather than the rebuilding of towns, despite the serious shortage of housing.

The Germans hope to be able to supplement domestic saving by private foreign investment, especially when the Marshall Plan draws to its close, but this postulates a settlement of the existing foreign debt.

11. As elsewhere, there are two conflicting schools of thought in matters of economic and financial planning. The German authorities at present at the helm of affairs believe that the restoration of a market economy, backed by appropriate monetary and financial policies, is in the best interest of the country.

The recreation of a sound currency, by way of the currency reform of June 1948, has provided a powerful fillip to recovery. But the money and capital markets remain to be revived. This requires consistent and appropriate financial policies that have yet to be applied. The system of public finance, and of central and commercial banking, contains elements of contradiction and needs to be reviewed.

The restoration of a market economy in wages and prices over a wide economic area has also released incentives helpful to recovery. But here, too, there is still a need to apply consistent policies.

12. For viability and prosperity, Western Germany will depend more heavily on foreign trade than pre-war Germany, but still rather less

than, for example, the United Kingdom and Benelux. Western Germany has all the makings of finding economic balance.

13. The competitive position of Western Germany on world markets is strong and likely to grow stronger. Wages are low in relation to output; and for the present, the trade unions appear to be willing to pay the price of large-scale investment in not pressing too much for increases in wages. Exports, though still low, have shown a rapid expansion and, for the Bizone are now running at the rate of about $100 million a month; the aim is to double them by 1952-53 as a means to regaining financial independence.

14. While we have not discussed the political impact upon other countries of an economically resurgent Germany, we are convinced that its competition will be felt increasingly by other countries in their domestic and foreign markets. Attempts to resist competition by protective devices designed to isolate Western Germany would have the negative effect of depriving other countries of the benefits that an expanding German economy would bring them. Nor could it be assumed that such attempts would achieve their objective.

15. A further choice that Europe will have to face is that between the present economic nationalism and a movement towards economic integration. Present practices are incompatible with integration; and unless the countries of Europe move away from economic nationalism in their own commercial and financial relations, the scope for integrating the Western German economy into the European economy is very limited.

III.

The Present State of the German Economy in Relation to its pre-war Position (i) internally and (ii) in its commercial and financial Relations with other Countries.

(a) Comparative Resources of Western Germany

16. An essential first step in appraising the prospects of the Western Germany economy and its likely impact upon international trade is to take stock of its size and quality, by comparison with pre-war Germany as a whole, and with its own resources before the war. The three elements briefly reviewed here are area and population, productive capacity, and the extent of the recovery achieved to date.

(i) Area and population

17. The area of Germany as a whole has been reduced from 469,000 sq. kms. to 353,000 sq. kms., that is by about 25 per cent, mainly by the incorporation of 111,000 sq. kms., into Poland. By contrast, the combined population of Western and Eastern Germany is about the same as that of the former Reich, that is 67-68 million in 1948, against 67.1 million in 1936.

18. The area and population of Western Germany and Western Berlin are shown below:

Table I

Area and Population of Western Germany and Western Berlin

	Area (Sq. Kms.)	Population in 1948 (millions)[1]
British Zone	97,700	23.6
U. S. Zone	107,500	17.7
French Zone	40,200	5.2
Western Sectors of Berlin	500	2.0
	245,900	48.5

1 includes refugees and expellees

Source: Report of Military Government, April, 1949, Statistical Survey

The area of Western Germany (excluding Western Berlin) is 52 per cent of that of pre-war Germany as a whole. The population of this area is of the same order of magnitude as those of the United Kingdom, France and Italy; it is equivalent to 70 percent of that of the pre-war Reich and 25 per cent larger than that of the same area in 1936. The density of the population is of the same order as that of the United Kingdom, and it is exceeded substantially in Europe only by Holland and Belgium. The proportion of males to females has declined during the past ten years - in 1936 it was 95 per cent and in 1946 85 per cent. This decline is naturally most noticeable in the middle-age groups; thus, among those from 25 - 50 years, the proportion has declined from 91 per cent in 1936 to 78 per cent in 1946.

19. While housing conditions are difficult in many towns, the health of the people in Western Germany is said to be good despite the fall

in food consumption - the caloric intake per person is officially estimated at 2,450 a day, against almost 3,000 before the war. Moreover, the natural growth of the population has been resumed; the excess of births over deaths was at a rate of 4 per 1,000 of population in 1947 and 6 per 1,000 in 1948.

20. One of the most serious problems has been created by the influx into Western Germany since the end of the war of some 8 million persons, consisting of people expelled by the governments of Eastern European countries because of their German origin, and of refugees from the Eastern zone. These newcomers have been distributed more by fortuitous factors than by the need for manpower; they tended to settle where food and housing were available and, at any rate initially, close to the border. Many of these families have been separated; young men looked for work in the industrial areas of the Rhineland, while the rest of many of their families have remained in agricultural districts near the eastern border, especially in Bavaria and Schleswig-Holstein. The presence of such a large element of immigrants has made for some unrest and may cause political difficulties unless they can be absorbed and settled within a reasonable time.

21. During the aftermath of the war, when the economy was disorganized and there was a shortage of food and raw materials, and when morale was low, the efficiency of labor fell to a low level. During the past year, however, it showed a rapid improvement and has now recovered to within 20 to 25 per cent of the pre-war level. Even now, it is estimated that productivity in many branches of industry does not compare unfavorably with that of other countries; one expert stated that in identical conditions, workers in the German plants of the Company with which he was associated produced 20 per

cent more than workers in the British plants. In industries that have been severely damaged or have experienced a heavy turnover of labor, efficiency is invariably lower than in other countries and recovery will take time.

22. The effect of sixteen years of dictatorship, war and foreign occupation is reflected in a deterioration of the efficiency of business and public management. Moreover, the majority of executives in business and government are comparatively old; apart from loss of life, many men of the younger generation have spent most of their time in the armed services and are, therefore, untrained for executive positions; again, many, whether in the armed services or not, have been active Nazis. The result is a dearth of able young men capable of filling positions requiring imagination and drive. In this respect, Germany is facing difficulties even more serious than those that had to be faced by France and Britain after the First World War.

(ii) Agricultural and industrial capacity

23. Germany as a whole has lost about 26 per cent of its arable area through the detachment of territory. But, the industrial capacity located in the detached territories (in terms of output in 1936) was less than 8 per cent of the capacity of the country as a whole. The loss was above the average in mining and steel production; it was 16 per cent in the former and 13 per cent in the latter.

24. Western Germany possesses some 45 per cent of the arable area of pre-war Germany, compared with 70 per cent of its population. The Western area, consequently, is dependent on food imports to a greater extent than pre-war Germany as a whole. Before the war,

the old Reich supplied about 80 per cent of its food requirements; Western Germany alone supplied about 60 per cent.

25. On the other hand, Western Germany, which includes the "industrial heart" of Continental Europe, possesses much the largest proportion of the industrial capacity located in present-day Germany; probably as much as two-thirds of the former capacity of the pre-war Reich was located in this area. Estimates of the amount and condition of the industrial equipment of Western Germany, compared with pre-war, vary considerably, and, in the absence of the full facts, dogmatic assertions are out of place. Nevertheless, previous estimates, according to which industrial capacity has been reduced by 10 per cent below the pre-war level through destruction, removal and dismantling, appear to have been unduly pessimistic. At present, the rate of industrial production is 10 - 15 per cent below the level of 1936. The Mission was informed by a prominent German industrialist that, given markets, production in many industries could be raised by 50 per cent or more with the existing equipment and supply of manpower. French authorities believe that the supply of machine tools is at least equal to and probably 10 per cent larger than in 1938; they draw attention to the fact that Germany's industrial capacity was substantially increased in a number of industries after 1938. There seems good reason for the belief that, compared with 1938, Western Germany's industrial capacity is substantially intact. If it is remembered, further, that in 1938 some 20 per cent or more of this capacity was used for military ends, the country's industrial capacity for peacetime civilian purposes is probably that much larger than before the war, or, taking account of the increase in

population, about as large per head as before the war. Much of the existing equipment requires replacement and modernization; but this is probably true to a lessor extent than in a number of surrounding countries.

26. The housing shortage is serious and hampers the efficiency of labor. One German expert said that in the coal-mining industry alone some 80,000 dwelling units were required to provide adequate housing. While the population increased by 8 million between 1939 and 1948, the number of dwelling units in the Bizone dropped by 1.6 million units, from 9.3 to 7.7 million.

(iii) Recovery in production

27. The German economy remained prostrate for 3 years after the war. The second phase, that of re-expansion began in the summer of 1948 and was given a powerful fillip by the reform of the currency. Agricultural production, assisted by favorable weather, was equivalent to about 85 per cent of the pre-war average and sufficed to meet 55 per cent of Western Germany's food requirements at the lower rate of consumption. The expansion of industrial production in the Bizone - it rose by 67 per cent between June 1948 and June 1949 - was quite remarkable. The output of steel ingots for example, rose from 378,000 metric tons to 750,000 tons, respectively, during this period, and to 795,000 tons in July 1949; it is shortly expected to reach the permitted annual rate of 10.7 million tons.

28. True, the current level of industrial production in the Bizone is still some 10- 15 per cent below the level of 1936, the pace of recovery has been slackening during the second quarter of this year,

and, while employment is substantially as large as a year ago, the number of unemployed rose from 442,000 in June 1948, to 1,238,000 in June 1949, equivalent to about 6.7 per cent of the area's total labor force. But the rate of industrial expansion of the second half of 1948 could hardly be expected to continue without interruption.

29. The rise in registered unemployment occurred at a time when employment remained at a record level, about 15 per cent higher than in 1936, and 5 per cent higher than at the peak of the pre-war armament boom in 1939. In part, the magnitude of unemployment was due to incomplete absorption of refugees into the economic activities of Western Germany: in June 1949, unemployed refugees numbered 436,000, or 36 per cent of total unemployment, while refugees as a whole constituted only 19 per cent of the population of the US-UK zones. Unemployment was most severe among clerical employees and unskilled manual labor; however, there also was considerable idleness in the metal and construction trades.

30. The recovery of production and foreign aid have also brought a rise in the standard of living, especially insofar as food and textiles are concerned. Precise comparisons with the pre-war standard are rendered difficult by the lack of adequate data. According to official statistics hourly wage rates have advanced by 45 per cent since 1938, while the cost of living has risen by 64 per cent. In view of the shortening of working hours per week, weekly wages have risen less than hourly rates and their purchasing power is estimated at 75 per cent of 1938. However, the Mission was informed that the food standard in Western Germany compared not unfavorably with that

of other countries in Western Europe, and that the textile standard was rapidly improving. The housing standard will remain below pre-war for many years to come. On the whole, however, the standard of living has already reached a higher level than the Mission had expected. Labor relations appear to be satisfactory, and trade union leaders have accepted the inevitable facts that a return to the pre-war standard in all respects must take time, and that an essential condition of substantial improvement was large-scale investment in productive industry.

(b) Economic Policy and Organization.

31. The next step is to review briefly the manner in which the Western German economy is operated today. While the account does not pretend to be comprehensive, it covers general economic policy, currency reform, the banking system and public finance.

(i) General economic policy

32. There are today in Western Germany, and elsewhere in Western Europe, two schools of thought, generally known as advocates and opponents of "planning". The one finds its adherents mainly in the Social Democratic Party and the other mainly in the Christian Democratic Party. The one believes in achieving economic aims by socialization and "administrative manipulation"; the other holds that, while economic policy must have specific objectives, such as a high rate of new investment in productive industry, the interests of the country are best served by the restoration of a market economy and full play for incentives, guided by the firm handling of the financial controls. While, in practice, the dividing line between these two schools of thought is not as sharp as may be

suggested by a brief definition, the second predominates under the leadership of Dr. Erhard, Director of Economic Affairs. There has been, in fact, a restoration of the market economy over a wide economic area, both in prices and wages, but a clear-cut economic policy has not yet emerged. The Mission found that many German business and government executives seem to be wedded to their pre-war isolationist and anti-liberal mood. This is true not only of professed socialists, but also of alleged liberals who can envisage a system of private enterprise only within the framework of protection against both domestic and foreign competition.

(ii) Currency reform

33. The currency reform of June 1948, which need not be discussed again in this report, demonstrated once more the importance of a "sound" currency both as a standard of value and as a store of wealth. The reform undoubtedly played a major part at the opening of the "recovery phase" in Western Germany. However, while the reform was successful in its main objectives beyond expectation, it had a number of defects that may be briefly mentioned.

