ECA COUNTERPART FUNDS, cast for the supporting role in the drama of German recovery, are today helping to pull the Federal Republic up by its economic bootstraps.

They are building houses, creating jobs, priming the once languishing pump of industry and making upward sweeps on production charts as well as transfusing new economic life into trouble spots like Berlin.

In climbing output, in brighter living standards, in increased homes, jobs and food, they are affecting in one way or another all of the approximately 49,000,000 persons in the Western zones.

Indirectly these funds also are affecting the American taxpayer who surrenders a sizeable chunk of his yearly income to help feed Germany's dollar-hungry economy and who hopes for future succor from this burden as the German state gradually approaches normalcy.

Yet a recent unofficial check in one German city conducted among Germans and American occupation personnel and their dependents produced only two persons in 10 who had a fuzzy conception of counterpart funds and only one in 30 who could explain accurately how they work.

WHAT ARE THESE counterpart funds and from where do they come? How are they used to aid the still lagging German economy?

Each country participating in the European Recovery Program and receiving assistance in the form of grants from ECA has agreed to deposit its local currency in a special account in an amount commensurate with the dollar cost of the aid received. These special deposits are called "counterpart funds." These funds in the currency of the country are slated, at the discretion of ECA, for the economic rehabilitation of the country as a whole.

More simply: Counterpart funds are Marshall Plan "stay home" pay.

They are Deutsche mark payments for goods bought and already paid for with ECA dollars.

A German firm, for example, orders machinery from an outside country. The German Government then pays for that machinery in dollars provided by ECA. Upon arrival of the machinery in Germany it is paid for in Deutsche marks by the firm receiving it. Since, however, the machinery already has been paid for in dollars, the marks are put into a special blocked account and are tagged "counterpart funds."

These counterpart marks are channeled out, with ECA approval, in specific allotments to German industry, power projects, agriculture, mining, and other enterprises to help meet the investment goals of the ERP program.

ACTUALLY THEN, the American taxpayer, working through ECA, has paid for the machinery ordered by the German firm. This enables the Deutsche marks paid out by the German purchaser of the machinery to be put to use for the over-all recovery of the West German state.

At the same time the people of Western Germany who pay with their own currency for the food, machinery and raw materials purchased by their government with dollars provided by the United States, are the source of the counterpart funds.

It is the German's money which goes back to his government through the cash registers of the retailer, wholesaler and importer to form the counterpart fund, which the German government, with ECA approval, puts to work in reviving and rebuilding their economy.

Thus, counterpart funds are ECA's device to make Marshall Plan dollars work twice for German rehabilitation — once by providing industry and agriculture with long-needed goods purchased directly with dollars, and once again by pushing production, employment and economic well-being through use of local currency put up to match the dollar grants.

As in all other ERP countries with similar funds, these Deutsche mark counterpart funds in Germany are broken up into two parts. The greater portion — 95 percent — belongs to Germany and is used within the country, on agreement between the German government and the ECA administrator for developing new sources of wealth, and for giving a hypo to industrial production.

The remaining five percent is earmarked for the use of the ECA Special Mission to Germany within Germany. Like a shot in the arm, ECA counterpart funds have done their part in aiding the recovery of Duisburg, great inland port where the Ruhr river flows into the Rhine.

(Photos by Jacoby, FRD HICOC)
The Zollverein mine (partially shown above) is one of 26 owned by the Gelsenkirchener Bergwerke A.G., Essen, whose total output is 90,000 tons of coal per day. Firm got loans totaling Deutsche marks 21,800,000 ($5,190,000).

This money takes care of current operating expenses such as administrative costs payable in Deutsche marks and informational activities to acquaint the German people with their stake in European recovery.

THE GERMAN GOVERNMENT, through the office of Franz Bluecher, German vice chancellor and minister for ERP Affairs, maps out the initial proposals for the best ways of spending the 95 percent share of the counterpart marks. These suggestions are then carefully studied by the ECA Special Mission to Western Germany headed by Robert M. Hanes, director of the Office of Economic Affairs, HICOG.

