ECA Aid to Germany

By ROBERT M. HANES
Chief, ECA Mission to Germany

Since the last time that an ECA Mission chief from Germany appeared before Congress, profound changes have taken place within the country. Western Germany now has its own government, and almost complete fusion of the US, British and French Zones has been accomplished. Military Government has been replaced by a civilian body, the Allied High Commission.

Under the new organizational setup, the ECA Mission chief performs a dual function. He not only represents the Economic Cooperation Administration, but also acts as the director of the Office of Economic Affairs on the staff of the US High Commissioner. The High Commissioner, on his part, also has ECA functions and is the ECA representative in Germany. During the year, GARIOA funds (Government and Relief in Occupied Areas) previously administered by the Department of the Army, were placed under ECA for administration and programming.

Under the Occupation Statute and the Allied High Commission the new German government has assumed powers and responsibilities far beyond those held by the former German Economic Council. The German Federal Republic now has full rights and responsibilities for participation in the Marshall Plan and its organizations.

In October 1949, the Federal Republic of Germany became a full-fledged partner in the OEEC where it now represents, and talks for, itself rather than being represented by the Allies.

In December 1949, a bilateral agreement was concluded between the government of the United States and the German federal government. In January of this year that agreement was ratified by the German legislature. Germany now has its own delegation here in Washington. An ERP ministry was established within the German administration, and the vice chancellor was appointed as its head. Existing arrangements also include aid to the city of Berlin with whose particular problems I shall deal later.

The tremendous upsurge in industrial production which marked the period from June to December 1948 slackened during the first half of 1949, but there were some further increases in production during the last six months of the year. German production has more than doubled since the beginning of the European Recovery Program.

In May 1948, the production index stood at 47 percent of 1936, in November 1949 it had reached a peak of 98 percent. This increase allowed Germany to make a start toward playing the important role it formerly held in the European economy, both as a producer and consumer, and as one of the principal participants in European trade. The rise in production has made it possible to meet many of the pent-up demands, particularly for consumer goods.

During the past year prices in general have been stable, and in the last months there have been some reductions. Rationing and price controls have been abolished for consumer goods, and today controls exist only over gasoline and a few agricultural and basic industrial items. The present levels of food consumption and agricultural production are considerably higher than a year ago. The average daily diet now reaches approximately 2,500 calories as against 2,900 before the war.

Although quality has not reached the standards of prewar days, the diet affords a variety comparable to that period. This improvement in the food situation is, however, the result of food imports and unusually favorable weather. It does not stem from any substantial improvement in the method of agricultural production and planning.

In the financial field, the outstanding characteristic of the past year has been the trend from inflation to deflation. The currency reform of June 1948 had unleashed a buying splurge which in the latter part of that year threatened to become most serious. Establishment of a strict credit control policy and the slackening of abnormal consumer demands combined to halt the inflationary trend and to stabilize the situation. In actual fact, definite deflationary pressures made themselves felt in the ensuing months. To combat this deflationary tendency, credit policies were liberalized and ECA counterpart funds were released for investment purposes.

In the field of external finance, the German currency was devalued in autumn of 1949, following similar action by other European countries, so that German exporters now have a better chance to compete in world markets.

The problem of the dollar gap remains the most critical in Germany today. Only one-tenth of German dollar imports are covered by exports to hard currency areas. The difference is financed by American aid, which is directly responsible for the recovery so far achieved. Still, serious difficulties in the economic field remain to be solved.

I wish at this point, to touch briefly on what we consider to be the four major economic problems facing western Germany today:

This article is the complete text of the statement made by Robert M. Hanes, chief of the ECA Mission to Germany, before a joint session of the Senate Foreign Relations Committee and the House Foreign Affairs Committee, in Washington, Feb. 27, 1950. Mr. Hanes spoke before the Congressional committees considering the Administration's request for a $2,950,000,000 third-year installment on the Marshall Plan in the 1951 fiscal year.
1. Production.

WESTERN GERMANY must raise both its agricultural and industrial production if it is to survive without external assistance. It can never raise more than approximately 65 percent of its own food requirements. In order to cut down on food imports, a determined effort is being made to increase indigenous production. Limiting factors in the agricultural picture are fixed prices, for grains in particular, which neither encourage the German production of otherwise dollar import foods nor discourage their excessive use.

German agricultural methods are antiquated, agricultural research and extension work have been grossly inadequate during the last 15 years. Through technical assistance programs efforts are being made to spread knowledge of modern techniques to the farmers. Lack of mechanization has resulted in high production costs, and has caused land utilization and reclamation programs to proceed very slowly. It is estimated that some 500,000 additional acres of land could be claimed for cultivation, if modern methods were pursued.