34. First, the currency reform has left the banking system with an extremely small capital basis. At the end of June 1949 the capital and reserves of all credit institutions other than the central banks were about 2 per cent of their total assets and liabilities of almost 17 billion DM. and 5 per cent of their advances to the private economy. In fact, the reduction in capital was a consequence of inflation rather than of the reform itself; however, some technical details of the reform aggravated the inevitable consequence of the

depreciation of the reichsmark. Moreover, the dismemberment of the large banks has created a great number of small banks, which have yet to prove that they can perform satisfactorily their functions.

35. Secondly, more far-reaching was the loss of savings in the form of monetary claims, aggravated by an amendment to the Reform Act which cancelled 70 per cent of that part of reduced balances that were supposed to be blocked for later investment. The impact of that action was mainly psychological, but it was sufficient to hamper the revival of private savings both in time and in intensity.

A combination of factors would anyhow have rendered difficult a revival of savings; these factors include: the destruction of two currencies within one generation; political and economic uncertainties; the backlog of demand for perishable as well as durable goods that had been unavailable in many cases for 15 years; heavy taxation; the lowering of the average income level. In these circumstances, it is perhaps more surprising that the public has begun to save again, than that the rate of savings has not yet reached its pre-war level. Most private saving is being done today by entrepreneurs within their own enterprises, partly in forms taking advantage of statutory tax exemptions and privileges; while this kind of saving is better than none, it obviously does not always lead to the most economical use of scarce capital resources. Much individual saving in the form of small savings accounts is but deferred consumption, earmarked for the repair or purchase of housing and other durable consumer goods. The remainder of individual savings is at a low rate and consists mainly of insurance premiums, used for replenishing former insurance reserves.

36. Thirdly, the most embarrassing consequence of the currency reform on the debit side was the inflationary effect caused by the use of virtually the whole of that part of the new currency allocated on a per head basis for the purchase of merchandise which had appeared from hoards. The recipients of these sums considered them largely as windfall profits, and proceeded in turn to spend them as fast as possible. The process had a snowball effect, and it soon led to an overextension of short-term credit by the banking system; this, in turn, aggravated the consequences of the reduction in the capital of the majority of banks. It was stopped only after the Bank Deutscher Laender had adopted serious restrictive measures and after the first rush into scarce goods had been satisfied. In the meantime, prices had risen considerably, while the trade unions, fearful of a renewed open inflation, refrained from insisting upon wage increases. This rise in prices helped to check the expansionary process, first, by reducing effective demand at prevailing price and income levels, and secondly by redistributing income from low-income groups with an extremely high propensity to spend on consumption, to higher income groups with a greater propensity to save and invest. In this respect, the market adjustment provided some form of self-regulation, although at a cost, especially in the form of potential social and political unrest. Moreover, the self-adjustment seems to have gone too far, and to have slowed down the pace of recovery. Changes in the supply of money since July 1948 are shown in Table II.

Table II

Money Supply in Western Germany
(Millions of German Marks)

End of Month	Currency Circulation 1/	Central Bank Deposits 2/	Other Free Deposits 2/	Bank Credits 2/
July 1948	3,831	2,071	4,060	1,355
September	5,358	1,935	6,761	3,150
December	6,319	1,560	9,229	5,006
March 1949	6,188	1,723	10,492	5,985
May	6,361	1,801	11,412	6,984
June	6,553	1,654	n.a.	n.a.

Notes: 1/ Excluding Western sectors of Berlin

2/ Excluding interbank deposits and credits

Source: Monatsberichte der Bank Deutscher Laender, June 1949.

37. The post-reform inflation, with its windfall profits, led, however, to a more rapid pace in reconstruction than would otherwise have been possible. Entrepreneurs used their high profits to replenish their capital as fast and as completely as possible, especially to repair and recondition their physical assets. The post-inflationary readjustment, on the other hand, may prove useful in weeding out surplus firms or activities, which had been started during the inflationary period, and in forcing the remainder to pay more attention to efficiency and cost and profit calculation. However, the presence of considerable unemployment in a country which is in need of every employable hand, if for nothing else than for removing the rubble of war, will hardly be tolerated for long by public opinion.

38. Monetary problems are complicated by the peculiar organization of Western German central banking. In order to pursue a policy of decentralization, it was deemed necessary by the Allied authorities to establish 12 partly autonomous central banks -- one for each Land as well as one for Western Berlin. The 11 central banks of the Western German Laender are united under the Bank Deutscher Laender, the sole bank of issue; they control that Bank through the composition of its board and the election of its chief officers. While the Laender central banks are controlled by the Laender governments, the authorities of the prospective central Government have been excluded from any formal connection with the central banking system; meanwhile, the occupation authorities exercise supervisory powers through the Tripartite Allied Bank Commission. The complaints that the Bank may have started its anti-inflationary and later its anti-deflationary policies too late and in too timid a fashion have been attributed at least in part to the lack of executive power of the Bank Deutscher Laender.

(iii) Public finance

39. The system of taxation is a remainder of pre-reform days and the rates applied, in the opinion of many experts, are not only too high but are self-defeating. Tax morale has been dangerously lowered, and incentives to work seriously hampered, especially by the application of confiscatory rates to very moderate incomes. Another distortion is caused by the fact that taxes at present are mainly retained by the Laender that collect them, so that the fiscal situation of a Land like Hamburg, with its large sources of excise taxes and customs duties, is very different from that of say, neighboring Schleswig-Holstein. As a result, some Laender are able to pursue a wasteful and extravagant spending policy or to hoard public funds, while others are unable to meet the most necessary expenses. However, the Laender, under the currency reform legislation, are under obligation to keep their budgets

balanced at any time. These factors limit the possibility of some of the Laender to spend on unemployment relief and public investment.

40. In part, the uneconomically high level of taxation is due to the efforts of the Laender to supplement the paucity of "true" individual savings that would find their way to the capital market by providing for such capital from public funds. In an effort to find a semi-commercial source of public funds, the Reconstruction Loan Corporation was established; but the funds of that corporation remained limited. The Bank Deutscher Laender could not see its way to create fiat money for that purpose, fearing a renewed loss of confidence in the currency. Efforts to gather private capital through the public subscription of bonds so far have proved failures; the 6% Reichsbahn loan issue of 1949, which was expected to bring in about 250 million DM of new money, was subscribed by private investors only to the extent of 85 million, and all but 15 million of that sum represented merely the utilization of balances blocked for long-term investment under the currency reform legislation. However, the granting of fiscal privileges for new issues would set dangerous precedents. Another source of long-term funds is the equivalent, in German currency, of the dollar grants made by the U.S. Government (the so-called counterpart funds) which are being made available to the Corporation by the Allied authorities for well-defined purposes and projects.

41. Despite the lack of finance capital, the repair of war damage to industry has progressed satisfactorily thanks to self-financing out of windfall profits. Similarly, public utilities and means of transportation have largely been reconstructed out of public funds. One of the most urgent present needs is housing, not so much in order to raise the standard of housing as to enable workers to move from labor surplus to labor deficit areas, especially the Ruhr,

and thus to restore labor mobility and economic flexibility.

42. The authorities in Germany have been reluctant to adopt a cheap-money policy, for such a policy would be inconsistent with one of stability during a period of scarcity of capital. The discount rate of the Land Central Banks, which originally had been set at 5 per cent, was reduced to 4.5 per cent in May 1949, and to 4 per cent in July. However, since commercial banks have hitherto insisted on a margin as high as 3 per cent, even short-term credit is available to commercial enterprises only at rates of about 7 per cent. and rates on medium or long-term advances are correspondingly higher. Even public enterprises are compelled to pay 5.75 per cent on housing loans granted by the Reconstruction Loan Corporation. On the basis of current stock-exchange quotations, first-class bonds yield as much as 7.5 per cent; this fact contributes to the difficulty of raising capital by the issue of new bonds at reasonable rates.

(c) External commercial and financial Relations.

43. The final subject for review in this chapter is Western Germany's external economic relations. This involves a brief description of the pattern of Germany's pre-war trade, of present Western Germany's need to trade and of the present trading pattern.

(i) The Pre-War pattern of trade

44. The size of the pre-war German economy, its need to exchange manufactures for food and raw materials, and its geographical position in the heart of Europe have made it into an important trading partner to its neighbors. The nature and distribution of this trade

are shown in detail in the Appendix. With the important exception of France, the majority of Continental European countries, as Table III shows, looked upon Germany either as their best or second best customer and supplier. European industry came to rely largely on the supply of German machinery; Germany, on the other hand, bought from its neighbors a great variety of agricultural and industrial goods.

Table III

Germany's Place in the Trade of European Countries, 1936

Country	Imports	Exports
Austria	1	1
Czechoslovakia	1	1
Hungary	1	1
Switzerland	1	1
Yugoslavia	1	1
Italy	1	2
Netherlands	1	2
Poland	1	2
Sweden	1	2
Denmark	2	2
Norway	2	2
Belg.-Lux.	2	4
France	3	6
U.K.	8	5

Source: Foreign Commerce Yearbook.

(ii) Post-war trade tendencies

45. The separation from its Eastern provinces has made Western Germany more dependent upon the western world. The zones which are at present under Polish administration used to contribute a sizeable - although not decisive - part of food imports into Western Germany, and in turn received the equivalent in the form of industrial products. Unless means are found to continue that exchange, despite the new borders, Western Germany will have to produce domestically or to

import from other sources those goods which it used to receive from the eastern provinces; on the other hand, it must sell in new markets those industrial goods for which the country used to find a ready market in the present Eastern Zone and the areas at present under Polish administration.

46. Before the war, Germany sold about half of its exports to Western Europe, with which it had a considerable export surplus. This surplus was balanced in part by services, in part by imports from dependent overseas areas, and in part by the receipt of means of payment that could be used for financing imports from the Western Hemisphere. At present, the Allied authorities who control Western Germany's foreign trade wish to maintain the principle of using at least part of the export surplus with Western Europe for financing imports from the rest of the world, e.g., by utilizing the ECA system of granting drawing rights, thus earning dollars indirectly by an export surplus to Continental Western Europe. However, all other European countries are determined to keep the excess of imports in their trade with Western Germany at a minimum if it threatens to involve a loss of dollar reserves or ECA allocations. This conflict lies at the bottom of the controversy concerning the so-called dollar clause in German trade agreements.

Any trade agreement normally contains a provision dealing with the settlement of mutual balances in convertible currencies, or in goods at world market prices. Opinion differs on two points. One of them is purely technical, dealing with the frequency of settlements and the extent of mutual credits. The other concerns the more fundamental question of whether Western Germany should buy goods from other

European countries at prices higher than those quoted by U.S. exporters in order to restore old trade routes, and to permit its trading partners to increase their purchases from Western Germany. This question involves the "real" exchange rate between the other European currencies and the dollar. Any deviation from the principle of buying in the cheapest and selling in the dearest market would mean discrimination. Without a reduction in the prices of European goods, however, discrimination might become necessary to expand the market for them. A German expert suggested, for example, that discrimination might take the form of a bonus on exports to the dollar area, and perhaps a penalty on imports from that source. Such a discrimination might be justified on purely economic grounds as well as for reasons of long-term policy and intra-European cooperation; but it might constitute a dangerous precedent for other nations, and might retard necessary currency readjustments.

48. Western Germany still has a multiplicity of foreign trade controls, through German foreign trade authorities, the Allied authorities (the Joint Export Import Agency) and the Bank Deutscher Laender, which acts as trustee for JEIA's foreign exchange holdings. However, since December 1948 private business has gradually received greater freedom to trade directly with foreign importers and exporters.

Western German exporters are now permitted to secure licenses for most exports from accredited German commercial banks, and JEIA maintains its control over foreign exchange receipts mainly through the licensing system carried out by the commercial banks. Since April 1949, exporters may again grant credits up to 90 days to their customers in the U.S., Canada and countries with which Western Germany has payments agreements, without having to ask for specific approval by JEIA. However, JEIA has reserved direct control over all exports going to countries other than members of the OEEC, the Western Hemisphere or the sterling area.

Since February 1949, Western German importers have been permitted again to negotiate directly with foreign exporters. Foreign exchange allocations are now controlled primarily by an Industrial Advisory Committee, composed of Allied and German representatives. This Committee allocates quarterly specified amounts of foreign exchange for each of the commodities included in a list prepared by JEIA: these quarterly allocations are subject to JEIA approval. Importers apply to their commercial banks for licenses to import listed commodities on a first-come, first-served basis; they must be prepared to show, however, that they are buying in the most advantageous market and that their payment terms do not hide discriminatory premiums.

