

Monthly Report No. 1

of the

BANK DEUTSCHER LÄNDER

Middle of August 1948

With this report the BANK DEUTSCHER LÄNDER is commencing monthly reports to the Allied Bank Commission on the Development of currency and economy in the area of the U.S., British, and French Zones of Occupation of Germany.

I. Organization of the BANK DEUTSCHER LÄNDER

1. In the fulfilment of the Potsdam Resolutions, the Reichsbank was dissolved in the U.S. and French Zones in 1946 and in the British Zone in March 1948. It was superseded by 11 Land Central Banks. The reorganization of the central banking machinery of the three Western Zones thus initiated was concluded by the establishment of the BANK DEUTSCHER LÄNDER in Frankfurt(Main).

The BANK DEUTSCHER LÄNDER - a juridical person under public law - is a consolidated institute of the Land Central Banks. The Board of Directors of the Bank Deutscher Länder, consisting of a Chairman, the President of the Board of Managers, and the President of each of the 11 member Land Central Banks, determines the general business policy of the BANK which is carried out by the Board of Managers. One of the main responsibilities of the Board of Directors is determining the general credit policy including interest and discount rates, the open market operations, and the minimum reserve rates. With regard to its policy, the Board of Directors is subject to such directions as may be issued by the Allied Bank Commission. The members of the Board of

DEUTSCHE BUNDESBANK  
FRANKFURT AM MAIN

BIBLIOTHEK

Z 3 103 a

Managers

Managers are appointed by the Board of Directors. The President is responsible to the Board of Directors for the execution of all decisions of the Board of Directors and for the general conduct of the business.

2. The BANK DEUTSCHER LÄNDER operates without branch establishments. Apart from public authorities, the Land Central Banks are its only customers and, in addition, the legal subscribers of the 100 million Reichsmark capital converted into DM at a ratio of 1:1. The Board of Managers of the BANK has to publish returns as of the 7th, 15th, 23rd and last of each month which have to show assets and liabilities in accordance with the legal provisions. For reasons connected with the process of the conversion of the monetary system after currency reform, these returns could not yet be published. After formation of the reserve prescribed by law which shall not exceed 20 percent per annum of the basic capital <sup>and</sup> shall in total not be higher than the basic capital, the net profit has to be distributed among the member Land Central Banks in proportion to their capital shares.

3. By the Law of Issue dated 20 June 1948, The BANK DEUTSCHER LÄNDER was granted the exclusive right to issue banknotes and coins within the specified area. The specified area comprises the U.S., British, and French Zones. Since the French Zone has not as yet joined the Combined Economic Area of the U.S. and British Zones, the BANK DEUTSCHER LÄNDER is the only official trizonal organization.

Subject to existing legal restrictions, the Bank may purchase and sell foreign exchange, gold, silver, and platinum, accept deposits, rediscount bills of exchange, and grant loans against bills of exchange, treasury bills and securities issued by the Bizonal Economic Administration or by the Ländler. In addition, the Bank may serve as fiscal agent, without charge, for the Bizonal Economic Administration and grant to this Administration, short-term advances not to exceed the amount of 300 million DM in anticipation of specific revenues. By decision by three quarters of the members of the Board of Directors, this limit may be raised

raised to 500 million DM.

4. Pursuant to Article 8 of the Issue Law, there exists within the BANK DEUTSCHER LÄNDER a currency department which includes permanent representatives of commerce, agriculture and industry and which is responsible for studying the effects of the financial reform legislation and for advising the Board of Directors in the preparation of the carrying-out ordinances relating to currency reform.
5. As from 1 August 1948, the Gemeinsame Aussenhandelskasse of the Combined Economic Area was taken over by the BANK DEUTSCHER LÄNDER as foreign department. Disposition of the foreign accounts of JGIA was conceded to the Bank. Thus the Bank acts as trustee of JGIA for the winding up of all foreign trade DM and foreign exchange payments.
6. The function of organizing without delay the technical machinery was made considerably difficult for the BANK DEUTSCHER LÄNDER particularly by the very limited number of rooms at its disposal. Another hindering factor is that the Board of Managers is still incomplete, partly because several of the members of the Board of Managers appointed by the Board of Directors are still required by Military Government in Berlin and/or could not arrange their exit from the blocked city as yet.

## II. Activities of the Board of Directors accomplished up to the present

1. The most important questions on which the Board of Directors has had to take decisions were the fixing of interest rates, minimum reserves, and the directives for granting credits after currency reform.

