Two world wars and their aftermath have made it clear that the problem of Germany is one of the keys to world peace and prosperity. For two years, your representatives in Military Government have sought a basis for the solution of this problem. They can only succeed if the American people are aware of both their achievements and their difficulties, and if in turn the Military Government officials in Germany understand the attitude of the public at home. To contribute to a mutual exchange of such information is the main purpose of this paper.

We all know that the German economy operated in the past as one integrated unit. Each part made its contribution to, and received support from, the rest of the country. This integration alone made possible the industrial development of Germany. None of the areas that constitute the nation was ever self-sufficient in the past or can be made self-sufficient in the future... (However) I shall concentrate on discussing the economic problems of the American Zone and as far as necessary of the combined American and British Zones...

Rebuilding Essential

In view of the history of German aggression and the part played therein by German industry, it may be difficult to understand that one of the major tasks of Military Government is the provision of assistance in rebuilding at least part of the German industrial system. Such a reconstruction, however, is necessary for two reasons: to prevent Germany from remaining a source of perpetual unrest in Europe, and to aid in the recovery of our Allies.

In the crop year 1946-47, German farmers in the combined American and British Zones of occupation are producing foodstuffs sufficient to provide an average diet of only about 1,000 calories daily for that part of the population that does not live on self-sufficient farms. Such a diet is less than half of the minimum standard endorsed by the United Nations Food and Agriculture Organization. Unless we are prepared to forego payment for the large supplies of food that must be sent to Germany for an indefinite period just to prevent wholesale starvation, we must permit Germany to redevelop its manufacturing industries which alone can produce the exports necessary to pay for food imports.

Moreover, the products of German industry are indispensable for the reconstruction of continental Europe. In 1936 — the last year in which the bulk of the German economy was operated on a peace-time level — Germany was the largest exporter to, and the largest importer from Austria, Bulgaria, Czechoslovakia, Greece, Hungary, Italy, Rumania, Switzerland, Turkey, and Yugoslavia. It was first as a supplier and second as a market for the Netherlands, Poland, and Sweden. Almost the entire manufacturing industry of continental Europe was dependent upon German machinery, precision instruments, electrical appliances, optical goods, transportation equipment and chemicals.

Reconstruction Hampered

The fact that Germany today cannot even supply spare parts is hampering economic reconstruction in such different countries as Austria, the Netherlands, and Poland. The general shortage of coal, which is the greatest single factor in retarding European recovery, is due largely to low production in the Ruhr mines. Lack of German potash is delaying the rehabilitation of agriculture all over Europe. An increase in the output of coal and potash mines, however, depends upon the availability of mining equipment and upon larger supplies of consumer goods for miners. A German miner can earn in two days all he needs to buy his meager weekly rations and thereafter has little incentive to work. A relatively small increase in consumer goods offered to miners was an important element in raising production in the Ruhr mines by about one-fifth between the fall of 1946 and the spring of 1947. A largescale revival of German consumer goods industries would have proportionately greater results.

Our own economy would benefit from the resumption of German industrial exports because the availability of German goods would help meet the foreign demand for many American goods which are still in scarce supply relative to our own domestic demand. Furthermore, some European countries can pay for imports from the United States only with the aid of dollar credits because they lack dollar resources and lack exportable commodities adapted to the American market. If they could import goods from Germany, however, they could pay for them by exporting products urgently needed in that country.

Mutual Aid Prevented

In that way, they would lighten the burden which the American economy has had to bear both in respect to the reconstruction of their own economy and to the rehabilitation of Germany. For instance, before the war the Netherlands exported substantial quantities of vegetables to Germany while Germany paid for these imports in steel machinery. If that commerce could be restored today, it would make it unnecessary for the American economy to extend credits to the Netherlands in order to enable that country to buy American machi-
nery ant it would make it also unnec-
sessary to divert scarce American
foodstuffs to Germany.

While the principle of assistance to
German recovery has been gen-
ernally accepted in this country, it has
been very difficult to carry out the
program on an adequate scale. For
obvious reasons, of justice and pol-
icy, the countries invaded by Ger-
many have been given a prior claim
to our aid. Our financial and mate-
rial resources are limited and food-
stuffs and raw materials continue to
fall short of total demand. The allo-
cation of wheat and non-ferrous me-
tals, for instance, is a task that simply
cannot be fulfilled to the satisfaction,
of all. Similarly, coal, of which Ger-
many is a major producer, is in
Generally short supply. In order to
promote reconstruction in the rest of
Europe, we have had to undertake
substantial exports of German coal
even though the revival of German
manufacturing industry would have
been considerably if it had been pos-
sible to retain German production for
German domestic use.