After studying the German government proposals, the ECA Special Mission to Germany spells out its own recommendations which are then forwarded with the German program to ECA Washington and the Office of the ECA Special Representative in Paris. Sifting the comments and advice from other governmental offices, ECA Washington, with the assistance of its Public Advisory Board and the National Advisory Council, ultimately shapes the final recommendations.

ECA has two objectives in considering the use to which the counterpart funds are put. Of peak prominence is the problem of the internal monetary and financial stability of the country without which economic recovery cannot be achieved. Always subject to this prime factor, the use of counterpart funds is chiefly directed toward stimulating the type of productive activity which best pays off in economic rehabilitation.

In Germany, where inflationary pressures were still persistent even after currency reform, where prices climbed during the first six months following that reform, and where short-term lending activities of commercial banks were pushing more money into circulation, ECA officials felt it wiser to withhold these funds until assured that inflation in Germany was arrested and that the rising price spiral was definitely halted.

THE FIRST ALLOCATION of counterpart funds for Germany, therefore, was not made until September 1949 when DM 57,000,000 ($13,566,000) was released as part of a long term capital investment program to be carried out in the French Zone.

Of this sum, DM 40,000,000 ($9,520,000) went to the German railroads; DM 14,000,000 ($3,332,000) for electric power projects; DM 1,000,000 ($238,000) for gas main improvements; and DM 2,000,000 ($476,000) for the rebuilding of the port of Ludwigshafen.

On the heels of this release, another DM 50,000,000 ($11,900,000) was made available to the coal mines of the Ruhr to enable reconstructed war-damaged mines and new equipment to step up hard coal production.

Still another DM 44,600,000 ($10,472,000) was handed over to the Berlin West Power Station which had been completely dismantled by the Russians at the beginning of the occupation, and from which now flows electricity into homes and factories along with renewed confidence for the future of Berlin.

The first major step in stimulating the German economy through counterpart funds, however, came on Dec. 16, 1949, when ECA approved a program for DM 1,036,000,000 ($246,568,000) "for the development of the productive capacity of Germany" and released DM 600,000,000 ($142,800,000) as a start. The balance of DM 436,000,000 ($103,768,000) has since been released to the Germans.

SERVING AS A BROAD base for further assistance, these funds ticketed to help 23 wide categories of industry in all sections of Germany are benefiting all social and economic layers of the west German population.

They are breaking the bottleneck in electric power which has proved one of the most restrictive factors in raising German industrial production; through wise investment in farming areas they are cutting down the amount of food Germany must import from dollar sources; and through rebuilding are providing homes for thousands of Germans and refugees whose former working capacity was crippled by their homeless state. Through the DM 97,000,000 ($23,086,000) which has been shunted into the Berlin economy they are giving a firm shot in the arm to West Berliners and a bitter pill to oppressors in East Berlin.

A breakdown of the DM 1,036,000,000 ($246,568,000) shows that power companies in Germany received DM 220,000,000 ($52,360,000) to rebuild and expand existing plants. In the industrial field, DM 312,000,000 ($74,256,000) was made available for capital investment to firms engaged in major industries, including mechanical engineering, electrical engineering, fine mechanics and optics, non-ferrous metals, chemicals, mineral oils, building materials, woodworking and textiles.

Another DM 123,500,000 was labeled for agricultural projects aimed at reconstruction of war-damaged farms and re-establishment of their full productive capacity through drainage of lowlands, purchase of machinery and modernization of dairy plants.

The sum of DM 81,500,000 ($19,397,000) was used to relieve the serious housing shortage in the Federal Re-
public. Major housing developments are being financed throughout Germany, allocated proportionately among the various states. Sole consideration is given housing projects for low-income groups and refugees whose lack of living accommodations has seriously handicapped essential production.