The importation of commodities not listed by JEIA is still subject to direct Allied control. Actually, most commodities not thus listed are imported by the Allied authorities out of US-UK appropriated funds "for the prevention of disease and unrest" ("Category A" imports) or on the basis of ECA allocations. Since May 1949, German purchasers have had to make full advance payment for such commodities in German currency into "counterpart funds".

Since July 15, 1949, the liberalized foreign trade regulations also have been applied in the French Zone.

49. The multiplicity of controls may in part explain the curious fact that until recently JEIA was unable to step up Western German commercial imports (i.e., imports financed from exports rather than from U.S. Government funds) to the level of its exports. In consequence, Western Germany was, until recently, one of the few European countries

which steadily accumulated foreign exchange. JEIA started in 1947 with a capital, provided in equal parts by the United States and the United Kingdom, in the amount of $125 million, and now has at its disposal about $450 million, allowing for outstanding claims and liabilities. This policy has aroused the ire of virtually all of Germany's neighbors who contend that their exports to Germany are hampered, and at the same time of the Germans themselves. Western German officials are busy explaining to their trade partners that Germany will treat them very differently once JEIA is abolished.

50. On the export side, Western German trade has expanded more rapidly. However, under Allied directives, JEIA had to force certain exports of basic raw materials like coal, timber and scrap, which continue to be scarce in Germany itself. Germans resent these exports which hamper the production of finished goods. The strength of Western Germany's export industries has been demonstrated, however, by the fact that exports have continued to rise in recent months when those of most other nations showed signs of contraction. The trend of trade, by commodities, is shown in Table IV below:

TABLE IV

Western Germany's Foreign Trade by Commodity Groups
(millions of dollars)

Commodity Group	1936 Actual Value	1936 Value at '48 prices	1948	1949 (Annual Rate)
	Exports			
Coal and coke	141	544	282	344
Timber	-	-	64	65
Scrap	-	-	10	72
Other goods	1,128	2,220	286	616
Total	1,269	2,764	642	1,097

TABLE IV - Continued

Commodity Group	1936 Actual Value	1936 Value at '48 prices	1948	1949 (Annual Rate)
	Imports			
Foodstuffs	351	686	1,025	922
Raw mat. and semi-fin. prod.	664	1,243)		
		)	532	820
Finished products	90	115)		
Total	1,105	2,054	1,557	1,742

Notes: 1936 data based on bizonal estimates; conversion into dollars at 1948 purchasing power based for coal and coke on ratio of export prices, for other data on bizonal calculations; figures adjusted to include estimated French zone trade.
1948 and 1949 data based on Allied reports, excluding services; annual rate 1949 estimated on basis of Jan. - May data for US/UK zones and Jan. - March data for French zone.

Sources: Economic Data on Potsdam Germany, Table XIII; Wirtschaft und Statistik, June 1949, pp. 168* - 169*; French Zone of Occupation, Bulletin Statistique, April 1949; JEIA Reports for December 1948 and May 1949.

51. Not only the amount but also the composition of Western Germany's foreign trade are far from normal. Before the war, almost 90 per cent of its exports consisted of finished manufactured products; at present, coal, timber and scrap still form more than one-third of the total. Similarly, before the war foodstuffs were only one-third of its imports, while at present they still are about one-half. Moreover, the present level, low as it is, has been made possible by U. S. aid. This is true not merely for Western German imports, only half of which are financed commercially, but even for exports, since the export surplus to the other countries of Western Europe is being financed largely by means of ECA drawing rights.

52. As the result of U. S. assistance, the direction of trade has changed substantially insofar as the United States has become Western Germany's chief supplier, while it had played a very insignificant role before the war. On the other hand, Western Europe is now taking about 85 per cent of Western Germany's exports, compared with one-half of the total before the war.

53. Trade with Eastern Germany has been reduced to a mere trickle, though since the end of the Berlin blockade it has tended to increase again. Taking that reduction into consideration, the volume of Western Germany's trade with other areas has shown a larger decline from the pre-war level than is suggested by Table IV.

IV.

The probable Development of the German Economy (i) internally and (ii) in its commercial and financial Relations with other Countries: the Choice of Policies and their Implications.

54. The next question is, "Where will Western Germany go from here?" The report now enters the realm of the unknown, for the final answer will be given by history; it will depend as much on decisions and developments within as without the country. This chapter will deal with German plans and policies; the position and attitude of other countries in relation to Western Germany will be examined in the next one.

(a) Western Germany's domestic Plans and Choice of Policies

(i) The targets for 1952-53

55. The Four-Year Programs of the Bizone and of the French Zone submitted to OEEC in Paris towards the end of last year were written around a number of basic targets for 1952-53. Those relating to the Bizone are briefly recapitulated in the tables below; the figures for the French Zone are excluded from this review because they are not important enough to vitiate any conclusions drawn from the Bizone estimates and because they are not readily comparable.

TABLE V

BIZONE GROSS NATIONAL PRODUCT BY ORIGIN

Origin	In Billion 1948 Dollars			Total Gross Product in Percent			Total Gross Product 1936 - 100		
	1936	1948	1952/53	1936	1948	1952/53	1936	1948	1952/53
Agriculture	3.8	3.0	3.8	12	13	11	100	80	100
Industry	17.3	10.4	19.0	53	43	56	100	60	110
Other Domestic Economy	11.2	9.5	11.1	35	39	33	100	85	99
Foreign Net Contribution	-	1.1	-	-	5	-	-	-	-
TOTAL	32.3	24.0	33.9	100	100	100	100	73	105

Source: Bizone Original Long-Term Programme submitted to OEEC

TABLE VI

BIZONE GROSS NATIONAL PRODUCT BY USE

	In Billion 1948 Dollars			Total Gross Product in Percent			Total Gross Product 1936 - 100		
	1936	1948	1952/53	1936	1948	1952/53	1936	1948	1952/53
Personal Consumption Expenses	19.5	15.6	22.0	61	65	64	100	80	113
Per Head (in 1948 $) 1/	550	361	475	-	-	-	100	66	86
Gross Investment	6.6	4.5	7.7	20	19	23	100	68	117
Government Current Purchases 2/	5.8	4.0	4.2	18	16	13	100	69	72
Net Purchases by Foreigners	.4	-	-	1	-	-	-	-	-
TOTAL	32.3	24.1	33.9	100	100	100	100	75	105

Source: Bizone Original Long-Term Programme submitted to OEEC.

1/ Population: 1936 35.4 million
1948 43.2 million
1952/53 46.25 million

2/ Government current purchases include current expenses for goods and services only. All public expenses for pensions, social insurance and relief are included in "personal consumption expenses" and government investments are under "gross investment".

It was assumed, for the purpose of these targets,

that the Bizone's industrial capacity was some 90 per cent of that area's pre-war capacity; and that this was to be expanded by 15 per cent by investments of $8 billion;

that output per head would reach 90 per cent of pre-war level in 1952/53;

that both exports and imports should reach, and roughly balance at a level of $2,800 million; that in the balance of payments, there would still be a deficit of $250 million with the dollar area, and of $92 million with the sterling area, largely offset by a surplus of $272 million with Continental Western Europe, Latin America and other areas.

56. A few months later, last May, these targets were revised in the light of the rapid progress made. Industrial production, for example, is now expected to be 20 per cent above the 1936 level in 1952-53, instead of only 10 per cent. Again, the head of the Bizone Department of Agriculture and Forestry told us that, given the adoption of appropriate policies, Western Germany should be able to provide two-thirds of its food requirements by 1952-53 and, eventually - this seems a somewhat distant hope - as much as four-fifths. Industrial productivity per head, measured by output per man-hour, has already increased to 75 per cent of the 1936 level; consequently, the target for 1952-53, that is 90 per cent of the 1936 level, has probably also been underestimated.

57. In the field of exports, too, progress has been more rapid than expected when the Long-Term Program was drawn up last autumn; instead of the forecast of \$743 million, exports during 1948-49 actually reached \$939 million. The estimated dollar deficit of the Bizone in 1952-53, on the other hand, has been revised upwards from \$250 million to \$370 million, while that of the French Zone has been reduced from \$74 million to \$50 million. The estimated dollar deficit of Western Germany as a whole, therefore, is now expected to be as much as \$420 million in 1952-53, against \$324 million a few months earlier. It should be noted, in passing, that these revisions in the expected balance of payments deficit after the end of the ERP period were carried out largely by German officials.

58. The fact that the progress of recovery has been such as to belie previous forecasts, however, is a reflection of their value. What can be the significance of estimates reaching forward to 1952-53, when, within a few months of this compilation, substantial changes become

necessary? There has been a consistent tendency to underestimate the economic potential of Western Germany. It is more likely than not that the progress of recovery will continue to prove that this potential has been underestimated. It is difficult to say, at this stage, that the German economy would not become viable by 1952-53, that is, become substantially independent of "extraordinary foreign aid." The answer will depend, not merely on the policy pursued by Western Germany, but also on the conditions of world trade.

59. From their discussions and observations, the Mission has come to the conclusion that, in its present setting, Western Germany will continue to make headway both in production and, in the absence of a serious recession in world trade, in exports. With production running at 85 - 90 per cent of the level of 1936, productive capacity - estimated at 90 per cent of the pre-war level in the Bizone Memorandum on its Long-Term Program - is by no means fully employed. As mentioned in Chapter III, Paragraph 25, a German industrialist assured us that the problem was not one of production but of finding buyers at home and in other countries, and that in a number of lines output could be raised by 50 per cent or even more.

60. In the matter of costs, too, Western Germany is in an advantageous position; and this for two reasons:

First, real wages in Germany are low and productivity is still increasing. In March 1949, for example, average wage rates per hour for all workers in industry were 45 per cent higher than in 1938, but the average number of hours worked was still 4 hours a week less than in 1938, and productivity per man-hour was only 75 per cent of pre-war. The relatively low level of productivity is one of the reasons why the rise in prices has exceeded the rise in wage rates by comparison with pre-war. But with the steady improvement in productivity it should be possible to bring down costs, with a further improvement in the country's export potential, unless wages are increased faster than productivity.

Secondly, unlike her Western neighbors, Western Germany is not burdened by a heavy defense budget, while occupation costs, though still absorbing some 25 per cent of the budgets, can be expected to decline.

(ii) Saving and investment

61. The long-term prospect for Western Germany, as that for other industrial countries in Europe, depends on its ability and willingness to save and invest wisely a high proportion of its national income; the need for a high rate of investment is particularly important in Germany because of the destruction of buildings. In prosperous pre-war years the old Reich saved and invested approximately one-fifth of the gross national product; this is also the figure taken as a basis in Western Germany's Long-Term Program. The first question, therefore, is whether this rate of saving is adequate and whether it is likely to be within the range of possibilities.

62. While it is true that the country achieved a gross rate of saving of one-fifth of the gross national product in good pre-war years, this rate has tended to fluctuate between one-tenth and one-fifth and, in the majority of years, was well below one-fifth. It is reasonable to assume, therefore, that a rate of one-fifth consistently pursued, should not merely enable the country to overcome arrears of maintenance and the housing shortage, but provide it with an expanding and modern equipment over a period of years. Whether it is within the range of possibilities is a matter of official policy, of the economic climate generally, and of the extent of foreign investment after the end of the ERP. But since the projected rate has been achieved in pre-war years, there is no valid reason for supposing that it cannot be maintained in

the future.

According to official estimates, the Bizone saved as much as 19 per cent of the gross national product in 1948. True, this was assisted by windfall profits arising from the currency reform, and American assistance was then equivalent to 5 per cent of the gross national product. But production and the national income were still at a low level in 1948.

63. The gross total of projected investment including depreciation, working capital and new investment is shown below.

TABLE VII

COMPOSITION OF GROSS INVESTMENT
(In Billion 1948 Dollars)

Investment Use:	1948	1949	1950	1951	1948-51 Total	1952/53
Depreciation	2.0	2.3	2.6	2.8	9.7	3.0
Increases in Inventories	1.0	1.0	1.0	1.0	4.0	1.0
Net New Investment	1.5	1.6	2.1	2.9	8.1	3.7
TOTAL	4.5	4.9	5.7	6.7	21.8	7.7

Source: Bizone/Long-Term Programme Submitted to OEEC
Original

64. Although plans for net new investment (excluding depreciation and inventories) for 1949-50, and even more those for the whole ERP period are still highly tentative, their details are of sufficient interest as a reflection of national desires to be given in full by broad categories.

