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MONTHLY REPORTS  
OF THE  
BANK DEUTSCHER LÄNDER

JUNE 1949

Monthly Reports  
of the  
BANK DEUTSCHER LÄNDER  
June 1949

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(Western German D-Mark Area), May - June 1949

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The Economic Situation of the Western German  
D-Mark Area, May - June 1949<sup>1)</sup>

M o n e y a n d C r e d i t

For some three months past, the Central Banking System has been intentionally pursuing the policy of easier money. The transition from the period of restriction began when, as of 22 March, the quota system of bank credit, in force since 16 November 1948, was discontinued. In the further course of this policy, recourse to the Central Banking System by financial institutions was facilitated in that the sometimes rather noticeable restrictions on the purchase of bank acceptances were dispensed with as from 21 May (with the proviso, however, that in principle proof must be given that the bank acceptance has served the financing of a specific individual transaction), and in that the maximum

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1) Closed on 5 July 1949.

amount for the purchase of bills of exchange drawn by the banks on their customers (so-called debtor drafts) was increased to 10 000 DM. This practically meant the end of the restriction policy. With a view to further relaxing the situation, the rates for discount credit and collateral loans with the Landeszentralbanken were also reduced by  $\frac{1}{2}$  per cent each as from 27 May, so that with the Landeszentralbanken the rate for discount credit now amounts to  $4\frac{1}{2}$  per cent and that for collateral loans to  $5\frac{1}{2}$  per cent. Owing to the dependency of bank terms and conditions on the Central Bank rate, the credit costs for the ultimate borrower have diminished accordingly. Finally, the minimum reserves for demand deposits of financial institutions at banking places were reduced by 3 per cent to 12 per cent, and at non-banking places by 1 per cent to 9 per cent, a measure which liquefies the money market and thereby likewise contributes towards a reduction of the credit costs, as well as towards an increased readiness of the banks to grant credits.

These steps were of late supplemented by a number of individual measures likewise aiming at a further relaxation of credit markets. In this connection, we may quote, for instance, the promise of the Central Banking System to grant collateral loans to the Unemployment Insurance Fund, so that this Fund, even in the case of fully making available its liquid assets for investments, can rest assured that it may dispose again of certain amounts hereof, if the need should arise. A similar course is followed by the willingness of the Central Banking System to grant, by taking over equalization claims, the liquidity assistance, as provided for such cases in the statutes of the Landeszentralbanken, to those banks which by making available investment accounts for loan subscribers should get into liquidity difficulties.

#### The Development of the Bank Credit

Notwithstanding, the expansion of the credit volume of the business banks (banks outside the Central Banking System) has so far not gained in momentum; on the contrary, since the beginning of May it has slowed down. Whereas during the months of March and

April the monthly rate of expansion of credits on the average of all financial institutions was 6 per cent, it dropped to 4 per cent in May and presumably has dropped still further in June. This weakening of the expansion rate of bank credits may be partly due to the fact that the banks, owing to the bad experiences made with credits granted rather liberally in the beginning, have now become much more careful in selecting their debtors. Beyond this, they feel handicapped above all by the fact that their credit volume is, generally speaking, extraordinarily high as compared with the deposits or with their net worth. Here it is felt to be a great disadvantage that the bank credits granted to a relatively large extent for investment purposes during the first months after currency reform could so far, owing to the freezing of the capital market, be consolidated only to a very modest extent, so that the formerly customary tendency towards a contraction of bank balance sheets by redemption of "pre-financing credits" failed to develop. As a consequence, the banks have a relatively high immovable block of credits, which has greatly reduced the turnover velocity of their credit volume and induces them to restraint in granting new credits, particularly insofar as the latter might illiquidize their credit volume still further. For this reason, the general trend more and more points towards restricting bank credits, wherever possible, to the financing of the commodities turnover.

The Development of Credits granted by the Business Banks  
January to June 1949  
(excl. credits to financial institutions)

Number of institutions covered	Level	Total	short-term credits	long- and medium-term credits	Change against previous month or previous week, resp.	
					in percent	
in million DM						
about 3 500 monthly reporting financial institut.	End. of:-					
	January	5516	4901	615	+359	+ 7
	February	5911	5265	646	+395	+ 7
	March	6256	5551	705	+345	+ 6
	April	6631	5887	744	+375	+ 6
	May	6914	6124	790	+283	+ 4
112 weekly reporting financial institut.	31 May	2504	2291	213	+ 97	+ 4
	7 June	2497	2281	216	- 7	
	15 June	2561	2341	220	+ 64	+ 1.7
	23 June	2546	2331	215	- 15	

Collection of statistics not yet completed; incl. converted old credits.

Insofar as credits are provably required for these purposes, they might, as a matter of fact, be easily obtainable - provided the borrower be trustworthy - especially if he is prepared and in a position to cover the credit by bills of exchange. It appears, however, that the present extent of credit expansion suffices to cover the economy's need for actual short-term turnover credits. From the turn of the year to the end of May, the short-term credits of business banks to their non-bank customers have increased by some 1.5 billion DM, i.e. by almost one third, whereas business turnovers, by percentages, have risen much less during the same period. In this connection, import financing may have been one of the causes for the credit expansion; however, a monthly import rate of 429 million DM as recorded in the first four months of the year, and in which industrial imports participated with only 56 per cent, can have been responsible but partly for the increase of short-term credits by approximately 300 million, even though one takes into account a relatively large stockpiling.

In fact, today part of the credit applications submitted to banks still are actually based on medium- and long-term financing requirements; although formally only short-term credits are applied for. As a matter of fact, the stringency of long-term credits frequently forces credit requirements towards bank credits, although the latter are not the appropriate financing instrument for the intended purpose. Banks today still appear to accept this situation to a certain extent. Owing to the fact, however, that for the reasons mentioned above such transactions today meet with an increasingly reserved attitude, the impression is created of a restrictive credit policy, although the Central Banking System does no longer impose any restrictions on normal bank credit and the banks, be it only for the sake of profitability, endeavour to respond to any credit application compatible with their status.

As regards the proportion of the various types of credit to the total amount granted, the slow but steady decline of credits against bills of exchange, as compared with the total figure of credits, is striking. It is true that credits against bills of exchange granted to non-banks have likewise increased from

January to May as to their absolute amounts, namely by almost 200 million DM; however, as a result of the much stronger increase in the group "current account and acceptance credits", they have fallen back from 43 to 37 per cent, and in the case of the 112 financial institutions reporting weekly, even from 43 to 34 per cent of total credits. Thus, the banks did not hesitate to accept, when granting their credits, a certain illiquidization of their own status as well as the risk that the utilization of many of the credits granted is not of such a convincing short-term nature as is mostly the case with credits against bills of exchange with their fixed terms of redemption.

Composition of short-term Credits by Business  
Banks to Business Enterprises and Private Persons  
percentage of the total sum

Number of institutions covered	Level	current account and acceptance credits	discount credits	other short-term credits
1. about 3 500 monthly reporting financial institutions	31 Dec 48	55	43	2
	31 Jan 49	58	40	2
	28 Feb 49	60	37	3
	31 Mar 49	60	37	3
	30 Apr 49	61	36	3
	31 May 49	61	37	2
2. 112 weekly reporting financial institutions	31 May 49	62	35	3
	7 June 49	63	35	2
	15 June 49	64	34	2
	23 June 49	64	34	2

Credit expansion has not been alike with all groups of banks. Those groups of financial institutions which during the past year suffered particularly from the withdrawal of savings funds and consequently were obliged to exercise a special reserve in the granting of credits, have since the beginning of the year registered an expansion above average. This process of recovery is especially noticeable in the case of rural credit cooperatives, where credit requirements may have been particularly pressing because of the spring cultivation. The savings banks and urban credit cooperatives, however, also were above the average of all financial institutions as regards increase in their credit during the recent months. In the case of savings banks, even the

decrease in the expansion rate as observed in May with all other groups of banks did not occur.

In addition to the expansion of credits granted by business banks, for some months past a considerable creation of money and credit is taking place through the Central Banking System, benefiting directly the economy and public authorities respectively.

This increase in the creation of money by the Central Banking System has various causes. On the one hand, the financing requirement of the German Railways has led to an increased purchase of treasury bills. On the other hand, the Landeszentralbanken and the Bank deutscher Länder have been called upon to a considerable extent for cash advances to public authorities (cf. section "Public Finance"), but also the Railways were given by the Bank deutscher Länder an operational credit which is availed of to a varying extent. The increase in the credit balance of the accounts for the settlement of foreign transactions is on the one hand caused by the release of counterpart funds and other payment orders of Military Government; on the other hand, it is mostly due to the increase in foreign exchange credit balances-abroad which from April 1 to June 23 required some 160 million DM, as well as, of late, to the more dragging payments by importers. All in all, the direct creation of money by the Central Banking System in favour of trade and industry and of public authorities has grown, since the end of February, by some 600 million DM of which merely the remaining amounts not disposed of so far by the Reconstruction Loan Corporation (86 million DM as of June 30), resulting from the counterpart funds transferred to it, have not yet joined the money in circulation.

Creation of Money by the Central Banking System by means of direct credits and the Operation of Foreign Trade  
in million DM

Type	28- Febr	31- March	30- April	31- May	30- June
Cash advances to public administration	48	117	270	242	287
Treasury bills	1	35	50	53	102
Direct credits to borrowers other than banks <sup>1)</sup>	20	19	22	18	14
Credit balance on foreign accounts	153	211	276	493	591
of which, by way of:					
release of counterpart funds	(-)	(-)	(110)	(245)	(279)
other causes	(153)	(211)	(166)	(248)	(312)
	222	382	618	806	887

## Bank Liquidity

The increased influx of central bank money to the amount of money in circulation brought about a considerable rise in the liquidity of the banks, especially as there were hardly any compensating factors. The amount of notes issued in the specified area in June (up to and incl. the 23rd) was, on the average of the periodical statements, only some 175 million DM higher than in March, so that the increase in cash demands by the public with the banks fell short considerably of the direct creation of money and credit by the Central Banking System. Neither have transfers of deposits to the Central Banking System been effected to any greater extent. For this reason, the liquidity of the banks has for some time shown a considerable upward trend. This is reflected, above all, by the strong reduction of the indebtedness of banks to the Central Banking System and by the increase in bills in the portfolio of the banks.

### Development of Bank Liquidity

Level as of	All Banks			112 weekly reporting financial institutions	
	surplus <sup>1)</sup> reserves	Indebtedness to the Central Banking System	Bills in portfolio	Bills in portfolio	
	in mill. in DM	per. cent <sup>2)</sup>	in million DM		
1 Jan 1949	407.5	34.7	1 481	1 684.8	971.7
8 Feb 1949	263.6	22.4	1 539	1 801.6	1 046.2
1 Mar 1949	272.4	22.7	1 565	1 879.2	1 084.7
6 Apr 1949	222.8	18.2	1 567	1 947.7	1 119.3
1 May 1949	291.8	23.2	1 353	2 187.3	1 313.6
15 Jun 1949	331.5	30.8	1 241	.	1 348.2
13 June 1949	404.4	35.6	1 214	.	1 371.7

1) January to May: reports of reserves for the respective month; 15 and 23: estimate for resp. key day.

2) Percentage of reserve required.

Moreover, in spite of the reduced minimum reserve rates, giro credit balances of the financial institutions with the Landes-zentralbanken have remained practically unchanged, so that substantial reserve surpluses have resulted. The credit balances on nostro accounts have likewise risen considerably.