The Board of Directors was of the opinion that in fixing the interest rates a middle line should be maintained. The scarcity of money could be made evident

by the level of the discount, however, in view of the considerable deprivation of productive economy of liquid funds, the raising of credits should not be made excessively difficult. After thorough examination of all circumstances, the Board of Directors recommended a 5 per cent. minimum discount and a 6 per cent. loan rate. These rates apply to all Land Central Banks of the trizonal area. The interest rate for cash credits and treasury bills of public authorities was likewise fixed at 5 per cent.

2. When fixing the minimum reserves, the Board of Directors is bound to the general provisions of the Issue Law. In consideration of the conditions which so far do not permit a clear survey, it was decided to temporarily maintain the rates as fixed under the Issue Law, pending further regulation by the Board of Directors. In accordance with this, financial institutions shall keep as minimum reserves 10 per cent. of their demand liabilities and 5 per cent. of their time deposits including saving deposits; and Land Central Banks, 20 per cent. of their demand liabilities. When establishing this procedure by which the minimum reserve rates are to be determined, a number of technical difficulties arose which are due mainly to the fact that the introduction of minimum reserves is new for Germany.
3. With regard to the establishing of directives for the granting of credits, the Board of Directors had to observe the binding provisions of the Conversion Law. Pursuant to these provisions the granting of cash credits was prohibited until 8 August 1948 and the economy was referred to credits on bills of exchange. Since the Board of Directors could not but help raise certain objections against this regulation, it decided to make use of the power conferred to it by Article 32 of the Conversion Law and admit several alleviations in order to overbridge the first difficulties. Financial institutions were permitted to grant cash credits of 500 DM max. and refinance

- them by bank acceptances of a 3 months term (inter bank drawings). In addition, the discounting of bank acceptances resulting from drawings of customers and undeniably serving the financing of goods transactions and especially of export transactions was decided upon.
4. Subsequent to the reform and after a better survey on the situation had been obtained, the Board of Directors entered into a discussion on the present situation with regard to currency, on 20 July 1948. During this discussion doubts were expressed regarding the development of the currency after the reform. Owing to the fact that, with respect to the goods in supply, too much new money was issued giving excessive preference to consumption, price increases were furthered to a critical extent. In addition to that, the sudden introduction of DM in the Western Sectors of Berlin meant a further burden for the currency. The Board of Directors, therefore, arrived at the conclusion that the distribution of the second part of the quota per capita which pursuant to the Law had to be carried out by 20 August, should preferably be postponed until fall, i.e. until the increase of the goods in supply to be expected under the Marshall-Plan. The Allied authorities, however, deemed it too serious not to comply with a promise given under law, as may be taken from the decision now passed to carry out the distribution within the time limit set.
5. When discussing the Berlin problem the Board of Directors acknowledged the necessity of supporting the city in every respect by supply and financial assistance. The lack of a precise limitation between DM and Eastern Mark in Berlin, however, would show the acute danger that new DM amounts would have to be constantly distributed in Berlin and which would reflux to the Western Zones where they would add to the undermining of the purchasing power of the DM.

For this reason, the Board of Directors accepted the resolution to submit an application to the Allied Bank Commission to the effect that the transfer of Berlin DM-notes to the Western Zones is forbidden in order to control payment transactions and prevent undesirable transactions with Berlin DM-notes.

6. Among others the Board of Directors decided to order the minting of 250 million pieces = 2.5 million DM 1 Pfennig-pieces. The coins bear the inscription "Bank Deutscher Länder". These are the first coins issued in Germany by the Bank of issue and not by the state.

### III. The monetary Course after Currency Reform.

1. The Deutsche Mark introduced on 20 June 1948 by decision of the U.S., British, and French occupation powers in the stormy atmosphere of world political tensions had a start which was doubtlessly better than expected. The severe tightness of liquidity in the economy brought considerable goods stocks to light, the new money was completely balanced by goods. Almost over night the show windows in the Western German cities displayed an overflow of goods not seen for more than ten years. This favourable impression was supported by the aspect of a very good harvest and plentiful offers in early potatoes, fruit, and vegetables. The fact that additional foreign imports - apart from a few fruit and vegetable supplies from Italy and the Netherlands - were not received for the support of the currency reform did not show any disadvantageous results under these favourable circumstances.
2. It would, however, be dangerous to be deluded by the fact that a currency reform can never be other than the beginning of a normal process of convalescing. The currency reform had to establish the monetary prerequisites for the revival of economy by making the

money fully functional again. The currency reform solved this task satisfactorily. The technical procedure was as follows: the new money was directly distributed to consumers whereby the money for the productive economy was kept tight and this brought about the dissolution of existing hoarded goods stocks. The following amounts were distributed:-