It may be hoped that these scar-
cities will disappear within a few
years, but other obstacles may take
their place. Concern has frequently
been expressed that the reconstruc-
tion of German industry may go too
far and restore Germany's war poten-
tial. The occupying powers have tried
to differentiate between industries
that could be used for aggressive
purposes and therefore should be
restricted, and others that might be
considered peaceful and therefore
should be encouraged. The most in-
nocuous industries, however, could
conceivably be used for war pur-
pouses, and dangerous ones frequen-
tly are indispensable for peacetime uses.
For this reason, some of the United
Nations are critical of any move to
improve the level of German industry
even though they concede that such
an improvement would benefit them
from the economic point of view.

Finally some countries see in
Germany less a source of supplies
or a market for exports than a
dreaded competitor. At present,
such fears seem premature since
production the world over has
not caught up with demand, and
German production remains a
negligible part of the total. As soon,
however, as world market conditions
become less favorable to the sellers
any increase in German industrial
production and especially in German
industrial exports, may injure the
interests of some industrial group in
other countries. Although such ex-
ports will in turn make possible im-
ports into Germany and thus benefit
the economies of Germany's trade
partners as well as its own, the
groups benefiting from access to the
German market frequently will be
different from those affected by Ger-
man competition.

Despite the conflict of objectives
and the limited financial and mate-
rial means at the disposal of the oc-
cupation authorities, there has been
degree of rehabilitation in Ger-
many.

Food and Agriculture

The food situation continues to be
the central German problem. It is far
from satisfactory, but we have been
able to avoid not only outright star-
vation but also any serious deterio-
ration of public health. Since last fall
the official ration has been main-
tained in the American and British
Zones until recently at 1,550 calories
daily for the so-called normal con-
sumer. This ration still is more than
one-fourth below the minimum nec-
sary to insure health in the long run
and more than two-fifth below the
German prewar standard of nutrition.
Moreover, the diet is far poorer in
quality than would be advisable from
the point of view of nutrition, a lar-
ger proportion consisting of grain
products and a smaller proportion of
so-called protective foodstuffs.

Even so, the ration has been main-
tained only by importing into the
combined American and British Zones
foodstuffs equal to about 60 percent
of their domestic production. These
imports, including monthly ship-
ments of 200,000 tons of bread grains
and flour, and substantial quantities
of potatoes, sugar, fish, and milk, require
an expenditure of $360 million in the
current crop year.

The food situation is constantly
being threatened by the fact that
stocks of supplies are dangerously
low. Food is needed in many parts
of the world. For the sake of food
importing countries a further rise in
world market prices must be avoided
as far as possible and priorities must
be established by the exporting na-
tions. Every ton of food allotted to
Germany causes hardship in other
parts of the world. Difficulties in
ocean transportation frequently delay
ships urgently needed for main-
taining stocks in Germany at the
minimum level needed for the plan-
ing of equitable distribution.

German farmers frequently fail
to deliver their quotas. Trains must be
rerouted to alleviate a crisis in some
part of Germany, thus creating a
shortage in another part. Losses from
pilferage increase in proportion to
the deterioration of food conditions.
An unfortunate accumulation of such
factors was the cause of the diffi-
culties currently experienced in the
Ruhr district. Delays in delivering
the full rations invariably lead to
unrest, diminish the efficiency of
labor and the output of industrial
goods, and thus add to the difficul-
ties of rehabilitation.

In the future, we expect domestic
production, collection, and distribu-
tion to yield substantially larger quan-
tities than this year. Such an improve-
ment will depend upon the avail-
ability of fertilizer and upon a sup-
ply of industrial consumer goods
which will induce farmers to raise
more crops for sale. It also will de-
depend upon the enforcement of a strict
program of collection and distribution
which must be efficiently performed by
German officials...

In the long run, however, the effi-
ciency of industrial labor cannot be
maintained on a diet representing less
than 2,600 calories daily for the so-
called normal consumer. The Ameri-
can and British Zones cannot expect
to produce more food than sufficient
for an average of 1,600 calories daily.
Import requirements in the long run
therefore will be the equivalent of
at least 1,000 calories daily, or about
two-thirds more than actual imports
in the current year.