The strong decline in the refinancing requirement of the financial institutions has caused the amount of bills of exchange in the portfolio of the Central Banking System to fall by some 375 million DM since the end of March, so that on June 23 these holdings, for the first time since November last, have fallen below the billion level. As opposed hereto, the bills of exchange in the portfolio of the business banks have considerably increased though, as already mentioned, the discount credits have expanded much less than did current-account and acceptance credits. According to the monthly banking statistics, the bills of exchange in portfolio with all financial institutions increased by almost exactly 300 million DM to 2,187 million DM from the end of March to the end of May; the 112 financial institutions reporting week showed from June 1st to 23rd a further increase in their bills of exchange in portfolio by almost 70 million DM to 1,372 million DM.

The surplus reserves, which in the month of April averaged 18.2 per cent of the reserve required, increased on the average for the month of May to 23.2 per cent of the reserve required. As may be seen from the table above, this development has continued in June at an increased rate. As, for reasons of profitability, it has always been the natural aim of the banks to keep their giro credit balances with the Landeszentralbanken as close as possible to the reserve required, the large amount of surplus reserves, with the indebtedness of other financial institutions to the Central Banking System continuing simultaneously, indicates that the money market is still unbalanced. Generally speaking, the distribution of surplus reserves has nevertheless improved during May, inasmuch as the share of the Girozentralen has declined, although they still hold the largest part of the reserves, whilst that of most of the other groups of banks has grown.

As the credit balances on nostro accounts also increased considerably in May, viz. by approximately 280 million DM with all financial institutions, liquidity quotas, in spite of increasing deposits, remained practically unchanged for the whole of the banks; for some individual groups of banks, they even increased.

## Liquidity of Banks

Cash reserves, bills in portfolio and credit balances on nostro accounts in per cent of deposits on free account

Level of	monthly reporting financial institutions					112 weekly reporting institutions
	Total, some 3500 institut.	Commercial Banks	Savings Banks	Rural Credit	Urban Cooperatives	
March	42	49	26	21	33	56
April	41	48	25	19	30	56
May	42	50	27	19	30	58
June	.	.	.	.	.	57
June	.	.	.	.	.	58
June	.	.	.	.	.	59

The funds raised by banks have, in contrast to April, not increased in May. An increase in debit balances on nostro accounts by some 20 million DM to 811 million DM is opposed by an almost equal decline of own acceptances in circulation, which, according to the monthly banking statistics, amounted to 634 million DM towards the end of May. The contingent liabilities as per statements, consisting in the main of bills indorsed, were even reduced in May by some 70 million to 1,368 million DM. The decline of inter-bank indebtedness, slight as it may be as a whole, indicates that the improved liquidity situation has more or less benefited all banks.

### The Money Volume

The increase in credits granted by business banks and by the central banking system, together with the not yet entirely completed conversion of the RM-liabilities of the financial institutions, have caused the money volume to further grow considerably in May. Thereby the freely available money volume has risen by some 400 million DM to 19.6 billion DM whilst the blocked portion of the money volume has declined by some 30 million to 485 million DM; the investment accounts, from which most of the released "diminutive accounts" up to 5 DM will certainly have been withdrawn already, is contained therein

with 416 million DM. In June, another increase of the money volume must have taken place, if only because of the credit creation by the business banks and the Central Banking System; this increase, however, can hardly be assumed to have exceeded 300 million DM.

As the money in circulation (excluding "B" notes) by the end of May was nearly on the same level as by the end of April, the increase of the money volume was effected almost exclusively through bank deposits. With the business banks, the increase in deposits amounted to 466 million DM (excluding deposits by financial institutions); as opposed hereto, deposits with the Central Banking System declined by 88 million DM (likewise excluding deposits of financial institutions; including, however, the credit bank of the Reconstruction Loan Corporation). Thus, the freely available money volume as of the end of May was composed of almost exactly one third of cash (6.4 billion DM) and two thirds of bank deposits including savings deposits (13.2 billion DM).

Expressed in percentage, the largest increase in deposits during May occurred with the savings banks and urban credit cooperatives which showed an increase of 7 per cent each, whilst the average of all banks only amounted to 4 per cent. Public accounts of all descriptions accounted only to a very small extent - viz. 10 per cent - for the increase in deposits with the business banks during May, whilst in the previous month, they had accounted for almost 50 per cent of the total increase in deposits. Within the Central Banking System, the accounts of public authorities decreased during the last week of May and the first week of June, but by 15 June with 1,556 million DM again slightly exceeded the corresponding May level. The same phenomenon can be observed with the 112 financial institutions reporting week with which public deposits reached approximately 1,625 million DM as of 23 June. Altogether, by the end of May, the deposits by public agencies of all descriptions with the business banks and the Central Banking System amounted to approximately 4,065 million DM, corresponding to 20 per cent of the freely available money volume. About one fourth thereof was booked as time deposits.

Development of Deposits (excl. deposits of financial institutions) during April and May 1949, by groups of banks

in million DM

Group of Banks	Level	Total	Change against previous month		of which		
			absolute	in per cent	public authorities	other creditors	savings deposits
11 month-ly reporting banks	31 March	10 339			2 380	5 852	2 107
	30 April	10 780	441	4	2 584	5 969	2 227
	31 May	11 246	466	4	2 632	6 241	2 373
Commercial Banks	31 March	3 679			540	2 948	191
	30 April	3 804	125	3	599	3 002	203
	31 May	3 965	161	4	582	3 162	221
Savings Banks	31 March	3 614			756	1 406	1 452
	30 April	3 702	88	2	718	1 451	1 533
	31 May	3 969	267	7	826	1 510	1 632
Rural credit co-operatives	31 March	429			14	227	188
	30 April	437	8	2	12	227	198
	31 May	459	22	5	13	236	210
Urban credit co-operatives	31 March	610			26	420	164
	30 April	615	5	-	24	418	173
	31 May	655	40	7	27	445	183

The comparatively favourable development of savings activities is gratifying. According to the monthly banking statistics, at the end of May the savings deposits, totalling 2,373 million DM, exceeded those at the end of April by 146 million DM. However, only part of this growth actually represents a new addition to savings deposits. The conversion of RM savings deposits has again played a certain part, and in the course of the liquidation of the blocked accounts certain amounts may likewise have been transferred to free savings accounts. Still, the surplus of new deposits over disbursements was fairly considerable. On the strength of the monthly statistics of cash transactions on savings accounts as well as from the hitherto available partial results of the statistics concerning savings transactions drawn up by the "Arbeitsgemeinschaft der Sparkassen- und Giroverbände", the amount of this surplus in May may be estimated for all financial institutions at approximately 50 million DM. Accordingly, some 100 million DM must have accrued to the savings

accounts from the continuing currency conversion and from the liquidation of the blocked account. As compared with the aggregate volume of freely available money, savings deposits with all financial institutions amounted to approximately 12 per cent as of the end of May. In June, savings activities seem to have continued satisfactorily.

The tendency towards increasing investment of funds, which is expressed in the increase in savings deposits as well as in the growth of deposits by public agencies, has become effective to a certain extent also in deposits of "other creditors", i.e., deposits by private enterprise. It becomes evident there by increasing time deposits. In May, time deposits by other creditors with business banks increased by 110 million DM, i.e. to one fourth of the level of the previous month; they thus amount to almost 10 per cent of the total deposits by other creditors, as compared with 8 per cent at the end of April and 7 per cent at the end of March.

#### The Capital Market

Certainly, fluctuations to the capital market remained rather small, in spite of a recognizable tendency towards investment of idle funds. Thus, in April and May the banks show an increase of their medium and long-term credits granted to business enterprises and individuals by 45 million each.<sup>1)</sup> During May, mortgage banks, savings banks and Girozentralen mainly accounted for this increase. Long-term fixed-interest-bearing bonds, however, were sold in May only in the amount of approximately 11 million DM (mostly mortgage bonds) against 53.2 million DM in April and 25.3 million DM in March. The propensity to subscribe to new issues of fixed-interest-bearing securities thus has somewhat declined in May. Up to the end of June, subscriptions to the Reichsbahn loan were dull. It may, however, be expected that up to the deferred deadline set for the issue (9 July) further subscriptions, mostly of large amounts, will be made.

1) According to the monthly banking statistics; cf. annotation to table on page - 3 - .

According to the investigations made by the Bank deutscher Länder and the Landeszentralbanken, the following issues were offered for subscription on the capital market between 1 January and 31 May 1949:-

185.5	million	mortgage bonds
55.0	"	municipal bonds
85.0	"	industrial bonds

Total 325.5 million

During the same period, the sales amounted to:-

91	million	mortgage bonds
13	"	municipal bonds
52	"	industrial bonds

Total 156 million

The stock exchange quotations of the old mortgage bonds still expressed in RM, bearing interest at 4 per cent, continued to decrease slightly in May from an average of 7.7 per cent to 7.5 per cent of their nominal RM value. In relation to the converted nominal DM amount, the last named quotation corresponds to a valuation of 75 per cent. The yield calculated herefrom on the basis of a currency of another 30 years amounts to 6.65 per cent. As a result of the tax reduction, the new <sup>DM</sup> mortgage bonds, nominally bearing interest at 5 per cent, yield to the initial purchaser a sometimes much higher interest which in the individual case depends on the gross income and the tax bracket of the acquirer. In the case of a gross income of 600 DM per month, for example, the attainable yield varies between 13.7 and 12.2 per cent according to the family status, provided that the amounts eligible for deduction from the income to be taxed be fully utilized for the purchase of the securities, and that the saving of tax be distributed only over the period of three years, during which the bonds cannot be disposed of. If, however, the tax saving is distributed over 30 years, the yield attainable in the above example would be between 7.1 and 6.7 per cent. If the gross income, instead of being 600 DM, amounts to, say, 2,000 DM per month, the possible yield of the 5 per cent securities acquired under tax remission varies between 18.7 and 24.3 per cent, (when the tax

and between 9.0 and 11.6 per cent (when the tax saving is distributed over 3 years), (when the tax saving is distributed over 3 years).

Considerable amounts have been made available for investment purposes also in May and June by the Reconstruction Loan Corporation. The first allocation made on May 6 for the investment program of the coal-mining industry, amounting to 135 million DM, was paid out by the end of June, except for a balance of 12.4 million DM. Of the instalments for the two first quarters aggregating 110 million DM, provided for the investment program of the power industry, however, 51.4 million DM had not been called for by the end of June; the term laid down for these instalments. In the meantime, a further amount of 34 million DM has been made available to the Reconstruction Loan Corporation during the second and third weeks of June from STEG counterpart funds, for the purpose of house-building for the Occupying Powers, of which amount 14 million DM had been transferred by the Bank deutscher Länder by the end of the month.

Consequently, a total of investment funds of 195.2 million DM have actually reached the economy through the Reconstruction Loan Corporation in the period April to June. A further amount of 200 million DM was released from counterpart funds at the end of June by Military Government to the Reconstruction Loan Corporation. In contrast to previous releases, the funds concerned will be deducted from the GARIOA account of Military Government only according to the existing disbursement requirements so that in consequence of this release the credit balance of the accounts for the operation of foreign transactions has not increased all of a sudden. Of the total of 200 million DM, 71.5 million DM shall be provided for credits to be granted to the industry, 80.5 million DM for house-building credits and 48 million DM for agricultural credits. The original remainder of the so-called immediate-aid program of the Reconstruction Loan Corporation has thus remained uncovered with an amount of 21 million DM.