TABLE VIII

BIZONE INVESTMENT CAPITAL FORECASTS 1949/50
(Million DM)

			Revised Plan
I.	A.	Agriculture)	560
	B.	Fisheries)	25
	C.	Forestry)	25
II.	A.	Coal incl. Mining Ind.	840
	B.	Electric Energy	765
	C.	Oil	95
	D.	Other Energy	215
III.	A.	Mining Ind. incl. in II A	
	B.	Iron and Steel	280
	C.	Non-Ferrous Metals	35
	D.	Mechanical Industry (1)	363
	E.	Chemical and Semi-Chemical Industries	190
	F.	Textiles	110
	G.	Pulp and Paper	20
	H.	Food Industry	120
	I.	Miscellaneous Industries (2)	157
IV.	A.	Railways	650
	B.	Other inland transport and communications (roads ports, inland waterways, telegraph, etc.)	490
	C.	Merchant Fleet	80
	D.	Air Transport (ports)	10
V.		Public Services (hospitals, schools, etc.)	495
VI.		Housing (excluding industrial and commercial buildings)	1250
VII.		Tourism	100
VIII.		Miscellaneous (Smaller Investments, Trade and Handicrafts)	425
		TOTAL	7300 (3)

Source: Bizone/1949-50 Programme submitted to OEEC
Revised

(1) Machine-,Electric-,Vehicle-Optics-Industries, Shipbuilding Steel construction and light-metal-products.
(2) Woodworking, Stones and Earths, Glass and Ceramics, Rubber, Leather, Building-Industries.
(3) The dollar equivalent of this total is slightly higher than the figure shown in Table VII.

TABLE IX

BIZONE INVESTMENT CAPITAL FORECASTS FOR THE PERIOD 1.7.48 - 30.6.1952
(Million DM)

		Branches	Total	Capital Market RCC (6)	Budgets	Self-Financing
I.	A.	Agriculture)	2800(3)	950	550	1300
	B.	Fisheries)				
	C.	Forestry)				
II.	A.	Coal Mining	3250(2)	2400	400	450
	B.	Electric Energy	2800	2410	90	300
	C.	Oil	220	130	-	90
	D.	Other Energy (Gas and Water)	800	475	175	150
III.	A.	Mining Ind. incl. in II A				
	B.	Iron and Steel	1000	800	-	200
	C.	Non-Ferrous Metals	90	50	-	40
	D.	Mechanical Industry (4)	965	675	-	290
	E.	Chemical and Semi-Chemical Indus.	1000	500	-	500
	F.	Textiles	290	150	-	140
	G.	Pulp and Paper	120	70	-	50
	H.	Food-Industry	350	175	-	175
	I.	Miscellaneous Industries (5)	845	430	-	415
IV.	A.	Railways	1800	1710	90	-
	B.	Other Inland Transport and Communications (roads, ports, inland waterways, telegraph, etc.))				
	C.	Merchant Fleet)				
	D.	Air Transport (ports)	)2050	970	950	130
V.		Public Services (hospitals, schools, etc.)	1650	50	1600	-
VI.		Housing (excl. Indus.& Commer.bldg.)	5100(1)	1500	2450	1150
VII.		Tourism)				
VIII.		Miscellaneous (Smaller Investments, Trade and Handicrafts)	)2100	770	330	1000
		TOTAL	27230	14215	6635	6380

Source: Bizone/Long-Term Programme Submitted to OEEC Revised

(1) Excl. Miners Housing
(2) Incl. Miners Housing
(3) Excl. Landworkers' Housing
(4) Machine, Electric-, Vehicle, Optics-Industries, Shipbuilding, Steel-construction and light-metal-products.
(5) Woodworking Stones and Earth, Glass and Ceramics, Rubber Leather, Building Industries.
(6) Including Counterpart Funds

65. It will be seen that both in the tentative plans for 1949-50 and in those for the whole ERP period, fuel and energy, and industry are heavily emphasized. Only about one-sixth of total new investment is to be devoted to housing in 1949-50, though the proportion rises in later years. It is, of course, difficult to judge the reasonableness of these plans without careful and detailed investigation. Discussions with experts in Germany suggest that at least some of the plans, such as those for coal mining and electric power plants may be somewhat ambitious. However, while German industry no doubt requires modernization, the degree to which the heavy and engineering industries have fallen behindhand in technique and equipment can easily be exaggerated and, indeed, Germany's problem in this respect may be less serious than that of some other countries of Western Europe.

66. Finally, there is the question how the estimated requirements in savings are to be generated and channeled into the industries according to the Plan. For 1949-50, inclusive of the DM 1,200 million estimated to be required for the replenishment of stocks and the necessary working capital, but exclusive of depreciation which normally presents no special problem, the amount projected for new investments is DM 8,500 million. This amount is to be forthcoming from the following sources:

TABLE X

SOURCES OF CAPITAL FOR NEW INVESTMENT & WORKING CAPITAL IN 1949 - 1950

New Investment:	Counterpart Funds	DM 2,500 million	
	Budgetary funds (raised by taxation)	1,950 "	
	Social insurance funds (mainly unemployment insurance)	300 "	
	Savings deposits	700 "	
	Savings by subscription to securities	350 "	
	Investment of private insurance companies	300 "	
	Current profits (incl. self-financing and unorganized capital market)	1,200 "	7,300 million
Working Capital:	Bank credits	1,000 "	
	Self-financing of inventories	200 "	1,200 million
Total			DM 8,500 million

Source: Bizone Revised 1949-50 Programme submitted to OEEC

The sources of capital for the Long-Term Program are shown for each industry in Table IX, though these forecasts can hardly be more than notional at this stage.

67. The majority of the funds arise at sources at which their use can apparently be controlled either by governments or by the new Reconstruction Loan Corporation. But will the Laender with budget surpluses be willing to make substantial contributions to those with deficits? Or, if not, are counterpart funds to be used for purposes of evening-out local disparities in investment capital? Insofar as public issues are concerned, an agency is to be set up which, in its functions, will correspond to those of the Capital Issues Committee in the United Kingdom. Nevertheless, discussion in Western Germany revealed that there is no clear conception yet about how the supply of capital is to be harmonized with needs, how the activities listed in the Investment Plan are to secure the precise amounts tentatively allocated to them in the Plan, nor, of course, whether the amounts tentatively allocated on paper are appropriate in each case. The Plan, in fact, is still a paper scheme.

68. The reasons for utilizing counterpart funds for investment are to be found in the fact that the private capital market has yet to revive and that long-term interest rates are very high, that is, 6 per cent and over. On the other hand, it is difficult to escape the conclusion that, so long as much the most important proportion of savings is mobilized by the government and by the spending of counterpart funds - only about 5 per cent of the projected total net new investment in 1949-50 is to be derived from the sale of securities - the chances for a revival of the private capital market are not bright. Is there not a limit, in each country to the proportion of the gross national product that can be saved and invested? And if this is true, will the revival of the capital market not be retarded and limited so long as

the government appropriates the greater part of savings in one form or another? This is not meant to question the present policy but to clarify its implications.

(iii) Foreign debts and investments

69. In relation to Western Germany's investment needs, German experts expressed the view to the Mission that it would be desirable to supplement domestic savings by foreign investments, especially when U.S. Government aid begins to draw to a close. In other Marshall countries, too, there is a desire to supplement domestic savings by the import of private capital.

While nobody wishes for a repetition of the indiscriminate purchase of German bonds in the 'twenties, and while the disadvantages of control by foreign capital should always be borne in mind, there might be opportunities of combining foreign with German capital, that is, opportunities that should offer Western Germany the possibility of supplementing domestic savings and enable Germans to re-establish international contacts.

70. This raises the complicated problem of Germany's existing foreign debt, for foreign private investors are likely to hesitate until a settlement has been reached about existing debts and about the transfer of outstanding interest and dividends before increasing their present holdings or financing new activities. Nor could the problem be solved by offering transfer of interest and dividends on new investments only, since many prospective private investors are also past investors and, consequently, would hardly be encouraged by such an offer.

71. While a final debt settlement may have to await the conclusion of a peace treaty, and while this would in any case be difficult until Western Germany's ability to transfer interest and dividends can be seen more clearly, it might be useful, as a first step, to take stock of existing investments in Western Germany.

72. Two categories of foreign investment in Germany should be distinguished, the first being of a purely financial nature, that is, the loans to German corporations and official bodies, issued abroad, and secondly, equity investments (possibly combined with loans) of foreign companies or firms operating through branches or subsidiary companies in Germany. In the second case, foreign parties have a financial as well as a managerial interest. Countries interested in the second category of investment include:

U.S.A.
U.K.
The Netherlands
Switzerland
Luxembourg.

The field of these investments is extensive and covers important industries, such as coal, steel, rayon silk, mineral oil, soap, margarine, motor cars, electricity, distributing agencies of various products, etc.

73. Arrangements would have to be made about the existing indebtedness and with holders of equities. This would include:

the remaining part of old standstill agreements;
long-term debts;
bank balances;
equity investments, etc.

74. Secondly, the problem of reparations, restitution of looted property and the settlement of Military Government assistance and Marshall aid would presumably have to be taken into account in any over-all arrangements about Western Germany's foreign indebtedness.

(iv) The choice of policies; the possibilities and limitations of economic liberalism

75. Under the leadership of Dr. Erhard, the political head of the Department of Economics, the majority of the politicians and technicians in responsible positions, as well as the leaders of industry and finance profess a desire to restore a degree of economic liberalism in Germany. The conclusion is often drawn by observers, somewhat

erroneously, that planning is likely to be completely forsaken; this belief is encouraged by the decision to abolish rationing and many of the forms of restriction in favor of a return to a market economy.

76. Allied officials and German experts have defined German economic policy to OEEC in Paris under the following five headings:

> "Credit policy: preferential allocations to basic industries (such as coal, steel) and to export industries;
>
> Public budgets to be balanced at the lowest possible level (say $4 billions a year);
>
> Financial stability and a stable purchasing power to be ensured;
>
> Fiscal policy to be designed to promote saving and investment;
>
> Imports to be restricted to essential products, where no conflict arose in trade policy with participating countries."

77. Discussions with Allied officials and Germans revealed the existence of many contradictions, due not merely to differences in approach but also to confused thinking. All of these five points are an expression of general aims rather than of an economic and financial policy. They form a kind of umbrella that can accommodate all sorts of policies and practices. There is certainly a desire to return to a market economy - many steps have been taken in this direction - with competition as its driving force. Yet, how can one talk of a market economy in its former meaning if businessmen are not to be allowed to compete fairly for available savings in a capital market that is given an opportunity to revive? Again, in the present state of the country, with investment capital as short as it is in relation to needs, how can the government accomplish essential purposes without priorities?

Furthermore, talks with industrialists demonstrated that they are thinking as much as ever in terms of "arrangements" and cartels; what measures are contemplated to ensure competition?

78. In sum, while the choice between a controlled and a free market economy certainly exists, and while the majority of the men now in control favor the latter, a free-market economy in the old sense of the word can hardly be established at this stage. Appropriate policies have still to be worked out and it may be found that, given efficient credit, fiscal and financial policies, it will in fact be possible to restore the attributes of competitive market conditions over a wide area of the country's economy and to remove some of the present contradictions and confusion of thought. The planning of effective financial policies designed to achieve specific results is not merely compatible with a competitive economy, but essential to its proper functioning.

(b) The Future of Western Germany's external economic Relations

(i) General considerations:

79. According to the estimates submitted to OEEC, Western German imports (excluding interzonal trade and excluding services) would have to reach \$3.1 billion annually to ensure an adequate standard of consumption and production, and exports would have to be of the same magnitude in order to achieve equilibrium. These estimates, however, are probably too high: they envisage, for instance, food imports of \$1.4 billion annually, while at present an import volume of \$0.9 billion seems to make possible a reasonable standard of nutrition, despite the fact that domestic agricultural production is still 15 per cent below the pre-war level. For this reason we believe that an annual import and export level of about \$2.8 billion, or about 10 per cent lower than that proposed in the OEEC submission, would be a more realistic target for the post-Marshall period.

The task of achieving such a level of foreign trade does not seem an impossible one, though much will depend on the state of the world market and on the manner in which world trade is carried on.