- 1.9 billion DM in cash to the population by disbursing the first part of the quota per capita of 40 DM; additional 20 DM will have to be disbursed (cf. II/4)
  - 2.56 " " credit to public authorities including Railway and Post (so-called first supply of new currency)
  - 0.75 " " credit to the occupation powers
  - 0.48 " " in cash or credit to the economy (so-called provisional assistance of 60 DM per employee)
- 
- 5.69 billion DM

When critically considering this distribution of money perhaps one could say that it favoured consumption to too large an extent. During the first 10 days until 29 June 1948 inclusive, during which period the population had to live on the first part of the quota per capita totalling 1.9 billion DM, normally approximately only 1 billion DM would have accrued from earned incomes. Thus, by disbursing the quota per capita approximately 1 billion more came into the hands of the consumers than normally would have by the total amount of current earned incomes. This amount was actually considerably larger since during the first week after the reform wages were paid prematurely in some cases owing to a erroneous interpretation of the Law. The quota per capita was originally and in the first place planned as a social measure. However, since in the end RM 540 for each the quota per capita were deducted from bank and savings accounts, the somehow strange picture results that the disbursement of the quota per capita automatically absorbed the smaller and medium savings account

whereas it represented a gift to all those that did not possess an adequate savings account. Savings banks report that the incentive for savings was prejudiced by this measure. One should also be aware of the fact that the relatively high quota per capita transferred considerably high amounts to some classes of the population which normally only earn small cash incomes and use only little cash, for instance agricultural labourers: thus, a family of 6 members received 240 DM at once. It is to be expected that a considerable part of the second instalment of the quota per capita now being disbursed (totalling approximately 990 million DM) will also accrue to the consumption.

3. The technique of the currency reform and the far reaching abolition of the compulsory rationing system brought about the fact that the liquidity accumulated mainly in such parts of the economy as possessed goods stocks which were immediately saleable. This applies mainly to the trade and consumer goods industries. It is clearly to be seen that in these branches of economy, there already exists a certain abundance of money. One has the impression that, wherever sufficient money for the fulfilment of current obligations could be accumulated, there was a certain reluctance to sell or, that at least, sales were adjusted to the supply of goods. On the one hand, this is not surprising since bottlenecks in the raw material and power supply were by no means completely eliminated after currency reform, so that production could not always and not in all fields keep step with demand. On the other hand, goods seem to be kept back intentionally in expectation of further price increases, a very undesirable speculation which financially is also made possible by the aforesaid unequal distribution of liquidity.

The enterprises of capital goods industries - mechanical engineering, metal industry, building trade, ship - building etc. - were unable to procure money by selling goods ready for consumption and are, therefore, in a doubtlessly much more difficult financial position. The



new money brought into circulation by the consumers will naturally accrue to these industries only after some time, perhaps only after months. For the time being, these enterprises, therefore, mainly depend upon credits and the assumption may be justified that the capital goods industries will account for the major part of the new credits hitherto granted by banking institutions. In this connection, the restriction of granting open credits -which was not abolished before 8 August - proved to be a disturbing factor insofar as considerable medium-term credits were, of necessity, granted in the form of bills of exchange although in this case the bill of exchange as such was not the normal instrument of financing. In general, developments in the investment goods industries did not prove as fatal after the currency reform as was feared in the beginning. Investment operations, especially the continuing of previously started building projects, were not yet interrupted. Since long-term credits are so far not available, the conclusion seems to be justified that funds derived from the selling of stocks and even additional wind-fall profits may have been used for investments in some cases. However, the danger that investment be paralysed by lack of long-term credits is not yet done away with. The continuation of investments and thereby the maintenance of the rate of employment in the capital goods industries would be faced with increasing difficulties if future savings were not to equal investments. The tendency to spend earned incomes almost entirely for consumption purposes which became apparent during the first weeks after the far reaching abolition of the rationing may not continue in future without producing radical effects on the employment situation. Should no funds from savings or direct and indirect foreign credits accrue to finance investments, the level of employment will either decrease considerably or the fatal necessity will eventually arise that investments must be financed by creation of additional money. The fact that there was no marked

increase in the rate of unemployment, as was generally expected after currency reform, should not induce anybody to close his eyes to the arising dangers already clearly visible at the horizon. Apart from investments slowing down only gradually, certain measures of the labour exchanges - such as disapproval of large scale dismissals -, moreover, compliance to the terms of notice and the aversion of most German enterprisers to sudden dismissals - hamper developments. In the long run, however, the comprehensive cancellation of orders in the building trade chiefly by public authorities will not fail to affect the labour situation.

