economic situation can develop in a healthy manner

by General Sir Brian Robertson
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As a general comment on the economic situation one may say that all round improvement is obvious. The production position is showing a very satisfactory improvement and repents now approximately 70 percent of the 1936 level of production. The better coal production in recent weeks is particularly gratifying. We have now reached a figure of 315,000 tons per day and improvement continues.

I hope very much that all concerned will insure that there is no slipping back during the holiday period. Of course nobody grudges the miners their Christmas holidays but in previous years there has been a falling off before and after the recognized holidays, which is something which ought to be avoided.

Steel ingot production is now at a rate of approximately 7,000,000 tons per annum. Output of rolled products is improving but not to the same extent. These are the basic industries.

There is also good progress in industry generally. The supply of goods under the European Recovery Program has not yet made its impact felt but its goods are now beginning to come in, and a steady stream during the coming months is assured.

This situation has resulted from several causes, of which currency reform is the most striking. External aid is already received and promised under ERP is another big factor. The good harvest and excellent import deliveries of food which have removed the great difficulties under which we labored previously now assure an adequate ration to the worker and his family. And finally we must pay tribute to the workers themselves without whom no improvement would have been possible.

While all this sounds very good it would, I am sure, be a very great mistake to adopt an attitude of complacency. This economic recovery is a plant of recent, and as yet tender, growth. Great care is needed to insure that it shall develop into a robust and enduring condition. Now I said that currency reform was one of the chief factors which has made improvement possible. It follows from this that if improvement is to be sustained the stability of the currency and the confidence of the people in the currency are of paramount importance.

Prices have risen sharply. That is something about which I will speak again; for the moment I will only say that some price increases were justified and inevitable. However, we have a situation now in which wholesalers and retailers are tending to hold back their goods again in the hope of getting yet higher prices later on. To enable them to finance those hoarded stocks concerned. Long term credits to finance genuine self-liquidating projects such as the development of the supply of power or the improvement of the housing situation, particularly in the Ruhr, are on the contrary eminently desirable. The Military Governors have given their approval to the plans put forward for the establishment of a Reconstruction Loan Bank, and I hope that the necessary practical measures to set up this important source of long and medium term credit will be taken with the minimum of delay.

Apart from the credit situation I am also concerned about the budgets both of the central administration and of the states. The Military Governors have recently approved the budgetary proposals put forward by the Economic Council. Although those proposals forecast a balance between receipts and expenditure, one cannot avoid grave doubts as to whether the receipts will in fact be collected or whether the expenditure has been estimated in full.

Public budgets at all levels in the states give me the impression that deficits of dangerous magnitude must be expected unless drastic measures are applied very quickly. I believe that a number of state governments should be taking their responsibilities in this respect more seriously than they are now. Surplus and unnecessary staffs must be cut down; tax receipts must be collected with firmness; expenditure must be pruned. Deficit public spending is resulting in a net addition to the money supply which was already larger than I should have liked to see it, and this is certain to exert, if it continues, a dangerous pressure on the economy.

Another aspect of the budgetary position which troubles me is the
serious inequality between the various states. Some states have a surplus of revenue over expenditure. Others have the appearance of imminent bankruptcy. This is not merely due to extravagance on the part of those states who are in difficulties but to the excessive burden of expenditure which they carry in respect of certain matters which should be dealt with on a central basis. General Clay and I have already told the ministries president that it is within their competence to propose how these inequalities should be mitigated by action on the part of the Economic Council. However, there has yet been no practical result from our statement on this point.

I spoke about the tendency to hold back stocks. This is an ugly business and I feel very strongly that the Frankfurt administration should pay serious and urgent attention to it and make up their minds to deal with this hoarding and profiteering. The Economic Council has not taken advantage of the powers of taxation which we have given to it. I believe that it must do so without further delay both because it will need the money and because further taxation in the right direction will be healthy.

A NOOTHER MATTER on which General Clay and I have been pressing the Economic Council for some time is that they should put forward their proposals for the unification of customs administration. The position on the frontiers is very unsatisfactory in this respect. A good deal of nonsense is going on and western Germany is losing money in consequence.

Finally, I must lay particular emphasis on the urgent necessity for legislation to deal with the equalization of burdens. This is most important as a social measure. The burden of suffering due to the war and to things which have happened since the war has not fallen equally upon all parts of western Germany, nor has it fallen equally upon the various classes of the community. It is an obvious social necessity to rectify these inequalities as far as possible and as quickly as possible.

But apart from the social aspect we, the Military Governors, have always counted upon these equalization measures as a necessary corrective and safeguard against inflation. I know that the matter is complicated, difficult and full of political controversy, but I am sure that it is urgent and vital and I trust most sincerely that those who are responsible for taking these steps will take their courage in their hands and drive them through.

I STARTED by pointing out the great improvement in the economic position and I have since drawn attention to a number of matters which are grounds for anxiety. The fact is that the situation can be good, but if it is not handled properly it can be very dangerous. Five months ago shop windows were empty and pockets were full of worthless money; today we hear the complaint that the shop windows are full but the people cannot afford to buy. Now it is not to be expected that the standard of living of the German people will suddenly rise to a level such as that which they enjoyed before the war. That is not possible. Germany will have to be content with a much more modest standard of living for a long time to come.