In addition to this, the Reconstruction Loan Corporation will, very shortly, provide the coal-mining industry with 100 million DM, of which 39 million DM will be paid over immediately. Of this instalment, 18 million DM will be raised from the unemployed

ment insurance fund, and the remainder of 21 million DM in such a manner that the mines will make out single-name bills to be guaranteed by the Reconstruction Loan Corporation and indorsed by the respective mine's bank. In view of the liquidity of the money market, the promise given by the Central Banking System for the refinancing of these <sup>single</sup>/~~single~~-name bills is hardly likely to be called upon. Regarding the remaining 61 million DM, provision has likewise been made to raise them partly from the unemployment insurance fund and partly by means of single-name bills. During the third quarter of 1949, the channelling of hitherto idle funds towards investment, and consequently their re-incorporation into the circulation of money, will presumably speed up perceptibly. Public authorities, in particular, plan to engage a considerable part of their accumulated liquid reserves for investment purposes. A program recently set up by all participating agencies for the supply of capital from German sources during the third calendar quarter, provides for the utilization of the following amounts:-

From:-

Public budgets, (Länder, Bizonal Administration and Gemeinden) 1)	1,000	million	DM
" Self-financing	300	"	"
" Increase in savings deposits	150	"	"
" Capital Investment by social insurance	225	"	"
" Capital Investment by private insurance companies	75	"	"
" Security Investment by private savers, and investment by mortgage banks from net worth	125	"	"
Total	1,875	million	DM

1) For further details, cf. section "Public Finance"

Funds subscribed from "investment accounts" for the Reichsbahn Loan and the projected loan of the Reconstruction Loan Corporation are not contained in this table, nor are the amounts which may be mobilized from the likewise projected tax-free loan of the Reconstruction Loan Corporation. Neither is the utilization of counterpart funds considered in the above estimate; in this



connection it has to be stated that application was made by German quarters to supplement the above-mentioned releases by making available 600 million DM from ERP funds, of which nothing has, as yet, been released.

### P u b l i c F i n a n c e

Of late, a new trend has become noticeable in the development of public finance inasmuch as the agencies concerned intend to increase their investment expenditure considerably or to place their available funds at the disposal of the credit requirements of other investors. Thereby, as well as in connection with the large increase in various other future expenses, mainly for social purposes, the period - dating back to October 1948 of the formation of relatively high reserves, which, as repeatedly pointed out, was a major cause of certain contractive phenomena in the business cycle, may gradually come to an end and, moreover, a far-reaching utilization of the reserves hitherto accumulated may be expected. In the capital supply program, jointly drawn up recently by various departments for the third calendar quarter of 1949, the capital supply to be expected from the regional public authorities and social insurance enterprises is estimated at a total of 1,225 million DM. It is, however, likely that also in the current quarter investment expenditures by public authorities already exceed those of the winter quarters.

As regards the financial situation of the Länder, this development is being substantially promoted by the continuously favorable tax revenue, which forms a gratifying contrast to certain doubts raised some time ago. Tax receipts in May, amounting to 1,226 million DM, were almost 60 million DM lower than in April (1,284 million DM), it is true, but some 100 million DM (= 8.9 per cent) higher than in February, the last preceding month having the same dates of payment. Thus, tax revenue has further increased owing to the upward business trend.

As compared with February, the revenue from excise and customs duties was particularly good, the figures being higher than in any other month since currency reform. But the total receipts

from taxes on income, property and turnover also continued to increase; the assessed income tax alone showed a downward trend, probably due, in part, to the fact that the taxpayers availed themselves of the deductions for tax granted under the Second Ordinance on the Provisional Revision of Tax Legislation, and reduced their advance payments accordingly. That this is hardly an effect of the general business trend is to be seen in the fact that the other taxes of this category, i.e., chiefly corporation tax, turnover tax and wages tax, have increased considerably. According to the figures on tax revenue available so far, one can, therefore, neither speak of a decline of profits, nor of the total of wages, nor of turnover. It is particularly remarkable that even the wages tax, in spite of the increase in the degree of unemployment, showed no decline in May as compared with March.

No details are as yet available as regards expenditures by the Länder for the new financial year. As compared with the monthly average of the last financial year, expenditures have, however, apparently gone up, at least in the Combined Economic Area. This applies chiefly to the expenditure for investments, recently estimated by the finance administrations of the eight Länder of the Area at about 500 million DM for the quarter April to June 1949 as against some 300 million DM, the quarterly average of the period July 1948 to March 1949. As mentioned above, the Länder intend in the second quarter of the current financial year to increase these expenditures to some 800 million DM, 75 million DM of which amount shall be made available for the investment program of the Reichsbahn. Cover is to be derived at 650 million DM from own funds, at 85 million DM from receipts under the mortgage security law and at 65 million DM from the unemployment insurance fund.

Tax Revenue in the Specified Area  
(February and May = months with comparable dates  
of tax payment)

	January	February	March	April	May	Change in May as against Febr. per cent
1. Taxes on In- come, Proper- ty and Turn- over						
total	1 184.5	872.3	827.2	992.0	884.3	+ 1.4
wages tax	178.9	162.7	169.3	159.2	169.1	+ 3.9
assessed in- come tax	364.5	257.0	213.5	303.0	226.6	-11.8
corporation tax	164.1	100.8	99.2	167.9	121.2	+20.2
turnover tax	343.9	276.4	291.2	300.9	314.9	+13.9
2. Excise and customs duties	246.0	254.3	333.7	292.1	342.1	+34.5
3. Total Tax Revenue	1 430.5	1 126.6	1 160.9	1284.1	1226.4	+ 8.9

Source:- Department for Finance, and Finance Ministries of the Länder  
of the French Zone

Such an increase in expenditures is, of course, not possible without recourse to the available reserves. By the end of May 1949, cash holdings reported by the eight Länder of the Combined Economic Area amounted to 455 million DM. In addition to this, however, there were funds earmarked for special purposes, amounting to almost 100 million DM, and, at least in the case of some Länder considerable reserve funds not yet reported, which will in all likelihood now be also called upon to cover expenses. If realized to that amount, the planned investment program will, nevertheless, entail a considerable strain on Länder finance, as other liabilities will likewise increase. To start with, as from 1 July the Länder have to make increased payments to the old age insurance under the Ordinance to Revise Social Insurance Benefits. Furthermore, it is fairly certain that pensions for war disabled and surviving dependents will be raised, and finally the Länder will have to make advances on the initial payments

under the Immediate Aid Ordinance. As this Ordinance has not yet been approved by Military Government, there may be further postponement of the first disbursements as well as of the first term for payment of the tax, which in the Ordinance was fixed at 20 August; but the beginning of disbursements will certainly coincide with the planned increase in investment expenditure. The Länder intend to finance the advances to immediate-aid payments, at least in part, by issuing treasury bills. Through the reduction to the inland price level of foodstuffs to be imported at world-market prices as from 1 May, further specific burdens will result for the Länder, provisionally estimated at 276 million DM per annum. If this estimate is not exceeded - which to a great extent depends on quantities and prices of future imports - , this would at least mean a reduction of the subsidies paid hitherto in order to keep import prices down, which subsidies have encumbered the Länder budgets with a total of 195 million DM from March to June of this year. This reduction would in the main be due to the fact that world-market prices in the current economic year actually fall, to the extent anticipated, below the level of the previous year.

Taken as a whole, the May budgets of the Länder of the three Western Zones may have been just about balanced. At any rate, cash holdings have varied but slightly during May, even if the new debts incurred by some Länder are taken into account.

The situation of the individual Länder, however, continued to be very dissimilar. First of all, the Länder of the French Zone continued to be in considerable difficulties. Baden alone showed a deficit of 7.4 million DM, which was financed mostly from proceeds of the treasury bonds offered for sale on 9 May 1949 at an amount of 5 million DM, but partly also by recourse to the means of the Land unemployment insurance fund. The budget figures now available for the period January through March 1949 clearly show that the unfavourable financial position of the Länder of the French Zone, apart from their relatively weak capacity for paying taxes, is to be ascribed mainly to the high costs of occupation. Of the total tax revenue for the period under review, occupation costs absorbed nearly 45 per cent

against some 32 per cent in the Länder of the Combined Economic Area. As the budget situation of all three Länder of the zone recently deteriorated still further, the French Military Government, in June, has agreed to a reduction by 12 million DM of the occupation cost demands upon the Länder budgets, which demands on the average of the last few months amounted to approximately 50 million DM.

Cash holdings<sup>1)</sup> and Degree of New Indebtedness  
of the Länder of the three Western Zones.  
in million DM

	End of March		End of April		End of May	
	cash- holdings	new in- debted- ness	cash- holdings	new in- debted- ness	cash- holdings	new in- debted- ness
Northrh.-Westf.	252.9 <sup>2)</sup>	-	162.7 <sup>2)</sup>	-	223.1 <sup>2)</sup>	-
Lower Saxony	3.6	1.5	13.7	3.0	25.0	15.0
Schlesw.-Holst.	104.8	17.2 <sup>2)</sup>	123.5	20.5 <sup>3)</sup>	138.2	19.8
Hamburg	58.9	-	28.6	-	43.6	-
Bavaria	41.1 <sup>2)</sup>	-	40.0 <sup>2)</sup>	-	53.7 <sup>2)</sup>	20.0
Hesse	16.1	7.5	3.6	7.5	28.1	13.4
Württ.-Baden	205.2 <sup>2)</sup>	-	193.9 <sup>2)</sup>	-	173.1 <sup>2)</sup>	-
Bremen	36.5	-	40.4	-	43.5	-
Combined Economic Area	583.3 <sup>3)</sup>	26.2	423.4 <sup>3)</sup>	31.0	455.2 <sup>3)</sup>	68.2
Rhine-Palat.	29.2	31.5	34.3	43.8	31.4	42.5
Baden	17.4	35.2	12.0	33.4	15.4	27.0
Württ.-Hohenz.	5.5	15.5	8.0	1.1	12.2	2.0
Lindau	1.0	-	6.6	-	4.1	-
French Zone	51.1	72.2	47.4	78.3	54.9	71.5
Western Germany	532.2 <sup>3)</sup>	98.4	375.7 <sup>3)</sup>	109.3	400.3 <sup>3)</sup>	139.7

1) Excl. cash funds earmarked for special purposes and trust funds, and excluding reserves.

2) only Landeshauptkasse or Staatshauptkasse resp.

3) excl. financial aid of the Länder to Schleswig-Holstein amounting to 81.0 million DM by the end of March, 81.4 million DM by the end of April, and 109.5 million DM by the end of May 1949.

Moreover, payment of the instalment, due on 10 June, of the regular DM payments by the Länder to the French Military Government was deferred to 25 June. Nevertheless, financing even of the reduced occupation costs was only partly possible from ordinary budget funds; part of the funds required were taken from the import counterpart funds.

Among the Länder of the Combined Economic Area, Schleswig-Holstein again was able to balance its budget in May only by means of aid granted by the financially strong Länder. The amount of the aid concerned increased from 91.4 million DM to 109.5 million DM. But also in Lower Saxony, Hesse and Bavaria the current expenditure could obviously be met only by taking up credits. The credit liabilities of Lower Saxony rose by 12 million DM, those of Hesse by 5.9 million DM, and Bavaria was, for the first time, compelled to incur debts in the amount of 12 million DM.

