EVEN MORE THAN recovery from the tremendous physical destruction during the war, the chief problems of western Germany are recovery from the complete disorganization of economic life and political institutions which followed the defeat, and the difficulties of adjusting to the separation from industrial western Germany of the predominantly agricultural eastern territories which were formerly a major source of food for the West.

The population of western Germany has increased substantially over prewar levels and is at present about 66 percent as great as that of all Germany before the war, as the result of a large influx of population from the separated areas, Czechoslovakia and, more recently, from the eastern zone. By 1952 the ratio may be expected to rise to about 72 percent.

On the other hand, the industrial resources of western Germany represented only 59 percent of total German resources before the war, and its agricultural resources comprised only 45 percent of prewar Germany’s arable land. The unavailability of imports from the territory east of the Oder-Neisse, which is now under Polish Administration, has deprived western Germany of a major source of food supply.

Under present conditions, it must import more than 40 percent of the food needed to support its population. It can pay for this food only by raising exports of manufactured goods to levels well above prewar.

TO RAISE exports to the required level, the economy of western Germany must make much further progress. Industrial production, which at the end of 1948 was at about 78 percent of its 1936 level, must be raised by about 50 percent. Agricultural output, particularly animal husbandry, must be raised to restore indigenous food production to its prewar magnitude. The amount of food and manufactured products available to the population must be augmented sharply in order to provide a tolerable standard of living which, while remaining significantly below prewar, would still provide the economic incentives necessary for efficient productive effort.

The economic recovery of western Germany is necessary to enable it to become economically self-supporting and to avoid the political dangers which might well resolve from economic distress. A democratic western Germany with a functioning economy can make valuable contributions to the recovery of all western Europe, both by making available needed exports and by providing a market for products of other participating countries and it can, thus, play an important role as a responsible member of a revived western European community.

MANY OBSTACLES must be overcome before these objectives can be achieved. Effective government must be established. The financial structure must be put in order and government costs must be reduced. Germany’s internal price structure must readjust to existing conditions. This will require acceptance of a lower standard of real incomes than before the war. Externally, a workable relationship must be reestablished between Germany’s internal prices and world market prices for the commodities which Germany must import or export. Germany’s trade relations with the rest of the world must be restored as rapidly as possible. It will be necessary not only that Germany’s industrial production be increased but also that the industrial structure be reoriented to make the most efficient possible use of available resources, particularly of increased manpower.

Following the surrender in May 1945, the German economy was in a state of almost complete collapse. Industrial production was at a virtual standstill. Imports ceased completely, except for food enough to prevent actual starvation which was brought in by the United States and the United Kingdom.

FOLLOWING the surrender, the territory east of the Oder-Neisse, which represented 24 percent of prewar Germany’s total land area, and 28 percent of its arable land was placed under the provisional adminis-
stration of the Polish Government. The remainder of Germany was divided into four occupation zones operating as separate economic units.

In late 1946 the United States and the United Kingdom merged their two zones of occupation; this merger combined, in a single economic area, the most important industrial section of prewar Germany.

During 1948 the barriers to the movement of goods and persons which had previously existed between the Bizeone and the French Zone were removed. Steps were taken to integrate the foreign trade of the French Zone with that of the Bizeone through the JointExport-Import Agency. Agreement was reached upon the establishment of a uniform ration standard for the two areas.

Since the beginning of 1948, particularly since the end of June, there has been substantial economic progress in western Germany. This has been due, in part, to the large increase of industrial raw materials made possible, not only by ECA aid, but more importantly by revenue from the sale of exports. The exceptionally mild winter of 1947/48 increased the availability of coal to industry and the excellent crops of the past year and greater US financed food imports permitted an increase in the food ration, which greatly improved working morale and efficiency. The drastic currency conversion at the end of June restored normal economic incentives for the first time since the occupation and greatly stimulated all fields of activity.

As a result of all these factors, industry pushed ahead rapidly during 1948. The general level of production in the Bizeone increased from 44 percent of the 1936 rate in December 1947 to 78 percent in December 1948, a rise of more than 75 percent. Bizonal exports during 1948 were 2 1/2 times those of 1947.

The food ration for the "normal consumer" was increased by 300 calories per day during the year, or to 1,850 calories. Allowing for supplemental rations and for off-ration consumption, this corresponds to an average food consumption by the non-farm population of about 2,450 calories. Despite the recent improvement, this remains about 15 percent below prewar in quantity and the diet is seriously deficient in quality with a preponderance of starches an a continuing shortage of proteins, fats and protective foods.

The level of industrial production in the French Zone was somewhat lower than that in the Bizeone during the first few years of occupation. In June 1948 production had reached 51 percent of 1936, or the same relative level as in the Bizeone. By October 1948, output was at 66 percent of the 1936 level as compared with 73 percent in the Bizonal.

Despite considerable improvement during 1948, the availability of consumer goods in western Germany remains far below prewar, whereas requirements are well above normal because of the extreme shortage of supplies during recent years. Perhaps the most acute need is for adequate housing. Arrears of new construction and maintenance have accumulated since 1939. War damage has expanded this deficiency to major proportions. Destruction and damage in the Bizonal Area is equivalent to at least 3,000,000 dwelling units. The large increase of population further aggravates the problem, the solution of which will take many years.