4. The problem of savings, on the one hand, and the supply of medium and long-term credits to the economy, on the other, will become more and more the crucial point of economic developments. An attempt could be made to the effect that the money capital market be tested by offering loans at attractive conditions. Even if the internal formation of capital might, for the time being, be very small in view of the low rate of real incomes, the large stock of requirements, the pending equalization of burdens but in particular the paralysing effects of the external political situation and the unsettled internal conditions, this does not necessarily mean that the expectations ~~held in connection~~ with a marketable loan might not be exceeded in a similar manner as those relating to the hoarded goods stocks disclosed by the currency reform. An attempt should be made.

The capital requirements of the German economy could naturally not be covered even by the most favourable results of the subscription. In view of the urgency to provide medium and long-term credits, the Board of Directors at their last meeting suggested a certain limited recourse to blocked accounts resulting from the currency reform (cf. appendix 1). The extent to which these funds may be converted into investment credits a-hall, in accordance with said suggestion, be limited by

the extent of the Mark amounts which accrue with the Bank deutscher Länder out of the sale of imports given on credits <sup>and</sup> neutralized there, in order to avoid any inflationary effect. In view of the intended imports of BRP and category A-supplies, anticipated at 1200 million \$ in the current year, Mark amounts ranging from 150 to 200 million DM per month will be involved.

5. New credits granted by the banks were so far doubtlessly lower than originally expected. Final figures are not yet available but representative figures of 112 financial institutions in the trizonal area permit approximate estimates (cf. appendices 2 and 3). These 112 banks were granting new credits to the amount of 100 - 130 million DM per week. Total credits granted until 31 July 1948 amounted to approximately 590 million DM. Owing to the restriction of open credits they are almost exclusively credits against bills of exchange with a high percentage of bank acceptances (227 million DM) and promissory notes (129 million DM). It may be concluded from these figures that the volume of new credits of the entire credit system may, by 31 July 1948, be estimated at approximately 1.5 billion DM. This sum should not be called small; in the first place, it does not justify the assumption that in the future the banks might not be approached with considerably higher demands. During the first weeks after currency reform the enterprises obviously limited their activities to financing wage payments by way of credits, postponing; however, their other credit requirements to such time when the raising of credits on current accounts will again be possible. For this reason, in August - after the abolition of the restriction of open credits - an increase in the volume of new credits is to be expected. No data are as yet available on the actual development since 8 August.
- Due to the high liquidity of the financial institutions, a small part of the new credits only were channelled back to the Land Central Banks. The entire bill of exchange

holdings of the 11 Land Central Banks in the trizonal area amounted to approximately 180 million DM on 31 July (appendix 4). Apart from the first week under report (28 June - 3 July), rediscounts of the reporting 112 financial institutions amounted to roughly 10 per cent. of the new credits granted in each individual case. This permits the conclusion that the credit institutions were largely able to finance new credits either by way of cash returning to the banks or - on the basis of a high cash reserve - by way of autonomous creation of bank money. Cash reserves of the 112 financial institutions, in spite of new credits granted, by no means decreased as could have been expected but, on the contrary, increased from 780 million ( 3 July) to 872 million DM ( 31 July). Since, according to experiences made, the majority of the bills of exchange credits were used for payments of wages and thus must have entailed corresponding withdrawals of cash, incoming cash must have borne the brunt as a means of financing of the banks. The increase in deposits and savings deposits, amounting to approximately 420 million DM <sup>net</sup> with the 112 financial institutions since currency reform, (and, - therefore, estimated at a total of approximately 1 billion DM for all banks) may, therefore, be considered, for good reasons, to be due to the reflux of consumers' money to the banks. In some cases, a certain inclination to hoarding cash seems to have developed - owing to the unsettled equalization of burdens and the apprehension to let the extent of existing hoardings become perceptible. However, this is not necessarily contradictory to the above assumption.