Corresponding to the different financial position, the contributions of the individual Länder towards the investment program totalling 800 million DM, as drawn up for the next quarter, considerably deviate from one another. Although in the appropriations for investment purposes the grants on the basis of the provisional financial equalization were considered, in Lower Saxony, Bavaria, Schleswig-Holstein and Hesse, the amounts per capita are substantially lower than the average for all Länder, whilst <sup>in</sup> the financially strong Länder Hamburg, Bremen, Northrhine-Westphalia and Württemberg-Baden they are partly considerably in excess of that average. These differences unfortunately are diametrically opposed to the state of the labour market in the individual Länder, though it is to be hoped that also the disbursements by the financially strong Länder, in the long run, will not fail to affect business trends of the financially weak Länder having a relatively high degree of unemployment. In several Länder where tax revenue did not permit promotion of investment activities to any great extent, the attempt was made recently to open up other sources, especially for the financing of the social housing program. Thus Bavaria, in June of this year, introduced a

"Baunotabgabe" (tax the proceeds of which are earmarked for housing purposes), based on fire-insurance values and to be borne by the tenants; the receipts from this tax are estimated at 40 million DM. A similar tax, amounting to a certain percentage of the rents, is being levied by Rhine-Palatinate.

Investment Expenditures planned by the  
Länder of the Bizonal Area for the  
period July to September 1949

	million DM	DM per capita
Northrhine-Westphalia	346.25	26.8
Lower Saxony	38.5	5.5
Schleswig-Holstein	41.4 <sup>1)</sup>	15.0
Hamburg	87.2	56.4
Bavaria	73.7	7.9
Hesse	39.6	9.2
Württemberg-Baden	78.9	20.1
Bremen	19.7	34.5
Total	725.25 <sup>2)</sup>	17.1

1) excl. investments in Schleswig-Holstein to be financed from funds of the bizonal budget

2) excl. loan to the Reichsbahn amounting to 75 million DM

During the last two months, the budget of the Combined Economic Area was subject to heavy special demands. In May, a non-recurring subsidy payment of 30 million DM had to be effected to the so-called marginal enterprises of the coal-mining industry, this subsidy payment completely exhausted the cash funds still available. Therefore, certain final payments for the past financial year and relatively high transfers to Berlin again made it necessary in June to resort to cash advances from the Bank deutscher Länder. Consequently, on 30 June the total amount of cash advances taken up by the Combined Economic Area amounted to 175 million DM; the cash credit available at the end of April for the purchase of the so-called bizonal grain reserve and amounting to originally 168.6 million DM having been repaid except for 110.5 million DM.

Again there are no figures on hand regarding the financial position of the Gemeinden during the period under review. The fact, however, that the new short-term indebtedness of the Gemeinden with the business banks was shown at some 23 million DM at the end of May, and thus just as before is extremely small, indicates that in this respect serious difficulties <sup>can</sup>/hardly have existed so far. This assumption is confirmed also inasmuch as the first results published recently of the comprehensive statistics on Gemeinde finance in the Combined Economic Area, covering the period 21 June to 31 December 1948, indicate that the financial development of the Gemeinden during the first half year after currency reform was comparatively favourable.

Revenues and Expenditures of all Gemeinden  
in the Combined Economic Area from 21 June  
through 31 December 1948

in million DM

	21 June to 30 September	1 October to 31 December	21 June to 31 December
Revenues <sup>1)</sup>	995.6	1 595.3	2 590.9
Expenditures	1 229.4	1 555.9	2 785.3
Surplus (+) or deficit (-)	- 233.8	+ 39.4	- 194.4

1) Excl. receipts from the first supply (some 435 million DM) and excl. receipts from debts and withdrawals from capital assets (22.5 million DM)

Source:- Statistical Office of the Combined Economic Area.

The deficit recorded in the first three months after currency reform was replaced by a surplus - analogous to the Lander - as early as in the fourth quarter of 1948. The deficit for the whole of the period thus amounted to some 195 million DM only. It was financed at 22.5 million DM by borrowing and by withdrawal from capital stock, and at somewhat more than 170 million DM from the first supply. As, however, the Gemeinden were given a first supply of 435 million DM (excl. the amounts passed on to Gemeinde enterprises), they should have still possessed, on 31 December 1948, some 265 million DM from first supply funds. According to figures on hand for some individual Lander, in general, further additional surpluses have been



obtained in the first quarter of 1949. It must consequently be assumed that the Gemeinden in general still dispose of considerable reserves even now.

In the French Zone, however, the situation also in this field of public finance appears to be much less favourable. As regards Rhine-Platinate, the only Land for which figures are available, the Gemeinden at any rate showed certain, though unimportant, deficits also for the quarters October through December 1948 and January through March 1949.

Particularly informative are the investment expenditures reported by the Gemeinden of the Combined Economic Area, which, probably not to the full extent, are stated as "expenditure for building projects" at 114.3 million DM for the first D-Mark quarter and at 160.7 million DM for the second D-Mark quarter. It may be assumed that in the meantime these expenditures have further increased by reason of the favourable financial and cash situations, and can be increased even further if the Gemeinden, which in the past always financed a particularly large part of public investments, employ, the same as the Länder, the reserves originating from their ample first supply. Even considering the fact that in some Länder a considerable part of Gemeinde investments, e.g., in the field of clearance of war ruins, is financed from Land funds and is, therefore, already shown under the investment expenditures of the Länder, the contribution for the quarter July to September 1949 estimated at 100 million DM, as well as the contribution of the Länder towards investment financing in the entire ERP year 1949/50, estimated in the aforementioned capital supply program at only 300 million DM, is to be considered very low; it will probably be exceeded.

According to preliminary statements, the unemployment insurance again attained a surplus of some 25 million DM in May. The total of surpluses accumulated in the period from currency reform to the end of May thus amounted to some 338 million DM; their development since currency reform may be seen from the following table:-

Development of Surpluses of the Unemployment Insurance Fund in the Combined Economic Area since Currency Reform

in million DM

1948 July	7.3	1949 January	44.2
August	47.2	February	9.8 <sup>1)</sup>
Septem.	39.6	March	20.7 <sup>1)</sup>
October	47.4	April	20.8 <sup>2)</sup>
Novemb.	44.9	May	25.0
Decemb.	51.0		
<hr/>		<hr/>	
Total	237.4	Total	120.5
<hr/>		<hr/>	
Monthly average	39.8	Monthly average	24.1

Total surpluses July 1948 to May 1949:- 357.9

- 1) excl. figures for Bavaria
- 2) preliminary

Source:- Department for Labour

Fluctuations from one month to another, in part fairly considerable, may be to a large extent correlated with the payments of the Länder for unemployment relief benefits. At any rate, the average monthly surplus in 1949 was some 15 million DM below that of the D-Mark period of the year 1948. If one excludes the poor result for July - which was due to the currency reform - whereby the monthly average for 1948 is increased to 46 million DM, it is revealed that the deterioration of the labour-market situation experienced since the beginning of the year has reduced surpluses to almost one half of the former amounts.

When compiling a statement of the present assets of the unemployment insurance fund, one has to consider, apart from surpluses attained so far, also the funds originating from the conversion of old currency credit balances amounting to some 100 million DM, and the claims, amounting to at least 70 million DM, resulting from preliminary financing of unemployment relief benefits on behalf of the Länder. Schleswig-Holstein and Lower Saxony in particular are in arrears with the refunding of such advances, which, in effect, means that the unemployment insurance fund has financed to a corresponding extent the deficits of the Länder concerned.

In the course of the past few months, the unemployment insurance fund already placed a considerable part of its available reserves at the disposal of financing investments, especially in the field of social housing. At the beginning of June, these partly short-term, partly long-term loans amounted to some 140 million DM; further binding promises are said to have been given in almost all Länder. In the discussions - already mentioned in the last monthly report - held with the Reconstruction Loan Corporation on the subject of granting a major credit, the unemployment insurance fund, in view of the above-mentioned commitments, promised only a total amount of 60 million DM, of which only 18 million DM are to be handed over immediately, whereas the remainder will presumably not be available before fall. Even though this result implies a regrettable curtailment of the funds expected for the Reconstruction Loan Corporation, it may nevertheless be anticipated that the reserves of the unemployment insurance fund will gradually be utilized in other ways as well, and thereby lend support to investment activities.

#### Foreign Trade

Exports of the Combined Economic Area have again risen considerably in May. At 331.5 million DM they attained the so far highest post-war level, surpassing the last peak reached in May by some 22 million DM. The increase is chiefly accounted for by <sup>finished</sup> goods, end-products again showing a particularly marked increase. The export of raw materials and semi-finished goods, on the contrary, has only about maintained the March level.

When judging this pleasing result it must, however, be borne in mind that it reflects to a considerable extent the completion of contracts which were concluded some time ago. This is chiefly due to the fact that the average conversion rate of the Dollar value of exports in D-Mark for May was only 28.4 cts for each DM of export value, although for some time all newly concluded contracts have had to be settled at the official rate of 30 cts = 1 DM. Consequently, the result for May may not necessarily be interpreted as an expression of

present German export chances in the world market.

As far as the latter are concerned, it rather appears from numerous individual reports that German exporters meet with growing difficulties in their efforts to achieve the urgently necessary increase in exports.

In this connection, an important part is played by the fact that the absorption capacity of world markets has been threatened for some time by an ever increasing weakening of business trends. Since the middle of 1948, prices in the international market for raw materials have shown a strong decline. Moody's price index number for some important international staple goods decreased, from the beginning of October 1948 to the end of June 1949, by 19 per cent. This shows that the purchasing power of the raw material and agricultural areas overseas is on the decline. Since the autumn of 1948, the American business trend <sup>has</sup> weakened. Industrial production in the USA decreased from November 1948 to April 1949 by more than 8 per cent, the degree of unemployment increased from 1.6 millions to over 3.5 millions, wholesale prices dropped by almost 10 per cent, and the total of income payments is on the decline. Obviously, also the world markets are changing more and more from "sellers' markets" to "buyers' markets" in which expansion of sales needs doubled efforts.

That, however, by no means implies that this trend must eventually lead to a stronger decline, but the more the "sellers' markets" disappear, Western Germany's position as competitor is becoming particularly difficult, if only for the reason that so far she has achieved only a modest "contact" with the world market. German representations abroad have not yet been reestablished, and only a small number of producers and business men have the opportunity to personally obtain an insight of the quick change of sales conditions abroad. Again and again it becomes clear, therefore, that the German export production lacks the necessary orientation.