Industrial Production

In 1945, most manufacturing indus-
tries in the Western Zones of Ger-
macy were at a standstill. By No-
vember 1946, industrial production in
the American Zone had reached 44
percent of 1936—a year of virtually full employment in Germany. With the exception of lumber, the production of all commodities is below the 1936 figure, but by 1948 prewar output is expected to reach in a number of important industries. In the British zone, industrial production had recovered last fall to only 38 percent of 1936. The British zone includes heavy industries, most of which are under severe restrictions as possible war industries, while the American Zone contains mainly light industries, manufacturing consumer goods.

Unfortunately, the exceptional severity of the last winter has undone some of the progress experienced during the preceding year. Industrial production in the American Zone fell in December to 39 percent, in January to 31 percent, and in February 29 percent of 1936. In March it recovered to 35 percent, but this level still is about one-fifth below the peak of November 1946.

In spite of the low level of production there is little unemployment. Even in February 1947, unemployment in the American Zone was less than 450,000 out of a labor of more than seven million. Only in the white-collar classes is the number of job openings constantly smaller than that of job seekers. This is the result of three facts. The labor force has been greatly reduced by war losses and by the Allied retention of a large number of prisoners of war in some countries. Secondly, much labor is needed for work, such as removal of rubble and plant repair, which does not show in production statistics but nevertheless is vital for resumption of economic activity. Thirdly, for physical and psychological reasons, the productivity of labor has fallen considerably, in some cases by as much as two-thirds. The gradual revival of economic activity, more food, housing facilities, and improved availability of industrial consumer goods will do much to remove the causes of low efficiency.

Housing

Next to food, housing accommodations are the most pressing requirements of the German people. Despite all war losses, the population of the American and British Zones has risen by around 20 percent in comparison to prewar, mainly because of the inflow of Germans expelled from the area under Polish administration and from Czechoslovakia and other eastern European countries. At the same time, urban housing suffered from terrific bomb damage during the war, especially in the industrial and commercial centers. In Bremen, for instance, 55 percent of all homes were unusable in the summer of 1945.

Reconstruction has been hampered by the scarcity of building materials, which in turn is due largely to the lack of coal: approximately 12.5 tons of coal are needed for producing the material necessary to build a small apartment. Allied legislation provides for the equitable distribution of available housing among the population, but this measure can bring only small relief since the complete equalization of all housing would only provide around 80 square feet per person in the American, and less than 70 square feet per person in the British Zone.

Improvement in housing conditions is particularly needed in the Ruhr district since the inflow of additional miners from the Southern area of our combined zones, required to fulfill the program of output expansion, depends upon the availability of homes. A short range program has been and a long range is being prepared to provide additional housing, including temporary camps and billets and permanent reconstruction. In addition to building material, beds, bedding, and furniture must be produced. While Military Government plays an important role in drafting the program, its execution is entrusted to the German authorities. Military Government has helped in that task by reducing to a minimum the requirements for military installations.

Domestic Trade and Transportation

Despite the interdependence of the four zones of occupation, interzonal trade has been slow to develop largely because of the lack of economic unification. Since January of this year, trade between the American and British Zones has been free, as the result of the economic merger of these zones, and trade between the merged zones and the rest of Germany will be increased under agreements concluded among the zonal authorities. Until and unless the over-
all economic unity of Germany is achieved, however, German recovery will be hampered by obstacles to the free flow of goods within the country.

Transportation has suffered particularly badly from war damage. Military Government can be proud, however, of its record in repairing railroads, inland waterways, port facilities, and highways. Railroad tracks in operation represent 97 percent of the prewar total. Almost as many sunken vessels have been raised in the American Zone as in all other zones together and the proportion of port channels cleared is higher than in any other zone. The American Zone also has a larger proportion of operating motor vehicles than any other zone.

Despite this progress, transportation is even now in need of repair and maintenance is a constant problem. Allocations of materials are being made for this purpose, but must be revised as required to meet new priority demands from other sides of the battered economic structure.

International Trade

In 1946, the foreign trade of the American Zone was almost entirely confined to the importation of foodstuffs and other essential goods by the occupation forces in order to prevent disease and unrest among the population. Such imports are financed by War Department appropriations. The only other substantial import transaction was the shipment of some surplus American cotton held by the Commodity Credit Corporation. This cotton was delivered to German processors; the finished goods are being exported in an amount sufficient to pay for the cost of the imports, and the rest is available for German consumption.

In the fall of 1946, similar arrangements were made by American Military Government for the importation of raw materials required for the manufacture of ceramics, optical instruments, building materials, chemicals, and toys. The interim financing for these imports is handled by the US Commercial Corporation, a subsidiary of the RFC. Exports from the American Zone in 1946 were confined mainly to lumber and hops and a few industrial goods, taken from existing inventories or produced from raw material stocks. The amount shipped were very small, in the neighborhood of three percent of the estimated prewar exports of the zone’s area.