On the other hand the present situation gives legitimate cause for dissatisfaction. One way to make it possible for the people to buy is to increase their wages. We know very well what result is likely to produce — a giddy spiral of wages and prices with prices always on top. I am thankful to say that the leaders of the great trade unions have appreciated this and have realized that a demand for higher wages would be folly.

The other way to attack the problem is to stabilize prices. I am not going to argue the case today for the rival merits of controls against a free economy. The Economic Council has taken a decision to remove controls over a wide range of products, and one result has been to produce a widening of the gap between wages and prices. It is certain that it is not wise to allow the situation to get out of hand.

It is for that reason that the chairmen of the Control Office in Frankfurt who represent their Mil-

linary Governors addressed two letters to the Economic Council. In the first they insisted that a firm and comprehensive policy over the whole range of prices and wages must be adopted and they made some specific proposals in this connection. I am glad to see that a beginning has been made toward putting these proposals into effect. In their second letter they made it clear that the removal of controls over essential foodstuffs would not be permitted.

A S REGARDS the food situation, ...today in Western Germany there is a reasonable ration of everything except meat; and because there is an abundant supply of potatoes anybody who needs more food can increase his consumption above the published level of the ration. The meat supply is bad, and will get worse, until some means of restoring control are found. It is clearly ridiculous to expect to be able to control the distribution and the price of meat when hides can be sold for what they will fetch.

There are signs that control is slipping from other products besides meat, and it is on this account that I wish to utter a plain warning. The reasonable ration that is available today will only continue to be available if orderly distribution is maintained. There is enough food in western Germany taking the products of the German harvest together with imports, to provide the ration with something to spare, and the responsible Germans recognize this.

But whether the ration will be provided throughout the winter and next spring depends on German governments and administrations — and the present signs are not encouraging. For example, grain collections up to the middle of October were only 87 percent of last years' collections at the same time. This is bad enough; but when it is realized that the gross grain harvest this year is probably 33 percent more than last, and that the price of grains is about 18 percent higher, then it becomes clear that the drop in collections is serious indeed.

I hope that German governments and state administrations will succeed in their task of collecting food, and
distributing food in an orderly manner in accordance with the needs of the population. ... On Monday (Nov. 15) General Clay and I spoke in these terms to the representatives of the Economic Council. I wish to repeat this warning now. If effective action is not taken, it will be useless to cry for further imports. The $668,000,000—a lot of money—set aside for food imports for the Bizonal Area will have been spent and no more money will be forthcoming.

However, it is clear that the food situation is only one aspect of over-all economic situation. The dangers which lie ahead can only be arrested by wise action over the whole field. I hope that the two letters signed by the chairman of the Control Office will receive attention and that corrective action will be taken before it is too late.

If there were any doubts about the risks of the present situation they should be dispelled by the general stoppage which took place on Nov. 12. I regret very greatly that work stoppage. The loss of a full days' production is a very grave matter. The effect on world opinion has been unfortunate; I have good reason for saying so; Germany cannot afford strikes of this nature today.

I cannot approve the decision which gave rise to that work stoppage. On the other hand I am bound to say that the workers and their leaders have got grounds for dissatisfaction and I have already indicated as much. I can readily understand their desire to be consulted about economic developments which affect their standard of living. But strike action to secure this consultation is not the right policy.

I should like to see the establishment of means by which the trade unions can be taken regularly and systematically into consultation by German governmental authorities so that there can never be any doubt that the trade union view is properly expressed and thoroughly considered, and this not only in respect of wages and working conditions, but in advance of any action by governments which may affect the lives of the masses of the workers. Consultation of that kind means the patient and persistent search for common ground.

It means the establishment by the trade unions and governments of suitable standing bodies to which either of the parties might refer problems of mutual concern. Employers would, of course, have to be equally associated with the machinery. Its terms of reference would need to be wide and it might be necessary to establish it at different levels. We have been pressing ideas of this kind upon the trade unions, upon employers, and upon the governments for some time. I hope that no further time will be lost and that the three parties will draw closer together and do more towards laying a firm foundation for mutual collaboration.

It is particularly important to take measures of this sort now because this is a difficult period of transition for western Germany. Many adjustments are necessary in relations between employers and employees, between government and industry, and between government and labor. During the Nazi regime all democratic relationships were destroyed and they have to be recreated. It is also a period of transition in the financial and economic field. We have just carried out a very drastic measure of financial reform. We are also, we hope, in the process of passing from an extremely low level of economy to something more reasonable, and finally it is a most important period of transition in the political sphere.

Not long ago Military Government took a direct hand in the management of affairs. Before very long now there will be a German government in existence. In the meanwhile the administration at Frankfurt has a difficult task to handle the problems of the moment. We have endeavored to make the Economic Council as nearly representative of political opinion in the country as possible, but it cannot, of course, quite have the prestige of an elected and responsible government.

If I have implied some criticism of the Economic Council I should like to balance that by saying that I recognize its difficulties, I appreciate the good work which it has done, and I believe that it deserves the support of Military Government and of the German people in the combined zones.

However, it is clearly desirable to pass as quickly as possible out of this period of transition and to set up a representative government with the full prestige and authority necessary to grapple with the problems which beset this country. That is why

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