Foreign Trade of the Combined  
Economic Area  
in million DM

	I m p o r t					
	monthly average					
	1st half 1948	2nd half 1948	Jan/ March 1949	March 1949	April 1949	May 1949
Food Industry	124.5	179.6	180.2	174.8	187.7	265.0
Industrial Commodities	70.6	152.6	232.3	271.0	284.7	381.6
raw-materials	39.2	82.7	125.6	146.6	143.2	196.1
semi-finished goods	24.3	51.2	67.0	68.3	64.0	100.4
finished goods	7.1	18.7	39.7	56.1	57.5	85.1
pre-manufact- ured products	4.4	10.9	21.8	34.5	21.6	32.4
end products	2.7	7.8	17.9	21.6	35.9	52.7
Total	195.1	332.2	412.5	445.8	452.4	646.6

	E x p o r t					
	monthly average					
	1st half 1948	2nd half 1948	Jan/ March 1949	March 1949	April 1949	May 1949
Food Industry	4.6	3.5	9.8	6.2	6.3	2.8
Industrial Commodities	76.2	218.5	270.1	301.0	282.1	328.7
raw materials	21.9	54.4	56.6	62.9	57.1	63.4
semi-finished goods	23.6	66.8	94.6	106.2	94.4	106.0
finished goods	30.7	97.3	118.9	131.9	130.6	159.3
pre-manufact- ured products	16.7	51.1	60.5	64.9	62.1	69.4
end products	14.0	46.2	58.4	67.0	68.5	89.9
Total	80.8	222.0	279.9	309.2	288.4	331.5

If the gratifying upward trend taken by the German export since currency reform should substantially slow down or even come to a stop, this would entail immediate serious consequences for the whole of the German economy. Plans connected with the balance of payments provide that in the next few years Germany will earn a rapidly increasing portion of her imports herself, so as to become nearly self-supporting by 1952/53. For the time being, however, German exports continue to be very low, as the increase achieved during the last months started from an extraordinarily low basis. According to the statistics of the International Monetary Fund, the exports of Western Germany (Combined Economic Area and French Zone), incl. services, in 1948 amounted to 742 million Dollars as compared with a world export of 54 billion Dollars (excl. Soviet Union). Western Germany's share in world trade thus amounted to only 1.3 per cent, whilst in 1938 Germany's share in world trade was 9.8 per cent. As Western Germany's share in Germany's total trade had amounted to some 60 per cent before the war, this is a decline which is accounted for only to a small part by statistical reasons. The low state of Western Germany's exports becomes still more evident when the yearly export volume is calculated per capita. Expressed in prices of 1936, in the year 1948 the Combined Economic Area's export per capita was 31 RM, or DM resp.; in the year 1949 (calculated on results for the first five months) it was 40 DM against 120 RM in 1936. Thus also in 1949 the quota per capita of exports has so far reached only 33 per cent of the level as of 1936. In this connection, it is to be borne in mind that the extent of current exports is by no means determined by the export of finished goods, as was the case in 1936, but exclusively by compulsory exports of coal, timber and scrap, which in the first five months of 1949 still amounted to some 191 million Dollars, or 46 per cent resp., of total exports. In this field, no difficulties to sell the goods were encountered hitherto, the more so as since last fall the purchaser would pay for these goods, to a large extent, by means of drawing rights, i.e., without expenditure of foreign exchange. As opposed hereto,

exports of finished goods are still very small. The export volume of industrial finished goods per capita of the population in 1936 amounted to some 58 RM, in 1949, however, (calculated on results from the first five months) to 18 DM only. In the case of a number of finished goods which are important for exports, the share in exports changed as follows:

	in per cent of total exports	
	1936	1949 (January-April)
Machinery (excl. electrical)	12.8	6.7
Hardware	8.1	4.9
Electrotechnical Products (incl. electrical machinery)	5.4	1.7
Chemical end products	3.6	0.8
Textiles	3.4	0.1
Paper, cardboard and goods of such material	3.1	0.2
Goods of non-ferrous metals	2.7	0.5
Leather and leather goods	1.8	0.1
Glass and glassware	1.6	0.2
Earthenware and porcelain	1.4	1.0
	<u>43.9</u>	<u>16.2</u>

Within the scope of finished goods, an increase in the share in total exports can practically be ascertained only in the case of woven and knitted fabrics and the like (1936:- 4.4 per cent, 1949:- 9.8 per cent). It must, however, be borne in mind in that connection that a considerable part of woven and knitted fabrics were exported on the strength of old contracts.

In May, imports of the Combined Economic Area increased by almost 200 million DM or some 60 million Dollars as against April and thereby reached a new peak level. The striking increase is partially explained by statistical reasons, as

certain imports of the previous months were shown but now, and as the collection of statistics was considerably speeded up at the same time. After all, the increase in imports during May as compared with April is, in fact, an increase in the import volume.

Of the increase in imports, some 80 million DM are taken up by the food sector; above all, the import of food stuffs of animal origin has increased. Of the industry imports, imports of raw material increased by 37 per cent, imports of semi-finished goods by 57 per cent, and the finished goods' imports by 48 per cent. Finished goods now accounted for 22 per cent of the total industrial imports.

In May, imports under the Marshall Plan, in spite of considerable arrears, were relatively insignificant at 23.2 million Dollars. Altogether, up to the end of May the Combined Economic Area received supplies in the amount of only 267 million Dollars, or, excl. freights, 248 million Dollars, although according to the delivery programs imports up to 30 June <sup>1949</sup> should have amounted to 416 million Dollars, or to 383 million Dollars, respectively when freights are deducted. Only imports for the foodstuffs sector have been settled according to the schedule. Contracts here were concluded directly by the central army procurement agencies in Washington, together with purchases from GARIOA funds. They were comparatively easy to be carried out, as experiences of several years were available in this field, and primarily large global transactions had to be concluded. As opposed hereto, Marshall Plan deliveries of industrial goods could be carried out only on a commercial basis. Consequently, current problems relating to details of programs, priorities, technicalities, delivery dates, &c., had to be clarified with the appropriate agencies in Western Germany, which procedure proved to take up much time and resulted in constant changes of dispositions.

Of the deliveries (excl. freights) provided to be made up to 30 June 1949, 53 per cent were to be taken up by industrial goods. The actual industrial deliveries up to 3 May, however,



amounted to only 39 per cent of the total deliveries (viz., 97.3 million Dollars). They were composed as follows:-

	Million Dollars
Cotton	40.1
Hides and leather	15.8
Tobacco	14.1
Non-ferrous metals	5.6
Oils, fats, glue	5.4
Tires and tubes	3.4
Textiles	3.4
Raw materials for paper manufacturing	2.9
Mining equipment	1.6
Chemicals	1.5
Petroleum and crude oil	1.3
Animal and vegetable fibres	1.0
Industrial machinery	0.6
Other items	0.6
	<u>97.3</u>

The difficulties, repeatedly described in recent monthly reports, which are met in selling on the domestic market specific imports the contracts for which had been concluded some time ago, have not been further aggravated in general. Nevertheless, the block of imports which at present cannot be quickly disposed of is not small. It must, however, be emphasized again and again that this does not perhaps mean a general sales crisis, but only the problem of disposing of specific global imports which have to be taken in as a consequence of import dispositions made a considerable period of time ago and which do not agree anymore with the current market conditions. But here, too, mostly temporary difficulties are concerned, especially where the imported quantities in question have to be taken up intermittently. In many cases, it will by all means be possible to remove these difficulties in the course of time.

State of the Delivery Programs for  
Imports under the Marshall Plan <sup>1)</sup> to  
the Combined Economic Area as of 31 May 1949

in million Dollars

	2nd quarter 1948 to 2nd quarter 1949			3rd quarter 1949 and later			total		
	food sec- tor	indu- strial sector	total	food sec- tor	indu- strial sector	total	food sec- tor	indu- strial sector	total
Delivery Programs	179.5	203.7	383.2	5.0	80.5	85.5	184.5	284.2	468.7
of which delivered	150.2	97.3	247.5	-	-	-	150.2	97.3	247.5
outstanding	29.3	106.4	135.7	5.0	80.5	85.5	34.3	186.9	221.2
of which									
contracted but not yet delivered	13.5	64.8	78.3	-	-	-	13.5	64.8	78.3
approved but not yet contracted	0.6	33.0	33.6	-	23.2	23.2	0.6	56.2	56.8
not yet approved	15.2	8.6	23.8	5.0	57.3	62.3	20.2	65.9	85.4

1) excl. freight

DM payments amounting to 576 million DM by importers to the Bank deutscher Länder for "B" imports and deferred imports reached a new peak in May, whereby it is to be considered that more than half of the receipts for GARIOA imports resulted from the payment for the bizonal grain reserve, which was made possible by a cash credit of the Bank deutscher Länder. At any rate, "B" imports participated in the increase with some 50 million DM.

Deposits of Importers  
in million DM

Monthly average, or month resp. 1948/1949	GARIOA, ERP, and STEG imports	B-im- ports	imports total
July-September	171.5	52.3	223.8
October-December	182.3	109.2	291.5
January-March	229.1	167.9	397.0
April	174.0	167.9	338.9
May	359.0	216.8	575.8

Disbursements via the accounts kept by the Bank deutscher Länder for the operation of foreign transactions likewise increased considerably in May. This increase primarily concerned disbursements for exports effected, whereas disbursements to the debit of counterpart funds increased but slightly. Up to the end of May, releases for the purpose of financing investments amounted only to some 15 per cent of the total non-commercial disbursements effected since currency reform. Means available from counterpart funds (total balance less amounts already earmarked for specific purposes) amounted to some 470 million DM on 31 May 1949.

Payments for GARIOA imports diminished considerably in June, as the amounts received from importers in payment of the bizonal reserve were now utilized to repay the aforementioned credit. In total, payments as well as disbursements declined by some 60 million DM.

The amount of 17.2 million Dollars, made available by mid-May in the form of drawing rights to the European partner countries by the Western German Economic Area (Combined Economic Area and French Zone) within the scope of the European Clearing and in accordance with the compensation carried out as of 30 April 1949, was nearly twice as high as the average of the previous months, in which a total of 57.1 million Dollars had been made available since the conclusion of the Paris Payments and Compensation Agreement.

The increase is due, inter alia, to the fact that the so-called "75 per cent rule" was dropped after 31 March 1949. As a matter of fact, pursuant to Art. 15 of the Paris Agreement not more than 75 per cent of the drawing rights at disposal of a partner country were to be utilized for compensation until 31 March 1949, in order to avoid that the foreign/<sup>exchange</sup> reserves represented by the drawing rights were used up too quickly, whereby in the last quarter of the first Marshall Plan year difficulties might have arisen for the further development of foreign trade. After removal of these restrictions, three out of the five Länder in whose favour drawing rights are established in the Western German Economic Area availed themselves to the full extent of the amount still outstanding. The two remaining Länder had also reached a comparatively high utilization quotient with the drawing rights granted to them up to and including the end of April 1949 by the Agent for the settlement of the intra-European payments (BIS Basle). From 31 October 1948 to 30 April 1949, seven out of a total of nine monthly compensations provided for in the Paris Payments and Compensation Agreement had been effected. For the same period, the Western German Economic Area had made available drawing rights totalling 74.3 million Dollars, i.e., 76.3 per cent of the total of drawing rights to be granted in the amount of 97.4 million Dollars by this Area. The nearly complete agreement reached hitherto between the calculated and the actual balance is explained, inter alia, by the fact that the drawing rights granted served in the first place to settle the commitments of the partner countries currently arising from Western German coal supplies. As, however, the coal exports, which in pursuance of the Moscow Agreement concluded in the spring of 1947 are compulsory exports, bear a definite relation to the coal output and as the latter may be forecast rather accurately, it was possible, when concluding the Paris Agreement, to calculate in advance, with a certain degree of accuracy, the export surpluses in respect of the individual partner countries.

As regards imports, the position was entirely different. The higher imports planned for Western Germany could frequently not be realized. In such cases, however, where they were made possible, the technique of first-category compensations, in view of the existing ratio of debts amongst the partner countries, has partly counteracted the utilization of drawing rights intended for Western Germany. The development of accounts permitted full utilization of the released 25 per cent of drawing rights only in respect of one country, whereas in the case of three other countries the drawing rights established in favour of Western Germany, according to the position as of 30 April 1949, actually became effective only on an average of 19 per cent, and in respect of two other countries the drawing rights so far remained completely unused. This is in the first place connected with the fact that the imports provided for each country when fixing the drawing rights could only partly be reconciled with the requirements to be covered by the respective countries. Theoretically, the Western German Economic Area <sup>may</sup> still, for the months of May and June, call upon drawing rights amounting to 83.4 million Dollars, but their full realization cannot be counted upon by the date originally laid down, as the recently increased trend to the debit side, i.e., the prerequisite for the utilization of drawing rights, is frequently compensated by the aforementioned coal exports.