80. In the long run, Western Germany's foreign trade problem is not essentially one of a dollar shortage. Such a scarcity would exist only if Western Germany had to import permanently some vital foodstuffs and raw materials from the dollar area, which it could not possibly acquire elsewhere and for which it would have no possibility of paying by exports. Like other Marshall countries, Western Germany is at present importing more from the United States than it could pay for by exports. But this is largely a consequence of abnormal supply and price conditions and of the dollar grants and credits made available to Marshall Europe by the United States. The Mission was informed in Germany that at present exchange ratios, many goods that could be imported in larger quantities from other Marshall countries are more expensive than American commodities. The present abnormal conditions can hardly be regarded as permanent. Consequently, there is no overriding reason why, in the long run, trade could not again assume a pattern whereby Western Germany would obtain the imports it needs in exchange for exports. In 1937 German imports from the United States (mainly cotton, oil and wheat) were only $114 millions, and its trading deficit with the United States was only $29 millions.

81. Neither is the problem merely one of resuming trade with the East. Even in the thirties, that trade probably did not amount to more than one-eighth of total Western German trade, despite artificial stimulation. While an expansion from the present low level would seem to be in the interest of all parties, it would solve only a small part of the country's trade problem. The Eastern European countries, as the result

of forced industrialization, are becoming less dependent upon German consumers' goods, and as the result of land and social reforms their exportable surplus of agricultural produce may not assume pre-war proportions. However, the increasing need of these countries for German machinery and other capital equipment might make trade in a number of commodities more attractive to them than before the war, and the totalitarian governments of these countries might be able again to create the exportable surplus needed for purchasing such equipment.

82. Finally, the trade problem is not mainly one of the reunion of Western and Eastern Germany. The contribution of the Soviet Zone of occupation to the food imports of the West was relatively small. The contribution to exports included mainly the products of the Saxon textile and textile machinery, and of the important Berlin electrical appliance industries. In all three fields, Western Germany is trying to replace the lost capacity. In the long run, a separation from the Eastern provinces would therefore prove to be of minor importance, at least in the sphere of foreign trade. Moreover, interzonal trade may well expand despite political separation; since the end of the Berlin blockade, a substantial increase in that trade seems to have taken place.

83. Actually, the problem is far more general. While the experience of two world wars showed that the German people can live for some time at a subsistence minimum even with very limited foreign trade (and while devoting a very large part of its natural resources to military purposes), any rise in its welfare is closely related to the total volume of its foreign trade. In a world of multilateralism and currency convertibility the only problem would be that of achieving a high domestic level of consumption and production, leaving the attainment of a high level of trade to the market forces. In a world of bilateralism and inconvertibility, however, the problem is aggravated by the necessity of

consciously directing trade so that a high level is reached in relation to each of the various currency areas of a divided world.

(ii) Prospects of development

84. In the long run, the lack of basic foodstuffs and raw materials makes Western Germany an expanding market for the products of many countries. Equally, the problem of producing in Western Germany a sufficient quantity of goods to supply both domestic and foreign needs appears to be possible to solve with the existing industrial capacity and manpower. The vital question is therefore one of finding markets showing an effective demand for Western Germany's exportable surplus. This question will have different aspects, (a) in a world in which foreign commerce enjoys substantial freedom, and (b) in conditions of strict government control of international transactions.

85. Under a system of relatively free international trade the marketability of goods of such wide use as that of most German products would be mainly a matter of pricing. In this respect, the German heavy industry has three vital advantages. Its coal fields are among the best in Europe; and while their managers insist on urgent needs for modernization, other observers feel that their equipment is reasonably up-to-date and efficient. In comparison with the rest of Europe, the low cost of producing coal gives the steel and chemical industries an appreciable price advantage. Secondly, Germany has easy access to both Swedish and French ores, and has a traditional skill of a high order in machinery and chemical engineering, and of sound workmanship. German heavy industry, therefore, has both the resources and the skill for steady development. Finally, the German worker today has probably the lowest efficiency wage in the world;

in terms of purchasing power; his wage rates are probably no higher than those of most other Continental European workers (in contrast to pre-war times), while his efficiency probably has retained an appreciable superiority. This change may be due, at least in part, to the increase in the labor supply resulting from the inflow of refugees and expellees; the general impoverishment of the German population; the patriotism of the German labor leaders; and the docility of the German worker, enhanced by 12 years of totalitarian domestic and four more years of foreign rule. Whatever the cause, the low wage level gives German industry an even greater competitive advantage than the low coal and steel prices. In a world ruled by price considerations, the German industry should find little difficulty in regaining its previous markets and therefore its previous ability to provide through exports sufficient foreign exchange to pay for necessary imports.

In fact, the world demand for the type of goods Germany has to offer has probably increased rather than diminished. It is true that several European countries, most notably the United Kingdom, have developed some branches of industry, like precision instruments, which used to be considered almost a German monopoly; output of the engineering industries in Europe outside of Germany has increased by one-fourth over pre-war, and has certainly displaced former German goods. It is also true that the rapid expansion of the engineering industry in the United States during the war has created a powerful competitor for Germany in many export markets. On the other hand, the plans for industrial development and the actual or contemplated rise in the standard of living of many overseas nations have opened possibilities of new markets which probably more than balance all adverse changes. Again, it is true that underdeveloped nations need credits to buy the equipment they need, and that Germany will for some time remain unable to grant such credits on a large scale. Apart from the possibility of further U.S. aid or other international cooperation in that field, however, there should be no insuperable difficulty under conditions of freedom in international economic relations to institute again a system of private international finance which would take care of the technical aspects of the problem.

86. However, the rebirth of an international economy in which price considerations and rational financial transactions again play a decisive role, may be nothing but a dream and, in any case, would take time. If world trade is to be ruled by political considerations, government control of international economic relations, and nationalistic currency and credit policies, the price advantages of German industry and the need of most nations for more industrial equipment may not be sufficient to ensure an unhampered flow of German goods in international commerce. Even in that case, however, the task of German industry to find again profitable markets would be, though more difficult, by no means impossible.

87. At present, as in the past, German exports to the rest of Western Europe are far higher than imports from that area. It is safe to assume that the Western European countries would be quite satisfied, even under the most protectionist assumptions, to have their trade with Germany approximately balanced. Moreover, it may be assumed that within Western Europe transferability of currencies would be feasible so that equilibrium need be attained not in relation to each individual country but only to the area as a whole. Under these assumptions, Western German exports to that area would be limited at worst by its imports from the same area. Since many of these imports are classified

as "non-essentials" and at present severely restricted, they could be stepped up almost at will once the German authorities are convinced that such an increase would also raise German exports. In fact, the responsible German authorities have expressed such a determination unequivocally, not only in talks to representatives of other nations but also in their discussions with the members of the Mission. Even if the "non-essentiality" of these imports would mean that they would provide, say, food only at relatively high cost, the consequences would merely be that the real terms of trade would move somewhat against Germany, with a larger amount of its products needed to provide for the import of the requisite calories, but not that the trade program as such would be in danger. In any case, France, for example, is aiming at providing a substantial exportable surplus of wheat and meat in coming years which, if available at world market prices, would enable that country to supply Western Germany to an increasing extent with essential foods.

88. There is no reason to assume, of course, that Western Germany could not continue having an export surplus with Western Europe, without necessarily having it financed by Western Europe in gold or dollars. As our analysis has shown, Western Germany will be a heavy importer of food and raw materials. Given an accelerated program of development in the overseas territories of Western European countries, Western Europe could finance an import surplus with Western Germany with a growing export surplus of overseas territories with that country.

89. While trade with Eastern Europe and the Far East probably will remain below the pre-war level, at any rate for some time to come, mainly because of the changed political situation in these areas, trade prospects with Latin America seem promising. In some respects, German, like British, industry may be better adapted than American firms

to deal with the population of underdeveloped countries and to provide them with machinery less complicated and less based upon mass-production ideas than those built in the United States. Moreover, Latin Americans often prefer to deal with a country where they can market their own exportable products.

90. Attempts to make exact statistical forecasts of future trade have little meaning. However, it may be assumed that about half of the foreign trade target for the post-Marshall period of $2.8 billion annually would be with Western Europe and its overseas territories.

91. In the first half of 1949, Western Germany's imports (excluding inter-zonal trade and excluding services) were at an annual rate of $1.8 billion; by the middle of the year, the rate probably exceeded $2 billion. During the first half, the annual rate of these imports was therefore about $1 billion below the target for 1952-53. Assuming a satisfactory development of Western German agriculture, the entire difference could be made up by industrial goods, the importation of which would thus rise from $0.8 billion to $1.8 billion per year. Since the standards of production and consumption proposed under the Western German long-term plan are 50 per cent higher than the level reached during the first half of 1949, the importation of "essential" industrial materials and equipment would probably not have to increase by the total amount of $1 billion, leaving a margin for the importation of so-called "less essential" products.

92. In the first half of 1949, Western Germany's exports (excluding inter-zonal trade and excluding services) were at an annual rate of $1.1 billion; by the middle of the year, the rate probably had reached $1.3 billion. In order to reach the export target of $2.8 billion annually, exports would thus have to expand by $1.5 billion. Moreover, virtually the entire increase would have to consist of finished

goods, the exportation of which would have to rise from an annual rate of \$0.6 billion during the first half of 1949 to about \$2.3 billion. Still, such exports would probably represent less than 12 per cent of Western Germany's total industrial production. Assuming that the production were raised by about 50 per cent over and above the level prevailing during the first half of 1949, about one-fourth of that increase would have to be diverted to exports. These magnitudes involve primarily problems of marketing rather than of production.

93. It is true that imports and exports would have to increase even more if inter-zonal trade with Eastern Germany could not be raised to a reasonable level. However, the experience of the first months following the end of the blockade indicates that Eastern Germany is extremely eager to resume the purchase of goods from the West; it can do so in the long run only if it offers to Western Germany a corresponding amount of its own products in exchange. For these reasons, a satisfactory development of inter-zonal trade may be expected without undue optimism.

(iii) Foreign trade policies

94. From the point of view of the German economy, the most rational means of attaining such a level of foreign trade would be by way of the price and market mechanism. Since the demand for industrial materials and equipment is almost entirely a function of domestic production, every measure fostering such production - especially a well-functioning system of currency and credit - also encourages these imports. And if our assumption is correct that at least in the vital region of Western Europe and Latin America, German exports are largely a function of German imports, especially under the present system of bilateral trade agreements, any increase in the German demand for

foreign goods would easily lead to a similar increase in the salability of German goods abroad. The main function of a far-sighted German foreign trade policy thus would seem to be the prevention of foreign restrictions upon trade and attempts at autarky. The increasing strength of a revived German economy should be able to pursue these ways successfully, especially if backed by international organizations devoted to the implementation of similar ideas. In contrast to the prewar policy of currency manipulation, high tariff protection and discrimination, Western Germany's foreign trade policy could thus conform to an international attitude which is consistent with its geography and its natural pattern of trade. Its neighboring nations would profit themselves from such a change in Germany's international economic policy.

95. One of the needs of Germany would be to find again access to the sources of modern technological development, which it had neglected in the field of peaceful achievements for 16 years. Exchange of scientists, and other experts, and promotion of foreign travel, would seem essential in this respect. An entire generation has to be familiarized with the ways of international understanding. The results of such work would not only be advantageous for international trade but even more so for the prospects of political reconciliation.

96. A reunion of Western with Eastern Germany would not materially affect the situation. Food imports would be somewhat less; and the need for textile fibre imports and other materials for the Eastern German industries somewhat higher. The output of these industries would improve the German export potential, but a larger part of Western German machinery would have to be sent to the Eastern areas in order to rebuild the industrial enterprises transferred as reparations to the Soviet Union.

V.

The Position and Attitude of other Countries in Relation to Western Germany; the Choice of Policies of other Countries and their Implications.

97. In the preceding chapters, we have looked at the size and economic potential of Western Germany, and, in the context of a Western Germany striving to achieve viability at a rising standard of living, we have examined the likely impact of its expanding economy upon international trade. In this, the final chapter, we are examining the prospect of Western Germany becoming part of an economically more closely integrated association of European nations. The problems briefly examined are the impact of an expanding Western German foreign trade upon other countries in Europe, and the choice of policies with which they will be faced.