The liquidity of the financial institutions brought about the fact that, on the - for the time being inofficial - money market, discount rates of up to 1 per cent. below the official rate of the Central Bank, viz 5 per cent, were quoted. The main reasons for this liquidity should be found in the technics of the currency reform, and very

seen a certain stiffening will probably take place. The chief factor increasing the liquidity was the fact that the first supply of the financial institutions with central bank money amounted to 1 per cent. of the old Reichsmark - liabilities although only half of these liabilities, viz 5 per cent of the old Reichsmark - amount less the deducted per capita quotas and business amounts, only can be disposed of until further notice even after the conversion is terminated and the annihilation by the tax office effected. It is further decisive that immediately after currency reform the majority of the first aid grants of central bank money to public authorities of approximately 2.5 billion DM returned to the financial institutions, in particular to Girozentralen. The representative census shows that the deposits of the public corporations remained rather unchanged during the whole month of July, at approximately 1/2 billion DM. It may, therefore, be assumed that at least 1 billion DM of public credit balances accrued to all financial institutions. On the other hand, the minimum reserve provisions were not practically applied prior to 1 August. From this date, the entire legal reserve of 10 and/or 5 per cent. must be retained even for the estimated DM amount of Reichsmark - liabilities not yet converted.

The surplus reserves of the financial institutions should, for the time being, therefore, be rather considerable. At present they cannot be precisely determined, since reports of the financial institutions on the state of conversion are not yet available. But even assuming that, on 31 July 1948, only 50 per cent. of the Reichsmark - liabilities were actually converted into DM - the figure is probably higher - a reserve requirement of approximately 320 million DM would result as per 31 July 48 for the 112 financial institutions taking, as a basis an average reserve rate of 8 per cent. However, no less than 872 million DM of Land-Central-Bank credit balances are actually existing.

The surplus reserve may, therefore, be estimated at roughly one and a half times the obligatory reserve, probably more. In the near future, the surplus reserves will probably decrease since the demand for credits on current accounts will certainly be very high. It is also to be expected that the liquidity of the financial institutions will be further affected by the increasing need of notes and coins. During the second week of August already a marked stiffening of the money market was reported.

6. The note-circulation so far has developed as expected. On 3 July it amounted to approximately 2.6 billion DM and on 14 August to approximately 3.8 billion DM (excluding the 428 million DM sent to Berlin, cf. appendix 5). This increase in the note-circulation results from the increasing need of cash. The total money volume could so far not be statistically ascertained. The estimate of approximately 11 billion DM, however, after the conversion and the examination by the tax offices is terminated and in consideration of new credits granted, must be considered rather too high than too low. The blocked account resulting from currency reform will amount to approximately 5 billion DM after conclusion of the conversion and is not included in the above figure (appendix 1).
7. The introduction of Deutsche Marks in the Western Sectors of Berlin was a special problem. On 28 June, the Bank Deutscher Länder was ordered by Military Government to ship 53.2 million DM to Berlin, after 201.76 million DM had already been sent to Berlin by Military Government, prior to this date. In the meantime, the total amount of notes shipped to Berlin increased to approximately 428 million DM. The notes were stamped "B" by the Berlin DM-currency committee and put into circulation in the Western Sectors.

The Bank Deutscher Länder, however, did not participate in the planning and implementation of extending the currency reform to parts of Berlin. This was in the first place a political measure. We, therefore, refrain from giving our opinion on this measure, however, we would like to emphasise that for the Western Zones, it will not be without repercussions in the field of currency policy. As long as the EasterMark (which is valued considerably lower in the free market, is recognized in the Western Sectors as equal legal tender for most services and especially for food purchases, it is unavoidable that the Deutsche Mark tends to disappear from circulation and that new supplies must be currently channelled to Berlin if a certain percentage of wages payments in DM is to be maintained. Considerable amounts of Deutsche Marks, disappearing from the Berlin circulation, will probably return to the Western Zones and increase the money in circulation. The Bank Deutscher Länder is not in a position to prevent that in this way the currency is deteriorating unless in the Western Zones the Berlin DM would cease to be legal tender.

8. The situation of public budgets is a very grave problem. As expected, the revenues of the public authorities were considerably prejudiced by the currency reform since taxes due for the period prior to currency conversion had, just as other debts, to be paid in DM at a ratio of 10:1 only, whereas the willingness (and partly also the capability) to pay tax liabilities decreased considerably, and in some fields the taxable object became more or less smaller, as money supply grew more scarce. In addition, simultaneously with the currency reform, certain tax rates, which had generally been considered too high, were greatly reduced, whereby, from the very beginning, there was no hope that this reduction could be approximately recovered by correspondingly increased incomes or the simultaneous attempt to impose higher taxes on dispensab-

le consumer - goods. Also the taxation of tobacco, spirits and the like which, for reasons of compensation was partly increased and extended, did in many cases by far not bring the proceeds expected, since the consumers' willingness to accept the intended sales prices proved to be considerably lower. Due to the fact that the turnover tax was supported by the extremely high tendency to purchase (which could be observed during the last few weeks in several branches of the retail trade), and that the wages tax was affected only to a relatively small extent by decreases in the employment rate, the decrease in tax revenues was, in general, not more marked. Nevertheless, during the period, 28 June - 8 August, the ordinary weekly revenues of the eight Länder of the Combined Area amounted to approximately one quarter only of the average weekly revenues received during the fiscal year 1947/48. As compared with this, the expenditures remained considerably higher although, immediately after currency reform, public administrations made energetic efforts to adapt expenditures to the new situation, at least in the fields where immediate changes were possible, as e.g. in the case of certain non-personal expenditure.