Consequently, the gap between the drawing rights given and received by Western Germany has widened further as a result of the compensation as outlined above. The partner countries (contracting parties) have received a total of 45.5 million Dollars in excess of the amount Western Germany obtained herself. In that same amount a curtailment of Marshall Plan aid already allocated has provisionally taken place, as the possibility of imports without foreign exchange, as offered by the drawing rights, was not utilized to that extent.

## Employment, Production and Sale.

During the last weeks, the general public has again observed the domestic business trend chiefly from the point of view of rising unemployment. Actually, unemployment figures in June increased to about the same extent as in May, namely by approximately 26,000; in the first half of the month, a somewhat stronger rise (by 29,000) was recorded, and in the second half a slight decline. That this development, however, by no means represents the decisive symptom of the business trend is proved inasmuch as - at least in May - not only industrial production increased to a greater extent than in the previous months, but the number of employed has also grown. According to the quarterly statistics on employment, comprising all branches of industry, at the end of June the number of wage and salary earners at almost 13.49 million was by some 41,000 higher than at the end of March of this year. Thus, regarded globally, the increase in the degree of unemployment during the last three months, totalling 116,000, does not perchance depend on the fact that employment has decreased, but exclusively on the heavy and constant new inflow of persons seeking employment such as repatriated prisoners of war, refugees, expellees, youths born in the thirties which years had high birth rates, and numerous other persons hitherto not depending upon gainful employment. Although it is regrettable that all this fresh inflow of manpower could not be given work, in any case at least a good quarter of these new arrivals found employment. At all events, this quota is shown by comparison of the increase in the numbers of wage and salary earners and of unemployed, i.e., the increase in the "labour force". The number of self-employed has, however, doubtlessly risen, as may be concluded from the new establishment of firms under the "freedom of trade". This result is all the more remarkable as a fairly strong process of industrial rationalization is under way which, in spite of growing production, keeps within narrow limits the industry's capacity to absorb additional workers.

in any case, the increase in industrial production recorded in the first half of 1949 was reached with the rate of employment being hardly changed.

In examining the present degree of unemployment, which at 1.3 million (almost 9 per cent of the wage and salary earners) must not be made light of, a further factor has also to be considered:- amongst the presently unemployed there is an alarmingly high percentage of persons whose ability<sup>1)</sup>/work is impaired. According to a survey recently carried out in Hesse <sup>1)</sup>, of the unemployed registered for the period January to March 1949, more than one half, being elderly and physically weak persons, were "not fit for all types of manual work". The proportion of male unemployed unfit for "heavy manual work" even came to between 65 and 75 per cent of the total of unemployed males. In addition to this, many of the presently unemployed persons have had no sort of occupational training, or by misfortune were driven to localities where possibilities for employment do not exist, whilst for the time being resettlement cannot be undertaken owing to the housing problem. This accounts for the fact that at the end of April 36.3 per cent of the total figure of unemployed in the Combined Economic Area were refugees, although the number of refugees totals only some 16 per cent of the population. All this, of course, does not mean that a passive attitude might be adopted towards the problem of unemployment, but it shows that a large part of the present-day unemployment is not to be looked upon as a symptom of the business cycle, and that endeavours to reduce it must not be limited to measures of cyclical policy.

In spite of the increase in unemployment, industrial production after a two months' period of stagnation, has again risen in May. In May, the production index number calculated for the Combined Economic Area by the Department for Economics (1936 = 100), according to monthly figures comes to 87 against 82 in April and, calculated per working day, to 88 against 86 in April and March, and against 79 in January. In the first five months of the current year, industrial

1) "Hessischer Schnell-  
dienst", Second Issue  
No. 9, 23 May 1949.

output has thus risen by <sup>not/</sup>less than 11 - 12 per cent, and it is to be assumed that this increase continued during June. As regards building activity, which is not covered by the production index of the Department for Economics, in all probability an even stronger increase may be expected, as during recent months not only the production of building material has increased considerably, but also the number of unemployed skilled workers in the building trade has declined from about 112,000 at the end of March to less than 74,000 at the end of May.

In spite of the sometimes existing difficulties, in May almost all branches of industry participated in the increase in output. Likewise, most of those branches which partly had recorded a considerable decline in output in the previous months also showed a recovery. The only exception, amongst the major industries, was formed by the saw mills and the wood-processing industry, which fact is probably accounted for primarily by the only slightly alleviated sale difficulties of the furniture industry. However, the increase in the output of consumers' goods industries, in general, was particularly marked during May. This is obviously due not only to the presently very favourable raw material supply - brought about by high imports - , but also to the recovery of retail trade turnovers as recorded since April.

This time, the investment goods industries, as far as they produce finished goods, were not able to quite keep pace with the development of the consumers' goods industry, but here, too, production in general has increased. The output of important basic materials for investment goods, such as, for instance, iron and steel, cement, bricks, &c., has, in part, even attained new highs.

This development is particularly remarkable in that it shows that in spite of the various difficulties encountered in the procurement of capital the physical volume of investments has so far hardly declined but, on the contrary, has probably risen. If the formation of material capital in the first three quarters after currency reform amounted to a total



of 6 billion DM net, as recently computed by the Department for Economics, it may be safely assumed, on the strength of production figures for important investment goods and investment basic materials, that in the second quarter of 1949 it will have amounted to a total of at least 1.5 - 1.75 billion DM. Thereby, full account has been taken of the price reduction and of the circumstance that in the first months after currency reform stores could be utilized to a considerable extent for investment purposes.

Production of Important Investment Goods  
in the Combined Economic Area

Monthly average, or months, respect.	iron and steel production			production of building materials			machine building	vehicle construction	
	pig iron	crude steel	rolling mill ingot production	cement	burnt lime	bricks	lumber		
	1 000 tons	1 000 tons	1 000 tons	1 000 tons	1 000 tons	1 000 mtr.	1 000 mtr.	1936=100	
Oct-Dec 1948	506	607	446	547	331	244	631	68	63
Jan-March 1949	555	688	470	456	294	151	659	83	75
Apr-May 1949	591	738	501	626	334	238	648	84	83
May <sup>1)</sup> 49	613	771	521	669	330	285	633	85	87
June <sup>1)</sup> 49	596	751	.	.	.	.	.	.	.

1) preliminary

By the continued increase in the output of basic material, the bottlenecks, with which production partly had to contend during recent months, were widened substantially. In the field of power production, the welcome expansion of coal output was particularly important in June; contrary to the declining seasonal trend, it maintained a level of 333,300<sup>tons</sup> per working day against 329,400 tons on the average for March. Never-

theless, also in May a number of industries, above all the building material, textile, paper and glass industries, complained of inadequate coal supplies. The supply of current, which at present is very generous, might also again cause difficulties if demand should increase strongly and drought or frost should de-activate the hydro-electric power stations. Consequently, the elasticity of production may still be considered to be restricted in part.

Generally speaking, the sale conditions continue to be very uncertain. The few available symptoms of turnover (revenue from turnover tax, traffic figures, part statements relating to retail-trade turnovers, &c.) in general are not recent enough to serve as actual evidence. Still, they show that at least up to April/May there was no question of a decline of turnovers. Turnover-tax revenue, based on actual values, has even continuously grown from February to May. The reports regarding development of orders and the dangers resulting therefrom for the maintenance of the present production level must obviously be accepted with a certain scepticism. For more than six months, there has been talk of a strong decline in orders, without production having actually declined. It has probably been overlooked frequently that in the first six months after currency reform, under the influence of rising prices and of the more and more prolonged terms of delivery, receipt of orders had substantially exceeded production, so that the decline in orders meanwhile experienced need not have led to an inversed disproportion between production and new orders. In any case, no statistical data are available to prove that at the present time industry is to any considerable extent working on stock or that it is only executing old orders. Major cancellations of orders, reports of which repeatedly alarmed the general public during recent months, usually were made by a few large consumers such as the Reichsbahn and the coal mines, whose financing of investments is to a considerable extent subject to the difficulties and fluctuations of credit procurement,

as owing to fixed tariffs and prices these enterprises, as a rule, do not have reserves of their own. Anyhow, cancellations have frequently been revoked as quickly as they were made, so that usually they give little intimation as to the general trend of the development of orders. Moreover, the situation of major consumers has precisely improved of late by the fact that their most urgent credit requirements were guaranteed partly by the Reconstruction Loan Corporation.

As is the case with industrial output, agricultural production also shows an upward trend. After the excellent harvest of last year - partly due to favourable weather conditions and partly to increased use of fertilizers - we may expect another good harvest, as far as this can be forecast at present.

Output of Main Agricultural Produce in the  
Combined Economic Area  
in 1 000 tons

	1938/39	1947/48 <sup>1)</sup>	1948/49 <sup>1)</sup>
Grain	5 584	2 590	4 518
Barley	1 719	570	713
Oats	2 708	1 513	1 839
Spring grain	249	264	320
Total of grain production	10 260	5 297	7 419
Oil seeds	46 <sup>2)</sup>	46	59
Potatoes	17 492	12 815	21 448
Sugar beets	4 770	2 645	4 450
Edible legumens	22	34	48
Forage legumens	157	123	131

1) Based on estimates drawn up jointly by Military Governments and German authorities. The method employed in arriving at the estimate varied in the two years under review.

2) Excl. poppy.

Under the influence of <sup>the</sup> higher domestic production and the import of fodder, the output of <sup>animal products</sup> also can now be increased on a larger scale again. Livestock, which owing to shortage of fodder had to be considerably reduced in the first three postwar years, is now undergoing a remarkable process of recovery. <sup>This applies</sup> in the first place to pigs, the number of which had declined to 3.9 million by March 1948, but after one year had again risen to 5.6 million. The promised considerable increase or decontrol of prices for pigs has no doubt favourably influenced pig-raising. However, decontrol was disapproved by Military Government, and the increase was not carried out to the extent anticipated. The output of milk and dairy products has likewise risen since the middle of 1948 (in spite of the spread of foot and mouth disease in all Länder of the Combined Economic Area, with the exception of Schleswig-Holstein) as a result of the excellent growth conditions in the fodder areas, and will further increase with improved supplies of concentrated fodder (above all, a better supply of fodder rich in proteins, be it of own production, or imported). Particularly noteworthy is the fact that since currency reform also the share of duly delivered milk in the total production - i.e., the production for the market - has increased.

Livestock in the Combined Economic Area  
in 1,000 heads

December,	Cattle	Pigs	Sheep	Goats	Horses
1938	10255.2	10751.6	1872.9	1078.2	1387.0
1945	9643.8	5335.1	2064.5	825.2	1450.4
1946	9522.5	5663.1	2040.3	890.2	1419.0
1947	8628.1	4920.7	2106.5	963.7	1434.8
1948	8926.5	6083.1	2220.8	1104.1	1463.7

Endeavours are made at longer sight by intensification of Western German agriculture not only to compensate the loss in yield of the war and postwar period, but even to increase total production as far as possible beyond the pre-war level,

of which Western Germany at present still falls short by some 15 per cent. An increase in agricultural production by, say, 10 per cent beyond the pre-war level would, it is true, mean a degree of self-sufficiency of only about 60 per cent on the basis of an average daily ration of 2,700 calories in which the proportion of animal products is only 20 per cent (against 30 per cent before the war). Thus, Western Germany will in any case continue to depend to a large extent on the imports of foodstuffs. As a matter of course, attainment of the above-mentioned production target would be conditional upon a considerable rationalization of agricultural establishments which in addition to substantial expansion of the information service would certainly also necessitate fairly large investments in kind. Investments in favour of agriculture, forestry and food production have been planned at 735 million DM (with a total investment volume of some 7 billion DM) for the Combined Economic Area in the year 1949/50.