The balance of the DM 1,036,000,000 is earmarked as follows: DM 37,000,000 ($8,806,000) gas, water, and sewage projects; DM 62,000,000 ($14,756,000) transport and communications; DM 150,000,000 ($35,700,000) coal industry and miners’ housing.

But this is just a beginning. In line with its announced policy of agreeing to further withdrawals of counterpart funds at periodic intervals and as promptly as possible, ECA has given over-all approval for a new investment program for DM 1,150,000,000 ($273,700,000) although a final okay for the breakdown of this sum must still come from ECA Washington.

This new investment program, coming at a time when capital funds are desperately needed by every segment of the German economy, will more than double the DM 1,036,000,000 already released by ECA rehabilitation of basic German industry.

The funds, wiped clean of all attaching strings, are turned over to the Germans without one pfennig of interest nor with any condition of repayment to the ECA Mission or the US Government. With their release, the Marshall Plan has written “finis” on its books and the method of future distribution becomes solely a German responsibility.

This point has been widely misunderstood. Cases have come to the attention of ECA officials in which applicants have been told by responsible German officials that their requests for loans had been German approved but that the Americans had refused to shell out money for that particular project. The ECA Special Mission, however, does not approve individual requests for loans. That is a distinct responsibility of the German authorities.

ECA Completes Its Task when it counts out the money to the Reconstruction Loan Corporation, a quasi-official German agency which acts as a central lending institution for the three west zones. At the same time ECA retains jurisdiction over audits to insure that the money is distributed in accordance with the approved program.

The RLC then parcels out the money to numerous lending banks telling them how much money is available for their use for loans to approved applicants. In turn the lending bank enters into discussions on loan agreements with the applicants, setting the many applications on a basis of urgency or priority. The lending bank only calls for its share of counterpart money from the RLC when a specific loan agreement with the applicant has been okayed by both parties.

Rates of interest, conditions of repayment and other mechanics of the loans follow accepted German trade practices. ECA, however, has asked that “the rate of interest charged to the ultimate user should be at the mini-

This power plant, one of 10 owned by the Rheinisch Westfälische Elektrizitätswerk, Essen, was entirely bombed out, but with credits of DM 35,500,000 ($8,690,000) the firm bought new turbines and now feeds the network supplying power to Holland, Italy, Austria, Belgium and France.

Although the effectiveness of the entire program depends on the speed with which the funds get into the hands of those who will send them out to work for the economy, serious delays at this stage often bottleneck the German transactions. Up to now, largely because of the varied circumstances surrounding each individual case, procedures have not been streamlined at a galloping gait.

Time Lapses Grow as risks involved necessarily demand more collateral from one borrower than from another, borrowers haggle with the banks over time limits for the loan while some borrowers — those for agricultural purposes — not having sufficient collateral must have loan guarantees from the appropriate state government.

In some cases the money is lent directly from the RLC to the borrower with no middle banks or state governments involved and can quickly be disbursed as soon as the borrower completes his loan agreement with the RLC. In other cases — and time-consuming but necessary ones — the money must flow from the RLC to at least one other bank, and sometimes through two or even three intermediate banks before reaching the ultimate user.

These checkreins on the rapid turnover of the money from the RLC to the banks to the borrower and so out into the economy have slowed down the plan to a walking trot which the Germans themselves alone can remedy. To date the RLC has been disbursing money at a rate slightly better than DM 150,000,000 ($35,700,000) per month and a considerable speedup of this amount monthly is expected for the future.

Interest rates charged by the RLC parallel the rates charged on funds from private sources so as not to under-
cut normal market rates. With the exception of special rates on agriculture the interest rates of counterpart funds do not differ from those normally charged by RLC.

In accordance with accepted banking practices throughout the Western world, where segments of the economy which could not profitably afford to borrow money for investment purposes at normal interest rates receive an indirect subsidy, German agriculture receives a preferential or lower interest rate.