Imports into the British Zone were similar to those of the American Zone, but exports from the British Zone were considerably larger, due almost entirely to Ruhr coal. Coal exports reached a weekly volume of 260,000 tons in the summer of 1946, or about 40 percent of prewar, but this involved heavy drafts on existing stocks and inadequate allocations to the needs of the German economy. As a result, exports of coal had to be reduced by about 30 percent in the fall of 1946. Even the peak figure in the summer of 1946 was far from sufficient to meet demand in the rest of Europe, and the reduction of coal exports was a heavy blow to the importing countries.

In the first months of 1947, exports had to be curtailed even further, reaching a low of 103,000 tons per week in February. Meanwhile, however, the output of the Ruhr mines had risen and coal exports could be increased again. In April and May, the unsatisfactory food situation brought about some labor disturbances which kept coal output somewhat below the March peak.

As soon as these difficulties are overcome, a further rise in output is expected, and in that case exports will reach in summer a minimum of 265,000 tons per week, while at the same time allotments for the needs of the merged zones will be a minimum of 860,000 tons per week, or about 30 percent above the peak allotment in 1946. The increase in domestic allotment will mainly benefit industrial enterprises, which in this way will be enabled to raise their output and thus to contribute more efficiently to the projected expansion of foreign trade.

Apart from coal exports, foreign trade of the merged zones in 1947 will be determined by the working of the bizonal merger agreement. This agreement provides for the cooperation of the American and British occupation authorities, and of the representatives of the German states, in formulating an import-export program for the rehabilitation of the German economy. A major objective of this rehabilitation program is to put the merged zones of Germany back on a self-supporting basis, i.e., to develop exports to a point where they cover imports.

Meanwhile, however, the occupying powers must bear the cost not only of the basic program for the prevention of “disease and unrest,” but also of the raw material and equipment imports required to “prime the pump” of German export industries. Certain funds are already in hand for this second part of the program, including the receipts from exports of 1945–46, some former German external assets transferred to the occupying powers under agreements with neutral countries, and the credits negotiated with the US Commercial Corporation.

Bears Half of Costs

The United Kingdom is participating in the program in two ways. It bears half of the costs of sending basic necessities to the merged American and British Zones, and it finances half of the funds needed for “priming the pump” of the area’s industry. Whenever, in the future, additional advances should be required, the United Kingdom also will bear an equal share with the United States.

The expected increase in imports will necessitate, but also make possible, larger German exports. In order to facilitate exports, the occupation authorities have authorized foreign businessmen to correspond with prospective German trading partners. Only so-called non-transactional mail, i.e., correspondence preparing rather than concluding actual contracts, has been allowed so far, but transactional mail may be admitted in the near future.

Military Government also provides facilities for foreign businessmen to travel in Germany and renew trade contacts. Contracts have to be submitted for approval to the Joint Export-Import Agency of the US/UK occupying powers, and all payments have to be made to the account of the Agency rather than individually to German exporters. The Agency has issued rules of procedure, stat-
The maintenance of the official price and wage level at virtually prewar figures has had some unforeseen consequences. At the beginning of the occupation, a military exchange rate of 10 marks per dollar was established, as compared to a prewar exchange rate of 2½ marks per dollar. This rate was introduced merely for the administrative use of the occupying authorities, especially in calculating payments in marks to the troops. Its application for general purposes, however, would have tended to upset the entire price and wage system. German domestic prices even before the war were managed in such a manner that they had lost all relation to world market prices. No uniform exchange rate, and least of all the military rate, would represent a generally applicable ratio between domestic prices as expressed in marks, and world market prices in dollars.

Thus a difficult problem has arisen in connection with the pricing of export and import goods. The German exporter receives for his sales the legal domestic price in marks. Similarly, the German importer has to pay for his purchases the legal domestic price in marks. On the other hand, the foreign importer of German goods pays, and the foreign exporter of goods receives, the world market price in dollars.

Therefore, the occupation authorities have decided for the time being to refrain from fixing a uniform conversion factor for the translation of mark into dollar prices, and vice versa. Instead we have issued a long list of various conversion factors, reflecting for all major commodities the actual relation between legal domestic prices in marks and world market prices in dollars. For instance, the conversion factor for carbon brushes is 30 cents, and for pharmaceuticals 80 cents per mark. This means that a certain quantity of carbon brushes that sells domestically for 100 marks has to be priced for exports at $30, but pharmaceuticals that sell domestically for 100 marks have to be priced for exports at $80. As a practical matter, this is the best that can be done until major monetary reforms are undertaken in Germany and a more normal price system is developed there. These problems have been under quadruplicate (four zones) discussion for some time and it is to be hoped that an early agreement will be reached.