#### P r i c e s , P r o f i t s a n d W a g e s

As far as can be judged from the data available, the decline in prices has continued in general; however, a certain stabilization of prices seems to come about gradually. Thus, as shown by the following table, in Hesse the proportion of unchanged retail prices (regular market) to the total of prices currently observed has risen of late. In accordance with the process of adaptation which the Western German economy is undergoing since about the turn of the year, primarily such commodities are affected recently by the price reduction so the Department for Economics reports - which because of their low quality are difficult to dispose of (some synthetic products, some Jedermann ("Everyman") and STEG commodities). Furthermore, price reductions due to emergency sales play a certain part, e.g., in the case of leather goods. Industry and commerce endeavour to improve qualities without increasing prices. Occasionally, in first-rate commodities minor

increases in prices are also observable. There are, however, still fairly large differences in prices for the same goods in the various parts of Western Germany. For example, in the middle of May, eggs of the same size and quality cost 44 Pfennigs in Northrhine-Westphalia and 19-20 Pfennigs in Württemberg-Hohenzollern; a leather briefcase of comparable finish was offered during the same period in Schleswig-Holstein at 35 DM, in Bavaria, however, at 44-45 DM. Elimination of these regional and local differences will be ensured by increasing competition due to growing supply.

Price trend in the Retail Trade<sup>1)</sup>

Figures furnished by the Hessisches Statistisches Landesamt.

	Changes in prices observed (in, per cent)					
	increase		decrease		no changes	
	a	b	a	b	a	b
First half of May	11	11	28	27	61	62
Second half of May	5	1	27	29	68	70
First half of June	5	2	21	27	74	71

- 1) Regular Market  
a) Total b) excl. foodstuffs

The fact that one cannot yet speak of a fundamental change of price trends is also indicated, in addition to the development of retail prices, inasmuch as certain specially reactive prices of basic materials, as e.g., the prices of non-ferrous metals, lumber, hides and skins, have again declined recently. Actually, there still exists in wide fields of the economy a comparatively large margin between costs and proceeds. A distinct symptom thereof is the fact that the revenue from corporation tax, averaging 144.5 million DM in the months April to May, was still some 12 million DM higher than the average of the months January through February 1949. Even though one takes into account a more intensive collection of

taxes, at least the volume of profit, but probably also the rate of profit, cannot yet have declined to any considerable extent. From this, however, it must not be concluded that generally large profits are obtained. The current profit situation is rather characterized by the fact that conditions vary a great deal in the individual works because, as a result of the effects of war, the costs incurred by the different enterprises still deviate considerably from one another. Consequently, the high profits made, as a rule, are only differential profits which are explained by the fact that at the present state of supply production even by relatively expensive marginal enterprises cannot be dispensed with. Price reductions at the expense of profits will, therefore, be possible, without prejudice to production, only to such an extent as the marginal enterprises are able to reduce their costs, or as they can be dispensed with by expansion of production in the more profitable establishments. By the way, it may be remarked, however, that for the time being profits still represent an essential element of investment financing and extensively explain the fact that, in spite of the existing difficulties in covering medium and long-term credit requirements investment activity continues to be high, in fact even is on the increase.

A special problem of price policy has for some time been the regulation of food prices which because of the supply gaps existing in this field are for the major part still subject to government control. By the request of the Military Governments to account the imports of food and fertilizers, hitherto disposed of at fixed German prices, at the 30 cts rate as from 1 May (as from 1 March already, certain incidental costs connected with imports, which formerly had been charged to the counter-part funds, had to be borne by Germany), competent German authorities are faced with the alternative either to sell domestic and foreign products at different prices or - if this is to be avoided - to adjust foreign prices, which are partly higher and partly lower than domestic prices, to the level of German prices or else to abandon the hitherto existing German price level. In view of the low purchasing power of large consumer circles, and in consideration of the increased wage demands which

were anticipated in the event of rising food prices, it is proposed, according to the course negotiations have taken so far, in the main to avoid as far as possible a shifting of the increased costs of imports to the consumer and by means of subsidies to reduce to the present domestic price level the increasing costs of foreign products - chiefly wheat, maize and fertilizers. As a matter of fact, part of the price increase for fodder maize, and perhaps also for fertilizers, is to be borne by agriculture; and as the increased price for maize is to be passed on to the consumer to a certain extent by way of an increase in the prices for pigs, the consumer will also be called upon, at least to a moderate extent, to provide his share in the higher import prices.

The fact that a stronger shifting of the higher import prices to the consumer is not planned, is not only connected with social considerations, but also with the desire not to raise the present domestic agricultural price level to the present level of world-market prices. It is believed that world-market prices will decline still further, and it is feared that it might be very difficult also in this case to maintain German prices of agricultural produce in harmony with world-market prices, i.e., to reduce them in conformity with the latter.

As regards requirement for subsidies for the foodstuffs imported, it will not quite reach the amount by which import prices of certain commodities will increase. Those import commodities the domestic price of which was above the world-market price hitherto (lard, sugar, fruit, and several others) will in future, because of the rearrangement of import prices, be imported at lower costs in terms of DM. Nevertheless, it is intended to continue selling these commodities at the domestic price hitherto demanded, and to absorb the difference for the purpose of subsidizing commodities increasing in price. An import equalization board shall be entrusted with carrying out this price adjustment. The remaining subsidy requirement is to be covered from public funds.



In total, according to the present state of estimates the following annual subsidy requirement is expected:-

Gross subsidy requirement

because of additional DM costs of import and certain shiftings to agriculture and to the consumer . . . . .407 million DM

Absorption of differences resulting from lower DM costs of certain imports. . . . . 131 " "

Net subsidy requirement. . . . .276 million DM

In this connection it must, however, be borne in mind that the computation of the subsidy requirement is based on the ceiling price for wheat as fixed by the International Wheat Agreement. If Western Germany, instead of this price as paid hitherto, would have to pay the substantially higher American pegged price, the net subsidy requirement would increase by 150 - 180 million DM.

As a result of the increase in the price for pigs effective as of 4 June (caused but partially by the increase in import prices for maize), the consumers will be called upon to bear an additional amount calculated at approximately 250 million DM. This figure, however, is fictitious inasmuch as pork so far was only to a limited extent obtainable at the legal price whilst the black-market price was approximately three times above the official price. Actually, the "additional charge" has already been endured in the past. For this reason, however, the increase in the price of pigs is probably of little significance to agriculture for the time being, at least to agriculture as a whole. Nevertheless, the increase represents a not inconsiderable step towards standardization of the official price conditions and a corresponding improvement of yield ratios of the legally operating farmer.

The efforts to attain higher wages and salaries - continued in spite of growing unemployment - showed some progress during recent weeks. For instance, it has been recently decided that for civil servants and employees of public authorities the 6 per cent reduction of salaries fixed by the Brüning emergency decree of 2 December 1930 is discontinued.

with effect partly as of April of this year, partly some months later. At the same time, wage earners employed with public authorities will enjoy considerable increases in wages per hour due to the fact that the hitherto existing 16 local groups will be abolished and replaced by five new ones. Furthermore, the rate per hour for the unskilled worker employed with public agencies which serves as basic rate on which the other wages depend was raised in the lowest local class from hitherto 0.62 to 0.75 DM. As the former ratio to the wages of the other workmen in public employ shall continue the same, these wages are also increased.

In the hard-coal mining industry, a new wages agreement was concluded at the end of May, providing for an increase in shift-rates by 5.4 per cent. At the same time, the former numerous wages groups were concentrated into five main groups, and by reducing the age limit, a wage increase for juvenile workers was also obtained. Similar to agreements previously concluded in the other Länder of the Combined Economic Area, in Hesse the basic rate for farmworkers was recently increased from 0.56 to 0.66 DM, and payment according to efficiency as well as a corresponding classification of workers was agreed upon. All in all, this means a perceptible improvement of farmworkers' conditions.

New agreements on standard wages are also imminent in various other branches of the economy, as numerous tariff agreements expired in the spring of this year and the increases in wages granted on account of the high cost of living agreed upon in February/March of this year, were limited to a few months. It is to be expected that the wage and salary level will thereby rise still further, although the trade unions, if only with regard to the unfavourable labour-market situation, are operating with great caution.

Working Hours and Earnings of Industrial  
Workers in the Combined Economic Area

	working hours per week	gross earnings per hour in Rp/DPf	gross earnings per week RM/DM
1948 June	41.1	98.5	40.51
September	43.8	108.3	47.40
December	44.6	113.1	50.44
1949 March	45.3	116.1	52.55
Change in March 1949 against June 1948 in per cent	+ 10.2	+17.9	+29.7

S u m m a r y a n d O u t l o o k

If in conclusion we endeavour to obtain an overall picture of the present business condition and its trends, the result no doubt will be more favourable than in the last months.

To begin with, during the past weeks the economy, contrary to the widely spread pessimistic forecasts, has not only continued to show a remarkable power of resistance against structural difficulties and in part also against difficulties connected with the business cycle, but the volume of economic activity has no doubt increased, even though seasonal influences may have played a considerable part. Following the noteworthy increase in May, industrial production, calculated per working day, now exceeds the January level by 11 to 12 per cent. This increase does by no means concern the production of consumers' goods only, but also the investment volume. According to the estimate given in the section on production, net investments alone (excl. extension of stock) for the second quarter are to be estimated at 1.5 to 1.75 billion DM at least, thereby approaching to a gratifying extent the rate set for the second Marshall Plan year as a whole (7.3 billion DM). This development shows that in spite of opposing difficulties the provision of capital was still considerable. The first releases of counterpart funds contributed

a great deal to that end, especially as it was possible with their aid to maintain investment financing of certain key industries (viz., coal mining and power industry) in which, as a result of fixed tariffs and prices, the possibilities of self-financing are small, and the credit requirements of which it would have been difficult to secure in any other way. However, capital investment from German sources obviously has grown likewise; this fact is probably due - in addition to the still very high self-financing in many branches of the economy and <sup>to</sup> the continuing expansion of credit - in the first place to the increased investment expenditure of public authorities, which particularly with regard to the revival of house building was of decisive importance.

The maintenance of investment activity, however, averted the most dangerous threat to which the business trend seemed exposed in the first months of the year. Consequently, the decline in employment still feared by many people a few weeks ago did not come about. It is true that from December 1948 to March 1949 the total number of employed declined from some 13.74 million to 13.49 million, i.e., by some 250,000; however, this development did not continue in the second quarter but, on the contrary, from the end of March to the end of June the number of employed rose by somewhat more than 40,000. This was especially important for the development of the business cycle, above all because in this way the incroad into income, which at times seemed almost unavoidable, not only failed to come about, but the total of wages and salaries has presumably increased as compared to the winter, the more so as wages were partially increased.