One of the most serious economic problems of the Bizeone during the immediate postwar years was the enormous excess of currency, which resulted in extreme inflationary pressures and largely destroyed normal economic incentives. A drastic currency reform was introduced during June 1948, under which 6.5 new Deutsche marks were given in exchange for each 100 old Reichsmarks, of which six marks were for free use while one-half Deutsche mark was blocked for medium and long-term credits. At the time there was a widespread relaxation of the very strict price and rationing controls which had previously existed.

As already stated, the currency conversion proved to be a major economic stimulus. However, prices have advanced persistently since the reform. Early fears that the money supply would be too tight were apparently unfounded, and it is possible that further expansion of money circulation or credit would be dangerous. Proper use of the counterpart fund should help to combat this danger.

For the next few years further economic recovery in western Germany cannot be achieved without substantial foreign aid. It is completely impossible for Germany's in-

Twenty percent of leather in these shoes being packed in plant at Hoechst, Hesse, came from ERP assistance (US Army photo)

INFORMATION BULLETIN

APRIL 5, 1949
IT IS OBVIOUS that western Germany must make every possible effort to achieve closer balance in its dollar accounts by limiting its imports from the Western Hemisphere to those clearly essential for its economy and which cannot be obtained elsewhere, and by increasing its Western Hemisphere exports. It is questionable, however, whether western Germany can avoid incurring a substantial, continuing, dollar deficit, though careful planning might reduce its magnitude significantly. The full solution of this difficulty probably does not lie within Germany alone;

During 1948/49 the Bizon has received external aid from three sources. These have included a contribution by the British Government of $70,000,000 in sterling, direct appropriations through the Department of the Army under the Budget for Government and Relief in Occupied Areas (CARIOA) and from ECA. Originally it had been planned that the CARIOA appropriation would be $637,000,000 and that ECA would provide $414,000,000. The actual amount of CARIOA funds will be about $64,000,000 below the original estimate, reflecting price reductions, higher crops and shift of food procurement to European sources. Although exports to all countries are running considerably higher than originally anticipated, dollar exports will probably not exceed the original estimates significantly. Consequently, it is essential to maintain at least $410,600,000 of ECA aid.

The Bizon received direct aid from ECA of $109,000,000 in the second calendar quarter of 1948. The aid for

(Continued on next page)

American tobacco, obtained under provisions of the Marshall Plan, being processed in Bremen
the current fiscal year granted out of present appropriations amounts to $307,100,000, of which $225,500,000 is direct and $81,600,000 conditional aid. Consequently, a supplemental allotment of $103,500,000 is needed for the second calendar quarter of 1949 to complete the total for the fiscal year.

In the case of the French Zone, ECA aid is the only form of foreign assistance available. The French occupation authorities submitted a request for ECA aid for fiscal year 1948/49 in the amount of $100,000,000. This was approved by the OEEC and additional $26,900,000 is therefore required to complete the program for the remainder of the fiscal year.

The net drawing rights position of both the Bizone and French Zone is about in balance during fiscal 1948/49.

The strides which have been made by the economy of western Germany during 1948 have set the stage for considerably further improvement for the fiscal year 1949/50. By the middle of 1950, if adequate aid is forthcoming, western Germany should be able to restore its industrial production to a level about 10 percent below prewar and to provide for its population a standard of living which, although well below that of 1936, would still be sufficiently improved to constitute a real incentive for further effort.

While the 1949/50 programs for the Bizone and the French Zone show roughly the same degree of progress, the present level of economic activity in the French Zone is below that of the Bizone. Consequently, the realization of the plans, as presented, would still leave the French Zone, by the middle of 1950, at an economic level substantially below that of the Bizone.

Both programs were prepared before there had been adequate opportunity to assess the full impact of the economic upturn, which started in July. The extent of recovery has substantially exceeded expectations in many fields and as a result the objectives, which had been set, already appear low.

In the case of the Bizone, the plans submitted by the Bizonal authorities called for increasing the level of industrial output to an average of 80 percent of 1936 for the fiscal year 1949/50. By December 1948, however, production had already reached 78 percent of the 1936 level. The goals projected in the plan for many individual industries have already been surpassed. Consequently, it is believed, a target of 90 percent of 1936, as the average for the next fiscal year, should represent a minimum objective.

In the case of the French Zone, it was proposed to raise the industrial level to 75 percent of 1936. It is essential that progress in this area be accelerated so that it should not act as a drag upon western German economy. While it may take somewhat more than 12 months for the French Zone to catch up with the Bizone fully, it would appear that the industrial production targets for the French Zone should be at least 80 percent of 1936 for the fiscal year 1949/50.

The original bizone program submission forecast a deficit of $937,000,000 in all currencies for 1949/50. This was to be met by a United Kingdom contribution of $70,000,000 in sterling, by a GARJOA appropriation of $540,000,000, and by ECA funds in the amount of $372,000,000. In return, the program contemplated that the Bizone would make available to other participating nations drawing rights in the amount of $45,000,000.

Subsequent revisions, designed to improve the feeding level, resulted in a rise in the import program. Total export targets were correspondingly increased, reflecting the probability that the production goals originally set could be bettered substantially.

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