(a) The prospective Impact of Western German Competition

(i) General considerations

98. The recovery of Western Germany is likely to affect other countries in two ways, for Western Germany will expand its exports as well as its imports. As has been shown in paragraphs 91-92, the country's total exports will have to rise more than its total imports if equilibrium is to be reached. However, if Western Germany is to attain equilibrium in its trade with the rest of Europe, imports from Europe will have to increase more than exports to that area. The recovery of Western Germany will thus provide an expanding market for other countries and a source of supply of desired products, but it may give rise to difficulties for competing industries in other countries, not only on their home markets but also on their foreign markets, especially for those countries that have to some extent displaced Germany as a supplier. Much will depend, of course, on whether Western German competition will fall on an expanding or contracting world trade. In the first case, as during 1925-29,

it would be felt lightly; in the second, the impact would be more severe.

99. The impact, of course, will vary from country to country and from industry to industry. Countries that are economically complementary to Western Germany, that is those that can supply Western Germany with commodities it lacks, such as raw materials and food, and need the goods Germany has to sell, would stand to gain.

Countries that are less complementary would feel the impact of Western German competition; these are to be found mainly in Western European countries whose competing industries, such as steel, engineering and chemicals, have been enlarged in recent years to fill the vacuum created by the disappearance of German competition. It is not surprising, therefore, that some of Germany's neighbors seem to be receptive to German suggestions on the subject of the revival of international cartels, allocating export markets and avoiding price competition.

100. In some Western European countries, renewed German competition might also render more difficult the solution of the dollar problem by reducing the dollar-earning capacity of competing industries, through a reduction in the volume of exports and in prices below the limit that would have prevailed in the absence of such competition.

101. On balance, however, the majority of countries may well stand to gain economically from an expansion of Western Germany's trade, especially if expansion is accompanied by increased specialization in European countries.

(ii) The position of individual countries

Some of the problems that are facing the countries visited by members of the Mission in their economic relations with Western Germany are summarized below:

102. Austria. This country has to finance a large excess of imports over exports, due mainly to the shipments of Ruhr coal. So far, these

shipments have been largely paid for by means of U.S. assistance; after the end of ERP, however, Austria will have to find a way to use its own resources for that purpose. Austria, therefore, is mainly interested in restoring its exports to Western Germany, which include many items classified as "non-essentials." Austria would wish Western Germany to abstain from measures that would cut off the Austrian lumber industry from its traditional Bavarian markets, and to resume its traditional tourist traffic. On the other hand, most experts agree that Austria's heavy industry will be unable to compete either on the domestic or the export markets with a revived Ruhr industry, except in some special fields (high-quality steels and certain types of machinery). Austria hopes, however, to share the markets with the Ruhr on the basis of an international agreement that would permit the retention of at last part of its recently increased steel capacity.

103. Switzerland. This country also has traditionally a heavy import surplus in its trade with Germany, and is trying to induce Western Germany to relax the restrictions upon the importation of "non-essentials." Most important, however, would be the resumption of the pre-war flow of services, such as the tourist traffic, and the resumption of payments on the large Swiss investments in Western Germany, as in Rhine power plants. If Switzerland receives satisfaction on these points, it may permit the outflow of a moderate amount of convertible currency to settle the remainder of its import surplus, and thereby provide Western Germany with some means of payment to be used for financing imports from the Western hemisphere.

104. France. In this country the wish to reach some international agreements with the German heavy industry seems to be particularly strong, probably not only because of the natural ties between Lorraine, the Saar, and the Ruhr, but also because of hopes that such agreements

may lessen the danger of unwanted political consequences of Western Germany's economic recovery. France would wish Western Germany to abstain from subsidizing the steel industry, e.g. by permitting the German domestic coal price to remain lower than the export price, and in resuming its export of Lorraine iron ore in exchange for Ruhr coal. In addition, France would wish to develop Western Germany as a market for its expected exportable surplus in bread grains as well as in so-called less essential foodstuffs, such as wine.

105. Low Countries. The Netherlands, with a heavy import surplus with Western Germany, like Austria and Switzerland, would wish not only to promote its exports to Western Germany, but also to resume its traditional shipping ties and to secure the transfer of the income from its large investments in Western German industry (coal, rayon, radio and electrical appliances, oil refining). Its main ports depend for their prosperity largely on the routing of exports from, and imports into, the Ruhr area, and its flag is prominent in Rhine shipping.

Belgium is equally interested in securing a share in the traffic from and to the Ruhr for its main port, Antwerp. On the other hand, its engineering industries may be affected by the renewed competition of the Ruhr. Its coal-mining industry may be hurt by an increase in deliveries of Ruhr coal, while the Netherlands (and Luxembourg) may benefit from such shipments.

106. Scandinavian Countries. These countries are mainly interested in increasing their exports to Germany in order to pay for their coal imports; Denmark with agricultural produce, Norway with fish and fish products, and Sweden with iron ore and lumber. Denmark and Norway also are willing to increase their imports of Western German finished industrial products provided that they can do so without impairing their dollar reserves. For that reason, they are awaiting anxiously a clarifica-

tion of Western German foreign trade policy: they fear that a continuation of German restrictive practices would force them to establish their own industries in fields where they could not be maintained in the case of a resumption of free trade with Germany. Norway also is apprehensive of the reestablishment of German coastal shipping and whaling fleets.

107. United Kingdom. This country may, at least in the short run, feel strongly the impact of Western Germany's competition in its foreign trad Although there are significant dissenting voices, most experts seem to feel that the spectacular rise in British post-war exports was partly due to the displacement of German merchandise, and that the present recession in its export industries reflects at least in part the renewed German competition. Still, most responsible experts agree that such a development was inevitable and that British industry will have to become adjusted to that state of affairs. They emphasize that a well-integrated development of Western German industry would distribute the impact upon so many branches that British industry would be in none of them critically hurt.

(b) Europe's Choice of Policies

108. In an examination of the choice of economic policies in relation to Western Germany that is open to Allied countries, their political implications can hardly be ignored. It has often been argued that a speedy revival of German production and trade is necessarily in the general interest, because prosperity and rising standards of living would remove the political desire for power, expansion and domination. This argument overlooks past history which has proved, on the contrary, that economic expansion and ambitious policies of political expansion have often been stout allies.

109. The Mission is fully alive to the widespread distrust of German motives and intentions in surrounding countries. The occupying powers have, however, embarked upon the declared policy of encouraging the revival of the German economy, subject to the enforcement of disarmament. While the risks involved in such a policy are very much in our mind - especially as we have been impressed by the country's economic potential- the discussion of this aspect of the German problem is outside our terms of reference. We wish it to be understood, therefore, that, in the remainder of this chapter, we are dealing only with the economic aspect and implications of certain policies.

(i) Discrimination or non-discrimination

110. Our appraisal of the actual and potential economic strength of Western Germany, both in terms of productive capacity and ability to produce at competitive prices revealed that there has been a widespread tendency to under-estimate it, both within and outside the country. This tendency, in turn, has bred complacency in other countries which, in the not too distant future, may well give way to surprise when Western Germany will begin to make itself felt as a competitor, both in European and other markets. True, the country will be a buyer as well as a seller and this will be to the benefit of all, but, in the countries where competition will make itself felt, the buyers, as usual, will welcome German goods, while the interests likely to be hurt by competition will organize resistance in an attempt to gain protection. They may attempt, in particular, to isolate the Western German economy by various forms of discrimination.

111. A policy of discrimination would not only be a negative one, but would also be likely, in the end, to defeat its purposes. Isolating the Western German economy might hurt Germany's neighbors as much as that country itself.

112. It is true that a policy of non-discrimination might hurt some industries in other European countries in branches in which Western Germany has a strong comparative advantage. In the long run, a policy designed to improve efficiency might give these industries better protection than a negative policy of restriction.

(ii) Western Germany in OEEC

113. The problem of integrating Western Germany into Europe is quite distinct from that of non-discrimination. The latter, in the meaning of this report, implies simply that, subject to the maintenance of the disarmament provisions, the Allies would treat Western Germany as an equal in the matter of commercial and financial relations. The former, on the other hand, would involve a move in the direction of economic consolidation which would give Europe the benefit of a far-reaching division of labor and of a coordination of new investment.

114. It is the declared aim of ERP countries in Europe to move towards the integration of their economies. While the countries of Eastern Europe that are within the Soviet economic system held aloof, Western Germany will soon be a full member of OEEC.

115. Since the end of the war, however, the tendency among Western European countries - with some notable exceptions - has been in favor of economic nationalism rather than in the opposite direction. This tendency can easily be excused by reference to European traditions and by the preoccupation of many countries with pressing short-term problems The fact is that not a single important decision has been taken by OEEC, in the direction of economic consolidation. Commercial and financial relations between the countries of Western Europe are still governed by quotas, exchange restrictions, bilateral agreements, and possibly exchange ratios that take little account of relative costs and prices - not to mention tariffs that are often prohibitive.

116. The choice then is between a positive policy towards economic consolidation and the pursuit of economic nationalism. The meaning of this choice is quite simply this: In economic unity, the countries of Europe, inclusive of Western Germany, are likely to find strength; in the pursuit of economic separatism, they are likely to find weakness. The danger of the latter policy may not be immediate, but that is no argument in favor of ignoring it.

117. The broad conditions of a movement towards integration may be summarized in these terms:

The most important condition is the effective will of the major European countries adhering to ERP to translate into practice their declared aim of moving towards economic consolidation. So long as people try to brush the whole idea aside by reference to traditions, political difficulties and the like, there is a danger that this effective will will not be created.

As an initial step, it might be possible to move towards the abolition of quotas, the relaxation and eventual abolition of exchange restrictions, the adjustment of exchange rates insofar as this may be necessary, and, possibly, the reduction of prohibitive tariffs. While these steps would merely restore the tradition of specialization obtaining before the economic depression of the early 'thirties, they would remove the rigidities of the economic nationalism that has grown up since then, and permit a substantial measure of natural integration of new investment. Even then, it would be necessary to ensure, by cooperative Government action, that the new freedom to trade and to invest would not be rendered nugatory over a wide area of business activity by restrictive practices in industry and trade.

The tide of protectionism is still running high in Europe - and not least in Western Germany where industrialists are bent on restoring pre-war cartels - and OEEC is regarded by many as the nucleus of super cartels.

Any steps beyond this, towards the creation of a customs and monetary union, would involve far-reaching and virtually irrevocable political decisions and, by implication, the renouncing, by each country, of some of the attributes of national sovereignty.

118. We gained the impression in Germany that there the climate is at present in favor of at least some of the steps towards the economic consolidation of Europe. There is real enthusiasm, for example, about the potential unifying force of OEEC. This mood, however, may pass.

119. For this reason, the task of integrating the European economy cannot be indefinitely delayed. If economic nationalism is permitted to rule Europe, the growing strength of the Western German economy might become a greater danger to its neighbors than fair competition within a united Europe.

APPENDIX

The importance of Western Germany for the rest of Europe is shown clearly by a detailed analysis of prewar and present trade patterns.

Tables 1 and 2 show German imports and exports in 1937 and 1949 by commodity groups and countries. These tables indicate the preponderance of the importation of foodstuffs and raw materials among imports, and of finished goods among exports. They also illustrate the changes in the composition and direction of trade between 1937 and 1949, and especially the abnormally large role played in 1949 by the United States in imports and by the OEEC countries in exports.

Tables 3, 4, and 5 show German exports to, and imports from, OEEC countries, as well as imports from the United States, in 1937 and 1949, arranged by main commodities and countries of destination and origin, respectively. All tables include figures of quantities in addition to those of value (in German currency). Quantitative data illustrate especially the catastrophic fall in German exports of most categories of finished goods as well as the virtual disappearance of the importation of many significant items from OEEC countries. The geographical shift in the pattern of imports is high-lighted by table 5 which shows that the great bulk of all commodities which were imported from the United States in 1949, came from other countries in 1937.

Table 6 shows German trade with principal countries expressed in dollars. The mark figures used in Tables 1 - 5 are derived from German sources and have the advantage of being more easily comparable with the prewar figures based on the same statistical system. However, they distort present values since they reflect controlled German rather than world market prices. Moreover, they neglect the difference in the dollar value of the prewar and the present mark. Finally, the dollar figures, derived from JEIA sources, are available for 5 months of 1949, while the German data cover only the first quarter. On the other hand the dollar figures include, in addition to trade, also so-called "invisible" exports and imports, and until recently were based upon the JEIA system of invoicing rather than upon actual shipments; this latter handicap, however, is being gradually overcome.