Instead of the progressive deflation of income expected in many quarters there was actually a further increase in income, and even though since the decline of the price boom of last fall the increase was expended with much ~~more~~ reserve, in fact was partially sterilized - mainly under the influence of the temporary formation of reserves by public authorities -, no deficit in expenditure, which might have led to a progressive process of shrinkage, appears to have occurred in the economic

cycle. The expansion of credit by more than 2.5 billion DM as recorded since January - which, by the way, clearly shows the absurdity of the assertion of a "deflation policy" of the Central Banking System, - certainly played a large part in this connection.

If nevertheless the impression of a "weakening of the business trend" was created again and again, this is mainly due to the further - in recent months even contraseasonal - increase in unemployment. At first sight, this increase certainly is in a peculiar contrast to the growing production. An explanation of this disagreement was repeatedly set forth in the monthly reports published so far and was again illustrated by the latest figures in one of foregoing sections: A comparison of the figures of employment and those of unemployment shows that both groups develop almost independent of each other and that the main cause - i.e., in the last quarter even the only cause - of the increase in unemployment is the extraordinarily large inflow of persons seeking employment, which for its part is again partially explained by the fact that the densely populated Western Zones must still accept refugees and expellees from other areas, but to a large extent is also due to the continuous increase in the number of local people - exceeding by far the growth of population - who seek employment. The fact that not all these people can find employment is certainly not only a serious humanitarian and socio-political problem, but likewise raises grave economic questions, for it shows that the growth of our economy is not strong enough to offer employment to all those who are willing to work.

Without doubt it is one of the tasks of economic policy to lend aid wherever possible and to re-incorporate into the production process, - in the interest of those concerned as well as of the whole of the economy - as many unemployed as possible, who any-way constitute idle reserves of production. However, one must soberly realize the limits that are set to such a policy if it is not to harm other important interests of the whole of the economy, and the measures which in the long run best serve the purpose aimed at.

As regards the limits set to a drastic reduction of unemployment in Germany today, one must first recall the fact - already mentioned before - that a comparatively high percentage of our unemployed are no longer fully fit for work, or are not fit just for such occupations in which perhaps opportunities of work are most likely to be offered. Also the fact that the unemployed, who in many cases have not lost their work by reason of a decline in employment but who as refugees or expellees are still waiting for incorporation in the economy of their new home, are frequently living in areas where also in future perhaps only modest opportunities of work will exist, makes it extraordinarily difficult to give them employment in an appropriate space of time. At first, resettlement will often be necessary, which again is dependent on the building of the required living accommodations in the reception areas, before these unemployed have any chance of finding new jobs.

However, the absorption of the exclusively cyclical unemployment also presents very special problems today. To state it realistically, a substantial reduction of the present degree of unemployment will be possible only by a corresponding expansion of employment in industry, as government agencies, traffic, and commerce will be more likely to dismiss workers, or indeed should do so in the interest of a more rational operation of the economy, and as the absorption capacity of other branches of industry is relatively limited. As regards agriculture, it will also probably even release workers, as the tendency towards migration of country people into towns is again marked; at long sight, in this case, too, mechanization will perhaps compete more and more with human labour. The industry's employment capacity, however, even in the case of a stronger revival of business, will probably remain relatively low, because it underwent a considerable rationalization process since currency reform which tends to keep its demand for labour at a minimum level even in the case of increasing production. At any rate, from the currency reform to May 1949, industrial production has increased by more than 70 per cent, whereas industrial employment has increased by some 15 per cent.

only. Moreover, the extent of industrial employment in comparison to unemployment is not very high. Even including the building trade and its auxiliary trade branches, industrial employment amounts to some 4.8 million only at the present time. At 1.3 million, unemployment, therefore, amounts to approximately 27 per cent of this figure. In order to reabsorb but one half of the present unemployment, industrial employment should accordingly increase by more than 13 per cent. Such an increase, however, is opposed by the process of rationalization already referred to. If we assume, for instance, that the productivity per employed was to grow in the next few months only to about the same extent as it did in the period from January to May of this year, viz. by some 11 per cent (this would still be some 18 per cent below the figure of 1936), industrial production would have to increase by about 25 per cent in order to offer employment to some 600,000 more workers.

Of course, such a high increase in production is very unlikely to occur within a relatively short period of time. It would fail, above all, because of certain bottlenecks still existing in the economy. As shown in a preceding section of this report, particularly coal supply and current supply still set comparatively narrow limits to any larger expansion of production. In part, however, the supply of raw materials as well might form a limit not to be underestimated. In some branches of industry which to a considerable extent depend on imports, the consumption of raw materials already is on a level but a few per cent below the import quota established for the second Marshall Plan year. If, on account of the sale difficulties in the world market as described in the section on Foreign Trade, own exports should not increase to the extent expected and perhaps even foreign aid be curtailed, the presently existing "margin of raw material stocks" would probably contract again also in wide fields of the economy.

These statements, as a matter of fact, are not meant to deny the possibility of a further expansion of production, but only <sup>to</sup> indicate the material limits that will probably be

set to it in the near future. They show that even the cyclical unemployment can hardly be reduced to the extent hoped for by many, much less removed completely, by forcing an increase in production by means of credit policy, without transgressing the limits set to a responsible credit policy by the margin of production. For some time to come, in Western Germany the production factor manpower will be available to a considerably higher extent than other factors of production, and as the economical utilization of the various elements of production is always determined by the availability of the scarcest, this means that for the time being it will not be possible to avoid a certain surplus supply of manpower. Endeavours to completely remove this surplus supply, independent of the availability of the respective material factors of production, might easily result in an overburdening of public budgets and in an excess demand entailing severe disturbances of the market equilibrium and of the price stability as well as, above all, of the foreign trade situation. This, however, would not be in compliance with the interests of the vast majority of the people, and would violate the principles of currency policy and economic policy as recognized to be sound, and binding for them, by all Marshall Plan countries.

Thus, a considerable reduction of unemployment will in any case be a difficult problem which can hardly be solved in a short period of time. As far as its causes are of a structural character, - as is the case to a large extent in the unemployment of refugees -, general measures of cyclical policy will be of comparatively little avail. This is chiefly a question of far-reaching changes in our regional economic structure, which might be patterned upon the measures successfully taken by Great Britain in order to eliminate her "distressed areas". Besides, however, efforts must initially be concentrated on a widening of the bottlenecks still existing in production and supply; ~~maintenance~~ and strengthening of our ability to export being not the least factors to be considered in this connection.



As a matter of course, in many cases all these measures necessitate considerable investments and consequently the raising of substantial capital funds. As is shown by the development of investment-goods production and the building activity (measured at the production of building materials), in the second quarter of 1949 the actual capital supply in all probability was higher than in the preceding quarter, it is true; but it cannot be doubted that still higher supply would have been desirable, and that just for a number of key productions the necessary funds were lacking. Yet, the formation of savings capital in the sense of a voluntary or enforced renunciation of consumption is by no means insignificant. As explained repeatedly in these reports, the main cause of the present "lack of capital" is rather to be found in the fact that the amounts of income not spent for consumption purposes in the course of the past six months did not all flow to the capital market or directly to investments, but on account of the widespread liquidity preference in many cases were temporarily inactivated. In this connection, the large formation of reserves by public authorities plays an important part.

In view of this state of affairs, the Central Banking System always held the opinion that the capital supply problem cannot be solved by a further intensification of the already existing creation of short-term credits, which is by no means insignificant - for instance in such a way that the Central Banking System itself directly participates in investment financing -, but that the important point is to modify that liquidity preference and to mobilize for investment purposes the capital which in itself is existing, i.e. to increase the "virulence" of the available amount of money. In fact, considerable progress has been made in this respect of late. The fluctuation of private means from the money market to the capital market is still insignificant, it is true; but public authorities at least are about to considerably increase their investment expenditure in the next few months, utilizing for this purpose a large part of their reserves. According to the capital supply program for the third quarter,

mentioned in the section on the Capital Market, the Länder alone have promised investment expenditure amounting to 800 million DM (as against an estimated 500 million DM in the second quarter). Another 100 million DM will be made available for investment purposes by the Administration of the Combined Economic Area and the Post; as to the Gemeinden, an investment expenditure of also 100 million DM is expected, which estimate probably is much too modest. Moreover, further portions of its reserves will be made available by the Unemployment Insurance Fund, which had already provided considerable means, particularly for house building. Together with the private supply of money from normal sources, the total sum of this capital has been estimated at approximately 1.85 billion DM; this sum does not include the amounts from the investment accounts utilized for subscription to the loans eligible therefor, i.e., chiefly the Reichsbahn loan, nor the investments financed eventually by short-term credits or pre-financed, nor, finally, the possible additional release of counterpart funds. If one realizes that the Department for Economics has drawn up for the second Marshall Plan year (1 July 1949 to 30 June 1950) an investment program totalling 7.3 billion DM (excluding the stock investments which are chiefly to be financed by creation of credits) on the basis of the available quantities of basic materials, i.e., taking into account important production pre-conditions with regard to material, it becomes evident that the capital supply expected for the third quarter already covers about one third of this investment program. Even if it is taken into account that, with regard to the season, priority as to time is intentionally contemplated for certain investment expenses, the planned utilization of capital thus might closely touch the limits which are set to the volume of industry for the near future - according to the calculations of the Department for Economics - by the supply with basic materials alone.

Certainly, all these figures are but a program, in part even nothing but estimates. Western Germany essentially has<sup>a</sup> market

economy, and therefore is just as unable as any other free economy to guarantee or enforce a certain supply and utilization of capital. Even in the case of the budgeted investment expenditure of the regional public authorities there is no absolute guarantee that they will actually be effected at the amount budgeted and in the period of time intended. According to the "state of planning" of the investment projects on which the budget estimates are based, and according to the production conditions prevailing at the time the projects are carried out, a more or less considerable delay may occur. These, however, are impediments which might also prejudice the effectiveness of a "large-scale creation of credit" as is shown, for instance, by the comparatively slow withdrawal of part of the funds made available to the Reconstruction Loan Corporation for certain projects. The decisive factor is in the first place that the investment expenditure does increase and that the amount of capital ready for investment is growing. As was emphasized a month ago, the most important task is to strengthen the confidence of the economy and to prevent it from limiting its orders by reason of unfounded apprehension concerning the future development, or even cancelling them as far as they do not serve to satisfy the most urgent short-time demand. Moreover, a large part of the funds provided for the third quarter will benefit the building activity, whose stimulating effect on widest fields of the economy is well known.

Finally, for the financing of certain investments it is very significant that by a further promise to make available counterpart funds in the second half of June the potential credit of the Reconstruction Loan Corporation was increased by another 200 million DM. The utilization by the Reconstruction Loan Corporation of this amount will also benefit, in the first place, smaller investment projects. Aply 80 million DM of this amount are planned to be used for social housing and will - as they cover the profitable part of many projects - make available also considerable public funds for the so-called unprofitable part. Of course, it would be very useful

from the viewpoint of cyclical policy if the credit capacity of the Reconstruction Loan Corporation could be further increased in as short a period of time as possible, so as to enable it to continue its financing aid to certain central investment projects, the credit requirement of which can be met but with difficulty on account of the present situation of the capital market. German agencies have requested now to release for this purpose also a considerable part of the DM counterparts for ERP imports, which hitherto had not been utilized at all for investment financing. In view of the considerable initial and continuing contribution from exclusively German sources towards capital supply, it may be hoped that this request will soon be granted. In this case, the Marshall Plan aid, beyond the import deliveries connected with it, would also contribute with regard to capital supply towards continuance of the upward business trend which Western Germany needs so badly in order to attain viability again in an adequate period of time and to be able to offer reasonable employment possibilities to her dense population.