For this reason, all Länder showed considerable deficits even those that had obtained large surpluses prior to the currency reform, as was the case with the Länder of the U.S. Zone. According to preliminary statistical data, the expenditures in six Länder of the Combined Area, during the period, 28 June - 8 August, were three times higher than the revenues. In this way, in this area alone, approximately 550 million DM were additionally brought into circulation.

So far the Länder were generally able to meet these exceedingly high deficits without too much difficulty from the rather high "first supply of new currency" allotted to them under the currency reform. Particularly



such Länder as prior to currency reform, had shown a considerable excess of revenues over expenditures were at first in a very favourable position. A noticeable part of the funds made available to them by way of first aid grants was consequently, for the time being, placed at the disposal of the money market in the form of short-term credits. Since expenditures continue rather heavily to exceed revenues, the cash holdings of the public hand are decreasing very fast, so that the day of their exhaustion is dangerously close. In the eight Länder of the Combined Area, cash holdings amounted to only 755.1 million DM (on 7 August) as compared with 1443.0 million DM on 28 June. In several Länder, cash holdings are almost zero. As time goes on, the problem of meeting their obligations without violating the basic Conversion Law prohibition to make deficits will become more and more pressing for the Länder (and also the Gemeinden). It is certainly to be expected that the stagnation in tax revenues connected with the first shock-like repercussions of the currency reform will gradually be overcome. Losses caused by the tax reduction can, however, for the time being, hardly be expected to be offset by a broadening of the tax basis, due to increasing incomes and turnovers. Even if, at least, the trend of rising prices tends to bring this about, increasing difficulties resulting from the conversion and adaptation must be expected in the beginning, which may even lead to a - as is hoped temporary - cut in the employment volume. Moreover, no great improvement in the budget situation may be expected from the introduction of new taxes which has been frequently discussed lately - for instance, rent tax and certain advance levies for the benefit of the future equalization of burdens - since the proceeds derived from these taxes will mainly serve the financing of special tasks, such as housing and granting of preferential pensions to persons having suffered war damages. By way of this measure, public

budgets will also be indirectly supported to some extent, since these levies will counteract the increase in the various relief expenditures of the public authorities and, by an improved channelling of the flow of money may even support the volume of employment. The difficulty, however, to cover the present expenditures at existing taxes and tax rates will remain.

The difficulties to solve the problem from the expenditure side are just as great. During the last years, the personal expenditure amounted to approximately only one fifth of the total expenditure of public administrations. Even if considerable cuts in these expenditures were made - possible by way of a reduction of personnel only, if, as a rule, their functions are simultaneously eliminated - these savings will have only a limited effect within the total expenditures. Besides, they will be largely compensated or possibly over compensated by increasing social relief burdens. In consideration of these circumstances, the situation of public budgets could only be alleviated from the expenditure side if the most important expenditure, i.e. expenditures of the occupying powers and for purposes determined by the latter (subsistence of D.P.s, &c.) were cut considerably. In the original U.S. monetary reform plan, the so-called Colm-Goldsmith-Plan, this measure was expressly recognised as one of the most important pre-requisites for the reconstruction of the monetary conditions in Germany. Nevertheless, the expectations cherished in this respect, have not yet become true. The total budgeted expenditure for the occupation powers, during the fiscal year 1946/47, amounted to approximately 5 billion Reichsmarks (roughly 30 per cent. of the total revenues and expenditures) in the trizonal area. As compared with this figure a marked lowering was intended as early as 1947/48. Preliminary results show, however, that in most Länder, the original estimates have already been considerably exceeded and that consequently in the third year of occupation also,

the occupation costs were playing the same sinister role as during the first years. For the current fiscal year, a noticeable alleviation is by no means guaranteed. The external political situation that does not permit the reduction of the armed forces stationed in Germany, may be considered a severe handicap of any cut. This has hardly anything to do with the original occupation plans of the Allied powers. For this reason, it would seem justified if part of the occupation <sup>were</sup> costs not included in the German budget but were recognized by the occupying powers as an obligation accruing to them on account of the external political situation, as has been done, in part for instance, in Austria. It should not be left unmentioned that through this measure, not only the equilibrium of public budgets, as prescribed by the Conversion Law, but also the absolutely necessary lowering of the deficit in the balance of payments could be attained.