Germany's backwardness in this regard can be illustrated by certain lands which extend across the Dutch border. On the Dutch side, the land has been brought into high production, while the German portion exists only as waste land. ECA counterpart funds are being made available for the reclamation of land and for investment in farm machinery.

Industrial production, although on a relatively higher level of efficiency than agricultural, is still inadequate and inefficient by American standards. Present German forecasts envisage a level of 107 percent of 1938 by the end of the ERP period. This, in our opinion, is far short of what can be accomplished. Industrial production can and should be raised to at least 120 percent of 1936. Limitations such as costly handiwork and lack of investment capital must be overcome.

Western Germany's problem is to export the right goods to the right places, and to produce them at a cost which is competitive in world markets. This calls for a readjustment and reorientation of German industrial thinking, which heretofore has developed within the confines of protective markets, monopolies and cartels, and has not been fully exposed to the realities of a truly free, competitive market.

The German industrialist still thinks in terms of a small turnover at a high profit, rather than of large production at low profit margins. In addition, German export trade is still hampered by the lack of adequate sales organizations, unfamiliarity with modern merchandizing methods, and, to some extent, by a still prevalent, although decreasing antagonism against German products abroad.

2. Capital Investment.

CRITICAL to the problem of raising production is the shortage of investment capital. Where such capital is available, interest rates are high and the dangerous practice of using short-term credit for long-term investments has been adopted in far too many cases. A shortage of long-term capital is retarding the rebuilding of plants and the rehabilitation and modernization of equipment.

In order to relieve, somewhat, this shortage, substantial amounts of ECA counterpart funds have been released. But counterpart funds alone cannot solve the problem. Only small amounts of investment funds are available from the capital markets. Neither private banks nor public budgets are in a position to make large credits available. The central bank, Bank Deutscher Laender, seems to be the only immediate hope of relief but this is neither permanent nor satisfactory.

The capital shortage reflects itself in two of the most urgent problems in western Germany, namely, housing and unemployment. We find today the paradoxical situation of a country needing 5,000,000 homes while laying off men in the building trades. Counterpart funds are being used to stimulate the housing program, but more needs to be done if explosive social and political consequences are to be avoided.

Unemployment has reached the level of 2,000,000 or approximately 10 percent of the labor force. The constant influx of refugees from the Soviet Zone and the Iron Curtain countries, about 20,000 per month, is a large contributing factor. While refugees constitute about 18 percent of the total western German population, they comprise 35 percent of the unemployed. They increase the pressure on housing and jobs, and they are considered outsiders and intruders by the local population. They bring resentment in their wake — a resentment which poses tremendous social as well as economic problems.

Indeed, apart from its humanitarian aspects, this problem which is peculiar to postwar western Germany and does not arise in the case of any other ERP country, has far-reaching political implications. Only by a concerted effort to integrate these people into the economy and the body politic will it be possible to avoid unrest and the development of extremist political thinking in that group. While the problem is one which the German government must meet by its own efforts, I feel that it is deserving of special consideration in the allocation of American aid.
THE LACK of long-term capital for housing and industrial expansion, the tapering off of extraordinary purchasing power and a not fully developed export trade have played their part in aggravating the unemployment situation. Large numbers of jobless, mainly refugees, live in the agricultural districts where they are unwanted and where jobs are unavailable. In many cases their movement to areas where better opportunities for employment, and even scarce labor conditions, exist, is obstructed by lack of housing facilities in those areas.

Both the ECA Mission and the German government are vitally concerned with the unemployment situation. It is my personal view that western Germany cannot achieve either economic or special stability unless this problem is met head-on. An extensive housing program, financed in part by ECA counterpart funds, is one of the measures being taken to meet the immediate emergency.

Over the long run, however, the very roots of the existing ills must be attacked. This will require great skill and foresight on the part of the federal government. Its action must be bold in obtaining the best use of all resources and must, at the same time, be cautious so as not to jeopardize monetary stability.

Above all, production must be increased and productivity must be improved. In my opinion the existing monetary situation would permit a substantial expansion of credit for long-term investment, provided that adequate fiscal safeguards exist. The system of tax collections must be tightened and the tax structure so devised as to discourage luxury consumption and provide more funds for investment.

Credit facilities should be approved for projects which are of special benefit to the economy as a whole and which will create additional labor content in productive industries. Finally a vigorous drive to increase exports, and in particular exports to the dollar area, must be initiated.

3. Foreign Trade and the Balance of Payments.

If Western Germany is to reach its goals under the European Recovery Program, exports, and particularly dollar exports, must rise dramatically. The heretofore mentioned 10-1 ratio of dollar imports to dollar exports must be drastically reduced. At present time, due to the far-reaching trade liberalization policies pursued by western Germany, her trade with other European countries is out of balance. The ECA Mission is confident, however, that the near future will see other European nations buying more from Germany which should arrest the existing trend and, indeed, lead to the re-establishment of a German export surplus with western Europe.