In all these tables, pre-war figures for all of Germany are compared with postwar figures for the bizonal or trizonal areas. This difference, however, does not affect comparability as much as it would seem; on the one hand, Western German trade in pre-war years was only about 60 per cent of total German trade, but on the other, the purchasing power of the dollar and the mark was almost twice as high as in the postwar period. Therefore, both the pre-war figures and the postwar figures should be deflated in approximately the same proportion, namely by 40 to 50 per cent, in order to arrive at strictly comparable data.

Table 7 compares the volume of bizonal trade in 1948 and 1949, expressed in dollars at 1936 purchasing power, with that of 1936. While attempts to express postwar values in terms of interwar purchasing power involve a substantial margin of error, the figures -- compiled from a German source -- may be useful in that they bring out clearly the progress made between 1948 and 1949, as well as the distance still to be traveled.

In all these tables as well as in some of those included in the text, we have compared figures based on the first three or five months of 1949 with figures for a full pre-war year. While this method has many imperfections, it does not vitiate the usefulness of the comparison, especially as to the changes in quantity and trade pattern.

TABLE I.

German Imports by Commodity Groups
1937 and 1949

(millions of reichsmarks and German marks, resp.)

Country	Imports - 1937 a/					Imports - 1949 b/				
	Food-stuffs	Raw Mat.	Semi-Mfd.	Fin-ished	Total	Food-stuffs	Raw Mat.	Semi-Mfd.	Fin-ished	Total
Belgium-Lux	17.8	47.5	78.5	51.2	195.0	44.8	36.4	120.4	72.0	273.6
Denmark	138.7	10.0	4.0	2.9	155.6	82.8	3.2	1.6	4.8	92.4
France	11.3	118.2	12.1	10.4	152.0	30.4	5.6	2.4	10.4	48.8
Greece	57.7	15.5	1.3	1.4	75.9	3.5	1.6	-	-	5.1
U.K.	24.9	94.7	106.8	76.4	302.8	58.4	52.0	43.2	22.0	175.6
Italy	121.3	52.1	31.3	14.3	219.0	81.2	16.4	64.4	16.4	178.4
Netherlands	116.6	34.8	38.8	20.2	210.4	100.4	13.2	38.0	10.8	162.4
Norway	44.5	25.7	16.6	3.3	90.1	68.8	14.8	45.2	1.2	130.0
Austria	15.1	23.1	17.1	35.1	90.4	1.6	7.6	20.4	6.4	36.0
Sweden	28.0	138.2	42.8	20.5	229.5	12.0	46.4	82.4	33.2	174.0
Switzerland	7.4	7.6	20.8	53.1	88.9	10.0	14.0	17.2	39.2	80.4
Turkey	65.6	29.0	.6	2.0	97.2	8.8	2.4	-	-	11.2
Total OEEC	648.9	596.4	370.7	290.8	1,906.8	502.7	213.6	435.2	216.4	1,367.9
Other Europe	496.2	296.7	229.6	64.6	1,087.1	137.7	123.2	23.2	104.8	388.9
U.S.	12.5	125.7	127.3	15.3	280.8	1,187.6	492.0	83.6	140.8	1,904.0
Other W. Hemisphere	452.2	408.4	112.2	5.2	978.0	94.4	144.8	60.0	7.6	306.8
Others	435.3	569.0	140.5	20.7	1,165.5	240.4	533.6	197.6	7.2	978.8
Grand Total	2,045.1	1,996.2	980.3	396.6	5,418.2	2,162.8	1,507.2	799.6	476.8	4,946.4

a/ all of Germany

b/ US-UK zones only: estimated on basis of first quarter figures

Sources: 1937 - Statistisches Jahrbuch für das Deutsche Reich, 1938.
1949 - Monatliche Aussenhandelsstatistik des Vereinigten Wirtschaftsgebietes, Jan.-March 1949

Table 2.

German Exports by Commodity Groups
1937 and 1949

(millions of reichsmarks and German marks, resp.)

	Exports - 1937 a/					Exports - 1949 b/				
Country	Food-stuffs	Raw Mat.	Semi-Mfd.	Fin-ished	Total	Food-stuffs	Raw Mat.	Semi-Mfd.	Fin-ished	Total
Belgium-Lux.	3.1	74.6	49.6	160.5	287.8	10.8	61.6	218.4	115.6	406.4
Denmark	1.7	17.6	23.2	170.0	212.7	3.6	3.2	35.2	36.8	78.8
France	2.3	105.1	50.8	155.2	313.4	4.4	203.6	252.0	20.4	480.4
Greece	0.1	7.1	9.2	96.8	113.2	.4	14.8	1.6	33.6	50.4
U. K.	8.7	7.0	32.2	383.9	431.8	5.6	1.2	251.6	150.4	408.8
Italy	1.8	102.0	22.7	184.8	311.3	2.0	66.4	18.8	28.4	115.6
Netherlands	4.0	80.6	24.1	359.2	467.9	6.4	91.6	61.6	189.2	348.8
Norway	1.4	5.1	7.2	125.8	139.5	1.2	2.0	12.8	44.4	60.4
Austria	4.6	11.1	16.0	90.9	122.6	.8	145.6	20.0	31.6	198.0
Sweden	2.3	13.1	28.3	233.6	277.3	.8	3.2	62.4	109.2	175.6
Switzerland	3.6	25.3	34.2	167.7	230.8	4.8	17.2	35.6	138.0	195.6
Turkey	0.7	1.0	9.7	99.7	111.1	.4	-	-	12.4	12.8
Total OEEC	34.3	449.8	307.2	2,228.1	3,019.4	41.2	610.4	970.0	910.0	2,531.6
Other Europe	13.0	67.2	106.9	884.4	1,071.5	50.8	41.6	29.6	95.6	217.6
U. S.	22.5	8.9	40.3	137.2	208.9	17.6	2.0	102.0	72.4	194.0
Other W. Hemisphere	6.9	25.1	34.3	630.4	696.7	1.6	1.2	12.8	70.4	86.0
Others	12.1	26.6	54.5	819.9	913.1	6.4	23.2	20.0	279.2	328.8
Grand Total	88.8	577.6	543.2	4,700.0	5,909.6	117.6	678.4	1,134.4	1,427.6	3,358.0

a/ All of Germany

b/ US-UK zones only, estimated on basis of first-quarter figures

Sources: As for Table 1

Table 3.

German Exports by Main Commodities and Countries of Destination

1937 and 1949

	1937 a/		1949 b/	
	Thousands of Metric Tons	Millions of Reichsmarks	Thousands of Metric Tons	Millions of German Marks
1. Raw Materials				
Bituminous Coal				
Austria	547	8	2,409.2	120.4
Belg-Lux	5,482	61	1,035.5	50.0
Denmark	751	8	29.2	1.6
France	8,077	95	4,121.2	199.2
Greece	655	6	294.0	14.8
Italy	7,983	97	1,165.6	58.4
Netherlands	7,126	61	1,713.6	82.8
Sweden	632	5	39.5	2.0
Switzerland	887	16	204.1	9.9
2. Semi-Finished Materials				
Coke				
Austria	252	6	266.8	17.8
Belg-Lux	2,662	39	2,642.4	171.6
Denmark	518	9	445.6	29.6
France	2,338	40	3,790.0	246.0
Sweden	873	13	833.6	55.6
Switzerland	658	16	199.4	12.9
3. Finished Goods: a) intermediary products				
Silk and Rayon Cloth				
Netherlands	0.7	7	.1	1.1
Sweden	0.4	5	.1	1.0
United Kingdom	1.4	20	.9	10.4
Wool Cloth				
Denmark	1.1	8	.1	1.2
Netherlands	1.8	8	.1	1.9
Sweden	1.5	10	1.4	13.5
Switzerland	0.7	5	.2	3.0
United Kingdom	1.9	9	.1	1.9
Cotton Cloth				
Greece	1.8	7	.1	1.5
Turkey	3.9	15	.3	4.9
Leather				
Italy	0.4	5	x	.2
United Kingdom	0.6	5	x	.3
Furs				
France	0.1	6	-	-
Italy	0.1	7	-	-

Table 3

	1937 a/ Thousands of Metric Tons	1937 a/ Millions of Reichsmarks	1949 b/ Thousands of Metric Tons	1949 b/ Millions of German Marks
3. a) (Cont'd.)				
Paper				
Belg-Lux	19	5	.3	.5
Netherlands	41	9	.3	.3
United Kingdom	69	17	.5	1.2
Tar Dyes				
Belg-Lux	1.3	5	.1	1.0
Netherlands	1.3	6	.2	3.1
Sweden	1.2	5	.2	3.4
Switzerland	0.8	5	.2	3.8
United Kingdom	1.6	12	.1	2.3
Other Dyes				
United Kingdom	15.2	6	17.4	9.2
Other Chemical Products				
Belg-Lux	24	6	20.4	5.6
Denmark	42	7	x	.08
France	18	5	.6	1.3
Italy	11	8	.3	.6
Netherlands	77	12	6.8	4.4
Sweden	162	12	7.4	3.0
Switzerland	24	10	9.0	14.7
United Kingdom	52	15	7.8	4.0
Steel Tubes				
Netherlands	21	5	12.0	9.2
Steel Castings				
Denmark	167	18	2.8	1.6
Greece	56	7	1.1	1.2
Italy	18	6	3.4	3.0
Netherlands	253	31	24.8	12.0
Sweden	62	7	39.0	14.2
Switzerland	50	8	5.9	6.2
Steel Sheets				
Denmark	83	12	.8	.6
Netherlands	101	17	17.2	6.8
Sweden	26	5	59.1	23.6
Switzerland	34	8	2.8	2.2
Steel Wire				
Netherlands	34	6	4.4	4.0
Copper Products				
Netherlands	13	11	.6	1.2
United Kingdom	7	6	x	.1

Table 3

	1937 a/		1949 b/	
	Thousands of Metric Tons	Millions of Reichsmarks	Thousands of Metric Tons	Millions of German Marks
3. Finished Goods:				
b) final products				
Silk and Rayon Products				
Netherlands	0.6	6	-	-
United Kingdom	0.9	14	-	-
Knitted Goods (Cotton)				
United Kingdom	0.4	6	-	-
Clothing (Silk and Rayon)				
Netherlands	0.2	5	-	-
Clothing (Wool)				
Netherlands	0.2	5	-	-
United Kingdom	0.1	5	-	-
Other Textile Goods				
United Kingdom	1.0	5	x	.3
Paper Products				
Netherlands	10	9	.1	.1
Switzerland	3	5	.2	.8
United Kingdom	12	9	x	.2
Books				
Austria	4	7	x	.9
Switzerland	2	5	.2	1.0
Lumber Products				
United Kingdom	6	6	x	.1
Rubber Products				
United Kingdom	2	5	x	x
Glass Products				
United Kingdom	12	12	x	.1
Iron Products				
Austria	4	6	.3	.8
Belg-Lux	14	13	7.1	17.0
Denmark	16	11	.8	2.0
France	14	15	.3	2.7
Greece	14	18	2.7	10.4
Italy	21	16	1.7	2.9
Netherlands	59	32	8.0	15.2
Norway	12	7	1.0	2.7
Sweden	23	14	2.2	2.7
Switzerland	10	11	7.4	15.8
Turkey	18	15	.3	1.0
United Kingdom	42	24	2.8	5.2

Table 3

	1937 a/ Thousands of Metric Tons	1937 a/ Millions of Reichsmarks	1949 b/ Thousands of Metric Tons	1949 b/ Millions of German Marks
3. b) (Cont'd.)				
Copper Products				
Netherlands	3	10	.1	1.3
Sweden	1	5	x	.1
United Kingdom	2	9	x	.4
Machine Tools				
France	4.2	9	.4	1.8
Italy	8.9	19	.3	1.5
Netherlands	2.9	6	.7	3.6
Sweden	4.3	7	.4	2.5
United Kingdom	17.3	25	.4	2.2
Textile and Leather Machinery				
Belg-Lux	2.2	5	.5	3.7
France	3.2	9	.2	1.7
Italy	2.0	6	.3	1.5
Netherlands	3.8	6	.7	5.8
Sweden	2.5	5	x	.8
United Kingdom	2.2	7	.1	.8
Steam Engines				
Italy	2.5	5	x	x
Netherlands	4.7	6	.3	.5
Paper and Printing Machinery				
France	3.8	7	x	.1
United Kingdom	3.5	7	.4	2.2
"Other" Machinery				
Belg-Lux	4.2	5	3.3	8.7
France	3.6	7	.5	2.0
Italy	4.4	7	1.8	3.4
Netherlands	6.8	7	3.2	11.5
Sweden	5.2	6	.4	4.8
United Kingdom	6.8	10	.9	4.7
Ships	Units		Units	
Denmark	14	10	-	-
Netherlands	30	10	-	-
Norway	12	30	-	-
Sweden	31	7	-	-