#### IV. Repercussions of the Currency Reform in the field of commodities.

1. Immediately after currency reform, the largest part of the existing system of price and quantity control was abolished in the bizonal area and later also to a smaller extent in the French Zone. It was mainly the control and allocation of basic food stuffs and basic raw materials, especially coal, iron, and steel, that were maintained. Apart from that, wages and rents remained unchanged as they were fixed by law.

This far reaching cut in the rationing system which, after 12 years, for the first time permitted the formation of prices in the market in Western Germany and which restored the original functions of money, necessarily brought some movement into the structure of prices. The prices for a number of vital articles increased considerably. On the other hand, most of the price decreases affected goods which through the currency reform, were placed into the background of the favourable turn of the market and, for the time being,

may be dispensed with by the consumer. Black market prices for rationed food, always very reasonable, remained in general remarkably stable. The present butter price is, for instance, 12 - 14 DM per 500 grams, as compared with 10 - 12 DM at the end of the first week after the reform. A 1 500 grams loaf of bread still costs 1.50 DM. The Dollar price on the free market of about 12 DM showed a constant tendency.

Price increases, besides being due to the method employed at the first creation of new money, by which consumption was especially encouraged, are, in part, doubtlessly due to a number of actual cost increases. It was a mistake that prior to the reform the raw material prices were not adapted to the increased costs. Thus, the first increase in coal prices from 15 to 25 Reichsmarks, made prior to the reform, had to be followed by a further increase by 7.50 DM; repercussions on the iron and steel prices are inevitable. Moreover, the prices for non-ferrous metals were considerably increased. The most decisive trend of rising prices is, however, probably based on the introduction of the 30 cents rate in foreign trade since, on account of the price stop effective since 1936, the most important industrial raw materials did not keep step with the upward trend of world market prices. They were so far sold by JELIA at domestic stop prices without considering the cost-price. Shortly before the currency reform, however, instructions were given that all imports, with the exception of category A-imports (i.e. basic food stuffs and fertilizers) are now to be paid at the cost-price converted at a ratio of 30 cents: 1 Deutsche Mark in order to adapt them to the world price level. Consequently, 1 ton of Swedish ore no longer costs 17 DM but 42 DM. Similar increases exist in the case of textile raw materials which increased two- and threefold and in the case of hides which, based on a cost price of 90 cents, must now be paid at 3 DM instead of

1 DM. A special problem results from the fact that some day or other grain, feeding stuff, and fertilizers will also have to be converted at the 30 cents rate, in this way, assuming the present level of imports, an additional burden of at least 1-1.5 billion DM would be brought about in the form of price increases.

Up to the present time, however, no exact statistics are available on the development of prices. It may be stated, however, that the actual price increases, in general, are of no serious or inflationary nature. According to a statement on the development of prices made by the Department for Economics, the cost of living in Hesse increased by approximately 5 per cent. during July. The cost of living index, in total, would be approximately 40 per cent. higher than the 1938 figure. This does, however, reflect the lowering of the German standard of living due to the war and the war results. Since the earned incomes generally remained the same, the prices must necessarily be much higher than those in 1938. It is held by this quarters as being correct that the real income of all persons whose money income remained unchanged has considerably increased, as compared with the time prior to the currency reform. When comparing prices, it must always be taken into consideration that goods may now actually be bought at the present prices whereas, prior to the currency reform, goods were not available at all or only at much higher black market prices or by way of additional work and costs. Insofar as the improvement of the real incomes of quite a number of people is not covered by additional production or the dissolution of stocks, it will naturally be charged to those circles who, prior to the currency reform, had a relatively high income, either from black market operations, allowances in kind or own production. This doubtlessly applies to large parts of the worker's class. In view of the fact that, from now on, the calculation of costs will be very strict and wages paid exclusively

in money, the real income of these classes will, of course, be somewhat reduced.

However, the fact that, in the long run, some kind of subsidizing<sup>of</sup> the lowest income brackets will become unavoidable, in order to enable them to buy their minimum of subsistence, must be viewed with concern. This applies in particular to many thousands of refugees and old and unemployed people who, from their partly very low incomes, will no longer be able to pay their living at prices resulting from the free market. It would in our opinion, however, be undesirable to help these classes by reintroducing the price stop, as demanded by some circles. As experience shows, goods will only be expelled from the market through this measure.