It is to the dollar area, however, that Germany must look more closely and devote the greatest part of its efforts. Steps in this direction are being taken. A "dollar drive" has been launched. This drive includes the establishment in the United States of a market research organization, western German participation in international fairs and exhibits, and a current proposal to make available to exporters a certain percentage of the dollars they earn for imports of their choice from the dollar area. Special attention is being given, both by the federal government and by the ECA Mission, to tourism, an important dollar-earning trade.

The tremendous domestic demand within western Germany has made it easier in the past for the manufacturer to cater to home wants than to embark upon the uncertainties of foreign trade. It is necessary for the western German people to turn from this "line of least resistance" and face up to the problem of sustaining themselves when American aid ceases. To help the western German exporter, ECA is bringing into the country numerous experts in a variety of fields who under the technical assistance program will teach the German industrialist, trade union representative and farmer the most modern production techniques. In addition, the German people must be brought to appreciate the urgent necessity to forego immediate personal advantage in favor of expanding exports.

To bring its trade into near balance, Germany must look to new sources for imports. Eastern Europe, South America and other OEEC participation countries offer sources which can conserve western Germany's dollar supply.

Most important for the survival of the country is the adoption of a freer trade system. The overcrowded western German area can no longer afford the protectionist devices which were developed to promote the self-sufficiency of the prewar Reich. This discredited policy must be replaced by one which will open new markets for
western German exports and at the same time provide the foreign exchange needed to finance heavy imports in food and raw materials.

To this end quantitative restrictions (especially for food imports) must be progressively removed, cartels and monopolies must be eliminated so as to abolish restrictions on industry and trade and to make it possible for small business to live and compete successfully, and incentives to exporters must be provided. I should like to say here that the federal German government has thus far acted boldly and promptly in the matter of trade liberalization. Indeed, it has outstripped every other ERP country, save Switzerland, in this regard.


THE CITY OF BERLIN, which is situated as an economic and political island surrounded by the Soviet Zone, presents very special problems. I am glad to report that during the past year assistance was brought to this beleaguered city, and, that under the terms of the new bilateral agreement between the Federal Republic and the United States, the German federal government has assumed the responsibility for financial aid to Berlin. This, I believe, will bring badly needed help to the former capital which due to its particular position has lagged far behind the economic recovery of western Germany because of the following reasons:

1. Industrial production is only 25 percent of 1936. High unemployment, 25 percent of the labor force, is not only due to industrial stagnation, but because so great a proportion of Berlin’s population was once directly or indirectly working for the government.

2. The loss of approximately 80 percent of the industrial equipment because of bombing and removal by the Soviets, prior to the arrival of the western powers in Berlin in 1945.

3. High transportation costs due to restricted routes which increase shipping costs to western Germany.

4. A relatively high wage rate which boosts production costs.

5. The city’s unstable financial condition. The budget deficit for the current year will be over $200,000,000 (DM 840,000,000).

6. The enormous war damage to buildings of all kinds which must still be repaired, and

7. The political uncertainties which make west businessmen hesitate to trade with Berlin.

TO COMBAT these conditions, the ECA Mission has suggested that the German government and occupation procurement authorities stimulate orders in the Berlin area, that tax concessions be made to capital remaining in or going to Berlin, that the budget be balanced through aid from the Federal Republic, and that counterpart funds in appreciable quantities be diverted toward the city.

We are all highly conscious of the importance of the fate of Berlin for the future of Germany. Special measures have been necessary in the past and will probably continue to be necessary to insure its life and freedom. But we feel that the contributions which were required were well deserved by the Berlin people who have so resolutely withstood the economic and political pressures which have been brought to bear on them by the Soviets.

Germany has a very particular place in the Marshall Plan. Never before has a victorious nation undertaken a positive program to rehabilitate a vanquished adversary. We have embarked on this unique venture because the experience of five years of occupation has demonstrated to us the tremendous impact which conditions in Germany have on western Europe.

As a whole Germany is the crux of the European problem. In order to solve the German as well as the European problem, western Germany must be tied as closely as possible to western Europe and must not only be permitted but encouraged to buy and sell in the international markets.

We have spent many billions of dollars to eradicate Nazism from the world. It seems well worthwhile to spend a small fraction of that amount in western Germany to lay the foundation of an economic structure which can prevent the resurgence of any extremist ideologies which threaten the peace of the world. +END

New Magazine to Aid Teachers

A new professional magazine will be published monthly in Berlin to assist teachers in keeping up-to-date on developments in the techniques and materials for progressive instruction, Berlin Education Branch announced. First issue of the publication, entitled “Wege Zur Neuen Erziehung” (Ways to a New Education), appeared late in March. Cost of publication will be borne by US reorientation funds and the magazine will be distributed free to key teaching personnel in the western sectors of Berlin.