Table 3

	1937 a/ Thousands of Metric Tons	1937 a/ Millions of Reichsmarks	1949 b/ Thousands of Metric Tons	1949 b/ Millions of German Marks
3. b) (Cont'd)				
Motor Vehicles				
Austria	1.0	5	.1	.6
Belg-Lux.	7.3	9	2.9	14.0
Denmark	5.1	6	.3	2.0
France	2.7	5	.1	.6
Italy	3.4	9	.2	.5
Netherlands	5.0	9	3.4	18.0
Norway	3.2	5	.4	1.8
Sweden	8.1	13	.6	2.6
Switzerland	3.5	6	2.9	15.2
Turkey	1.3	9	-	-
United Kingdom	5.8	6	x	.1
Bicycles				
Netherlands	4.3	5	1.3	6.0
Electrical Appliances				
Austria	2.5	8	1.0	4.0
Belg-Lux	3.9	13	.7	5.0
Denmark	2.1	8	x	.5
France	2.6	12	.1	.5
Greece	3.8	8	.3	1.8
Italy	2.9	13	.1	.7
Netherlands	13.0	26	1.4	11.4
Norway	5.3	10	.4	3.0
Sweden	15.8	27	1.0	10.0
Switzerland	9.3	9	3.1	6.4
Turkey	2.9	6	x	.2
United Kingdom	6.8	15	x	.5
Watches				
United Kingdom	2.7	10	-	-
Optical Products				
France	0.4	5	x	.4
Italy	0.3	6	x	.9
Sweden	0.4	5	x	.6
United Kingdom	0.5	6	x	.7
Pharmaceuticals				
Italy	0.3	7	x	.1
Switzerland	0.4	5	.07	2.0
Musical Instruments				
United Kingdom	1.3	6	.07	.4
Toys				
United Kingdom	7.6	11	-	-

NOTES: x = less than 0.05 units — - = no shipments

a/ all of Germany

b/ US - UK Zones only; estimated on basis of first-quarter figures

Sources: As for Table 1

TABLE 4

German Imports by Main Commodities and Countries of Origin
1937 and 1949

	1937 a/		1949 b/	
	Thousands of Metric Tons	Millions of Reichsmarks	Thousands of Metric Tons	Million of German Marks
United States				
Milk	-	-	69.1	122
Meat	-	-	15.0	21
Lard	-	-	30.0	77
Wheat	17.1	2	1,018.5	256
Oats	-	-	127.1	24
Corn	-	-	1,705.2	214
Flour	-	-	287.4	101
Fruit	-	-	50.2	35
Oil seeds	-	-	391.2	190
Tobacco	4.3	4	17.8	63
Cotton	118 9	78	149.4	432
Copper	-	-	20.1	36
Technical Fats	14.1	4	30.5	19
Chemicals	21.1	6	131.8	55
Leather	-	-	4.6	42
Rubber goods	-	-	3.9	23
Belgium-Lux.				
Wool	3.8	15	1.3	6
Scrap	210.0	12	-	-
Semi-finished chem.	667.2	17	519.9	22
Leather	1.9	11	.8	4
Iron castings	233.0	20	33.8	12
Denmark				
Cattle	72.4	24	-	-
Hogs	22.3	16	-	-
Butter	34.3	43	x	x
Eggs	20.6	18	.8	2
France				
Wool	8.4	30	.1	x
Furs and hides	15.3	21	x	x
Iron ore	5,739.5	36	-	-
Greece				
Fruit	42.3	14	-	-
Tobacco	21.0	40	1.0	3

Table 4

	1937 a/		1949 b/	
	Thousands of Metric Tons	Millions of Reichsmarks	Thousands of Metric Tons	Millions of German Marks
United Kingdom				
Fish	70.7	13	59.7	29
Wool	6.0	16	3.3	15
Furs and hides	5.3	11	.8	x
Hard coal	3,336.2	43	173.9	7
Wool yarn	3.7	13	x	1
Cotton yarn	13.8	34	.4	4
Copper	34.3	20	17.2	27
Wool cloth	0.9	11	x	x
Furs (fin.)	0.4	18	-	-
Italy				
Vegetables	130.4	17	.1	x
Fruit	232.0	69	107.8	36
Flax	29.8	23	2.8	5
Silk	1.1	13	x	1
Netherlands				
Butter	12.2	21	-	-
Cheese	18.6	19	x	x
Eggs	21.5	22	-	-
Vegetables	87.2	14	2.8	4
Furs and hides	10.8	12	.2	x
Hard coal	895.4	13	-	-
Norway				
Whale oil	110.5	28	x	x
Austria	x			
Sweden				
Butter	12.5	15	-	-
Iron ore	9,083.8	122	1,675.3	39
Timber	186.2	16	67.9	16
Wood pulp	97.0	11	112.3	58
Switzerland	x			
Turkey				
Fruit	39.3	23	-	-
Tobacco	10.8	19	x	x

a/ All of Germany
b/ US-UK zones: annual rate, based on first-quarter figures

x less than 0.5 units
- no shipment.

Source: As for Table 1.

TABLE 5

Prewar Origin of Goods Imported by US-UK Zones from U. S. in 1949
by Commodities and Countries of Origin

Commodity	Country of Origin (1937) a/	Thousands of Metric Tons	Millions of Reichsmarks
Milk:	Austria	16.3	4
Meat:	Bulgaria	5.6	6
	Denmark	11.7	8
	Poland	11.8	10
	Yugoslavia	8.1	8
	Netherlands	5.5	4
	Hungry	10.6	10
	Argentina	34.9	4
	Uruguay	7.9	4
Lard:	Denmark	11.1	8
	Yugoslavia	5.1	4
	Hungary	10.1	8
Wheat:	Yugoslavia	173.2	26
	Rumania	39.6	6
	Turkey	60.7	8
	India	50.1	6
	Canada	87.0	11
	Argentina	535.2	63
	Australia	145.4	18
Oats:		x	x
Corn:	Yugoslavia	105.7	10
	Rumania	372.7	40
	Hungary	82.1	9
	Argentina	1,554.9	116
Flour:	Czechoslovakia	27.3	6
	Hungary	21.4	5
Fruit:	Bulgaria	42.2	14
	Italy	232.0	69
	Yugoslavia	23.5	7
	Netherlands	21.4	6
	Rumania	15.7	6
	Spain	31.0	15
	Turkey	39.3	23
	Cameroons	51.2	9
	Canary Islands	36.6	7
	Colombia	27.1	7

Table 5

Commodity	Country of Origin (1937)	Thousands of Metric Tons	Millions of Reichsmarks
Oil Seeds:	Rumania	54.2	6
	Congo	56.8	8
	Mocambique	22.2	5
	British West Africa	274.7	49
	India	202.7	37
	Malaya	96.8	21
	China	590.3	69
	Indonesia	65.5	15
Tobacco:	Bulgaria	11.8	22
	Greece	20.9	40
	Turkey	10.8	19
	Neth. Indies	20.6	30
	U. S.	4.3	4
	Brazil	13.9	10
	Cuba	1.6	1
Cotton:	Turkey	8.4	8
	Egypt	40.9	43
	India	36.6	24
	China	10.3	5
	U. S.	118.9	78
	Argentina	5.9	6
	Brazil	70.1	65
	Mexico	7.9	7
	Peru	18.6	21
Copper:	British Mediterranean	79.7	8
	Netherlands	131.2	1
	Norway	31.3	4
	British India	8.4	3
Technical Fats:	U. K.	21.3	6
	Netherlands	25.1	8
	Japan	23.6	5
	Argentina	11.3	4
Fuel Oils:	Rumania	520.5	40
	USSR	301.4	15
	Iran	148.3	8
	Indonesia	129.5	12
	U. S.	751.6	60
	Neth. West Indies	1,021.5	41
	Peru	150	10
Leather:	Belg-Lux.	1.9	11
	Bulgaria	.4	2
	U. K.	1.0	5
	Netherlands	.1	1
	Austria	.8	3
	Czechoslovakia	.6	3
Chemicals		x	x
Rubber Goods		x	x

Source: Statistisches Jahrbuch fur das Deutsche Reich, 1938

x = less than 0.5 units

a/ Annual rate, based on first-quarter figures

TABLE 6

German Trade with Principal Countries
(millions of current dollars)

Country	1929 (a) Imports	1929 (a) Exports	1929 (a) Surplus (+) or Deficit (-)	1937 (a) Imports	1937 (a) Exports	1937 (a) Surplus (+) or Deficit (-)	1948 (b) Imports	1948 (b) Exports	1948 (b) Surplus (+) or Deficit (-)	1949 (b, c) Imports	1949 (b, c) Exports	1949 (b, c) Surplus (+) or Deficit (-)
United Kingdom	206.1	311.0	+104.9	124.0	173.7	+ 49.7	156.0	96.5	- 59.5	119	158	+ 39
Belgium-Lux.	106.5	145.0	+ 38.5	79.4	115.7	+ 36.3	49.5	93.4	+ 43.9	136	142	+ 6
Netherlands	167.0	322.8	+155.8	86.7	188.1	+101.4	40.2	80.1	+ 39.9	84	121	+ 37
Norway	34.1	54.0	+ 19.9	36.7	56.0	+ 19.3	12.7	13.5	+ .8	19	32	+ 13
Sweden	83.4	113.3	+ 29.9	93.2	111.5	+ 18.3	35.6	24.2	- 11.4	72	64	- 8
Denmark	88.2	115.1	+ 26.9	63.4	85.5	+ 22.1	10.9	23.5	+ 12.6	33	35	+ 2
France	152.9	222.6	+ 69.7	62.6	126.0	+ 63.4	85.4	167.0	+ 81.6	113	236	+123
Switzerland	75.7	149.4	+ 73.7	37.7	92.9	+ 55.2	26.9	51.3	+ 24.4	40	71	+ 31
Austria	48.0	105.1	+ 57.1	37.5	49.3	+ 11.8	16.0	48.5	+ 32.5	15	68	+ 53
Italy (d)	105.6	143.5	+ 37.9	89.0	127.7	+ 38.7	26.3	24.4	- 1.9	35	43	+ 8
	1,067.5	1,681.8	+614.3	710.2	1,126.4	+416.2	459.5	622.4	+162.9	666	970	+304
Other Europe	551.9	601.6	+ 49.7	463.4	470.0	+ 7.5	32.1	30.3	- 1.8	82	78	- 4
U. S.	426.5	236.0	-190.5	113.5	84.2	- 29.3	899.7	32.4	-867.3	908	66	-842
Other West. Hem.	329.8	182.3	-147.5	293.6	194.1	- 99.5	125.0	1.7	-123.3	84	27	- 57
Other Countries	827.3	509.9	-317.4	617.8	500.8	-117.0	65.0	19.1	- 45.9	72	57	- 15
Grand Total	3,203.0	3,211.6	+ 8.6	2,198.5	2,376.4	+177.9	1,581.3	705.9	-875.4	1,812	1,198	-614

(a) All Germany.
(b) Trizonal Area.
(c) Annual rate, estimated on basis of trizonal data for first quarter and on bizonal data for April - May.
(d) Includes colonies in 1929 and 1937.

Sources: 1929, 1937 - Foreign Commerce Yearbook
1948 - JEIA Monthly Report, May 1949
French Zone of Occupation, Statistical Bulletin No. 9, April 1949
1949 - JEIA Monthly Report, May 1949

TABLE 7

Foreign Trade of US/UK Zones
in Dollars of 1936 Purchasing Power

(millions of dollars)

Commodity Group	1936	1948	1949 (annual rate)
Imports			
Foodstuffs	319	372	371
Raw mat. and semi-fin. prod.	554	252	384
Finished products	74	48	122
Total	947	672	877
Exports			
Foodstuffs	23	8	14
Raw mat. and semi-fin. prod.	243	134	199
Finished products	822	125	223
Total	1,088	267	436

Note: 1949 data based on figures for Jan. - May.

Source: Monatliche Ausenhandelsstatistik, May 1949.