In turn the RLC pays interest to the Federal Republic for the use of the counterpart funds. When loans made from counterpart funds are repaid, the principal plus the interest set up by the Federal Republic is credited to the account of the Federal Republic of Germany, thus becoming a revolving capital which may again be lent out to the economy in long term credits.

The following table shows those rates which must be paid by the RLC to the Federal Republic, and, in addition, the rates to the final borrower.

<table>
<thead>
<tr>
<th>Category of Enterprise</th>
<th>Interest Paid by RLC to Federal Republic Percentage</th>
<th>Maximum Interest Rate to Last Recipient Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Utilities</td>
<td>5%</td>
<td>6½% to 7½%</td>
</tr>
<tr>
<td>Coal Mines:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Credits</td>
<td>5½</td>
<td>7%</td>
</tr>
<tr>
<td>Credit via Channeling Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commerce and Trade</td>
<td>5%</td>
<td>7½%</td>
</tr>
<tr>
<td>Tourism</td>
<td>5%</td>
<td>7½%</td>
</tr>
<tr>
<td>Housing (first mortgages)</td>
<td>5</td>
<td>6%</td>
</tr>
<tr>
<td>Reconstruction of Damaged Farms</td>
<td>3</td>
<td>4%</td>
</tr>
<tr>
<td>Land Consolidation and Improvement</td>
<td>1¹⁄₄</td>
<td>2½%</td>
</tr>
<tr>
<td>Food Industry</td>
<td>5%</td>
<td>7½%</td>
</tr>
<tr>
<td>Inventory Credits</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Reorestoration</td>
<td>1¹⁄₄</td>
<td>2½%</td>
</tr>
<tr>
<td>Resettlement of Expellees, Refugees</td>
<td>1¹⁄₄</td>
<td>2½%</td>
</tr>
<tr>
<td>Shipping</td>
<td>2¹⁄₄</td>
<td>3½%</td>
</tr>
</tbody>
</table>

TIME LIMITS ARE placed on all loans but few loans of counterpart funds are for a period of less than three years. Conditions for repayment vary, naturally, in accordance with the financial circumstances of each borrower. Few borrowers, however, call for the entire loan at one time but ask for it in installments as needed in order to keep the interest expenses to a minimum.

Most projects are financed partly with counterpart funds and partly with commercial money. In exceptional cases a project might be almost entirely financed out of counterpart funds, as was the West Berlin Power Plant with 80 percent coming from counterpart money. Normally, however, counterpart funds are invested in industries which can attract additional funds from other sources.

It is for this reason that counterpart, therefore, is only playing a supporting role in the recovery play. With the capital shortage in Western Germany one of the fundamental problems of the West German economy, ERP counterpart funds can only do a part-time job. The major part of investment funds must come from private German sources. In other words, the utilization of counterpart funds is intended to augment capital rather than to furnish the entire amount of capital needed for rehabilitation.

Release of counterpart money enables the industrial firms to launch modernization and expansion programs through the added utilization of additional German capital which will put money into circulation in far greater amounts than the counterpart funds released.

Through the money thus put into circulation the economy is benefited and living standards take an upward turn. Through better conditions, employment and brighter outlook for the future, the German people can better absorb the democratic approach to life being taught them from the grass roots up.

IN RELEASING THE first major amount of counterpart funds, US High Commissioner John J. McCloy said that it is frequently stated that the United States aid has done much to assist German economic recovery but that not enough has been done to aid the political and spiritual redevelopment of the country.

"Without the economic basis for life," the High Commissioner said, "there is little on which to build the things of the spirit and it is in this sense that this program is designed in itself to encourage a regrowth of the German liberal spirit.

"If with this there does not occur vigorous expression of political and religious freedom, the cardinal objectives of the European Recovery Program, particularly as it is related to Germany, will have failed. The program enables at least Western Germany to develop and invigorate these freedoms in contrast to the sickening sequence of purges, imprisonments and other brutalities which characterize so many areas to the east."