Banking

In December 1946, Military Government established a new central banking organization (on Land level) in the American zone. Following the principle of decentralization, each German state received its own central bank, which took over the assets of the former Reichsbank as far as they were located in its area. The organization of the central banks was largely influenced by the model of the central banks was largely influenced by the model of the Federal Reserve System. As soon as the economic unification of Germany is implemented, the state central banks will be coordinated by a central board, which will issue currency through the medium of the state central banks. Until such time, however, the central banks have no power to issue bank notes or any other currency.

In consequence of our principle of decentralization, commercial banks in the American Zone have been ordered to sever their connection with central offices in Berlin. Depositors are free, however, to dispose of their accounts both within the American and in transactions with the British and French Zones, except for blocking measures applied in the process of denazification. From the beginning of occupation to the end of 1946, deposits in the American Zone increased by 75 percent. Most of the rise in deposits had to be kept by the banks in cash or with other credit institutions since no other investment opportunities are available. Total assets of the banks in the American Zone were 75 billion marks on June 30, 1946, of which one-third was kept in cash or bank balances, and two-fifths in Treasury bills and other government securities, the service of which has been suspended since the end of the war.

Problems and Prospects

All these achievements are merely the first step on the road to rehabilitation. The obstacles that still have to be overcome are no doubt as great as any which we have encountered so far.
The lack of unified action of the four occupying powers, moreover, creates uncertainties that are detrimental to economic progress. As long as the management of an enterprise does not know whether or not a plant will be subject to restitution, or to destruction, or to removal under the reparations program, it cannot make definite plans for reconstruction or start an investment program which might be interrupted at any moment.

Finally, Military Government has to deal with the problem of reaching equilibrium in the balance of international payments of the merged American and British Zones. In this connection, the question of economic unification again becomes decisive. As long as unification is not achieved, interzonal trade must be treated as international rather than domestic commerce, with the resulting need for controlling interzonal payments.

The problem of equilibrium is particularly interesting to the American public. As long as the proceeds from exports do not exceed import requirements, they must be devoted entirely to paying for current imports. Only when an export surplus is reached, will it be possible for our merged zones to start repaying the advances made by the occupying powers for the importation of basic necessities.

Our stake in the economic problems of Germany, however, is greater than our interest in receiving repayment of our advances. We want peace, and we know in order to have peace, we must have economic stability in Germany and in the rest of Europe.

**Direct Inquiries**

Inquiries from public prosecutors in denazification cases in the US Zone may be made directly to police officials in the British Zone, according to OMGUS cable V-18313 of 13 May. It said:

"Approval has been received from Military Government authorities in the British Zone for the forwarding of Arbeitsblätter and similar inquiries from public prosecutors in the US Zone directly to the German chiefs of police of the appropriate Regierungsbezirk or Stadtkreis in the British Zone, without going through Military Government channels.

"Such inquiries should be directed to the chief of police of the Regierungsbezirk where the subject was formerly resident or employed, or, to the chief of police of the Stadtkreis if the Stadtkreis has a population of one hundred thousand or more. The police in the British Zone will assume responsibility for securing the desired information from other German agencies to which the Arbeitsblätter may be directed."

**General License No. 1**

General License No. 1 issued pursuant to MG Law No. 164, "Frontier Control" as amended, and MG Law No. 53, "Foreign Exchange Control," contains the following provisions:

Persons who are authorized to enter the US Zone of Germany from another zone of Germany, or to depart to another zone of Germany, may bring into the US Zone at the time of entry, or may remove at the time of departure, ordinary household and personal effects, food, and marks in their lawful possession, required for their personal use, but excepting items which are prohibited for security reasons.

Persons who are authorized to enter the US Zone from a country other than Germany, may bring into the Zone at the time of entry, ordinary household and personal effects, including food and foreign exchange assets, in their lawful possession, required for their personal use, but excepting items which are prohibited for security reasons; provided that such persons in possession of foreign exchange assets shall be informed of the provisions of MG Law No. 53.

Persons who are authorized to depart from the US Zone to a country other than Germany, may remove from Germany at the time of departure ordinary household and personal effects, in their lawful possession, required for their personal use; but this does not authorize the export from Germany of foreign exchange assets, items which are prohibited for security reasons, or works of art and cultural objects of value and importance.