2. In our opinion, the development of foreign trade seems to be of utmost importance for the progress of production. Until July 1948 inclusive, the total exports of the Combined Area amounted to 265 million Dollars, according to the statistics of JEIA. Thus, the total export of 1947 has already been exceeded. But in spite of this fact, this export does not suffice at all to close the gap in the balance of payments of Western Germany, even to some extent. Although it is true that the export of finished goods increased considerably, it is still smaller than the share of the coal exports alone. These conditions make it necessary that all efforts be made to raise the export of finished goods. The fact that the bizonal area was accorded the most-favoured-nation clause by the United States, England and all recipient ERP countries must be considered an important step in this direction. In foreign trade circles, however, the impression prevailed that this casing may only become fully effective if the monopolization of the foreign trade through JEIA and OFICOMEX were eliminated. The German export of finished goods, of old highly differentiated, and very often based on personal relations, cannot be raised unless the exporter is permitted

at discretion to make direct contracts with his foreign buyer. Abroad, it is often stated that buying in other countries, even at somewhat higher prices, is preferred to dealing with the red tape system of JEBIA and OFICOMEX in Germany.

It must also be mentioned that, in the opinion of German foreign trade circles the present strict demand of JEBIA for payment in Dollars handicaps the export to those countries that are suffering from lack of Dollars. This is especially true in the case of the "soft" currency countries. Several of these countries manifested their interest in buying more German products provided they could pay with deliveries. It is, therefore, particularly remarkable that, according to recent statements, in future JEBIA might be inclined no longer to demand Dollar payments. In addition, German export circles mainly build their hopes upon the plan of a central clearing, recently decided upon in Paris, which might counteract the disintegration of the inter-European trade relations, resulting from the lack of Dollars.

It is unfavourable that at present the introduction of the 30 cents rate which aims at adapting the German prices <sup>to</sup> the world market, might tend to become an export handicap. The stop prices so far valid in Germany for imported raw materials probably amounted to on average only one third to one half of the now resulting world market prices. Should the export industry not be in a position to compensate the increases of the import prices by lowering the costs in other fields, a large part of the German finished products would not be marketable in the world market. It must be added that even in the past, certain parts of the export industry could not get along with the 30 cents rate. Should Germany be able to put up with a possible decrease in the export figures, it would perhaps be expedient to wait for the effects of the 30 cents rate on the German price level and the calculation

of the export industry. It may be imagined, that, in the long run, compensatory factors might become effective which could lead to a revival of exports. Unfortunately, this leeway is not given discretionarily, since the importance of the disadvantageous consequences of declining German exports on the future readiness of foreign customers to make purchases, and on meeting indispensable German import requirements and the willingness to grant further aid to Western Germany within the ERP can hardly be foreseen.

3. The dismantling problem which recently again entered into an acute phase is also of great importance for the development of German production. It seems hardly understandable that industrial capacities should be diminished to an extent threatening to press down the productive capacity of the trizonal area under the 1936 level when the Marshall-Plan policy simultaneously aims at a "selfsustaining economy" to be realized in each country by 1952. Particularly alarming are the news with regard to intended dismantling operations received from the French Zone. Important export industries in this Zone, such as the clock and watches industry, are noticeably affected by this measure. Particulars of the dismantling problem have been repeatedly explained in detail, by competent authorities and need, therefore, not be discussed here. Suffice it, therefore, to mention here that, from the point of view of currency policy, the dismantlings are very essential since they doubtlessly hamper the smooth progress of production. Apart from that, the wages paid for the carrying out of the dismantling operation are not balanced by a corresponding increase of the social product which would provide for the equivalent of wages in the form of goods. Since in addition, in many cases costs of dismantling exceed the value of the plants and moreover, only part of the dismantled plants can be actually used in the receiving countries, the dismantlings finally mean a reduction of the entire European capacity. In the interest of the ERP, however, an increase in the German steel production and full employ of the Germany rolling mills <sup>must</sup> <sub>should</sub>



be recommended instead. This was expressly stated in the report of the Herter Committee, dated 12 November 1947. In Section 115 of the Foreign Assistance Act 1948 Title I, the Administrator was accordingly given the authorization:

" to obtain the agreement of those countries concerned that such capital equipment as is scheduled for removal as reparation from the three western zones of Germany be retained in Germany if such retention will most effectively serve the purpose of the European Recovery Program."

In the interest not only of Germany and her new currency but in the interest of all states participating in world trade, it would be desirable that these voices of good economic sense be listened to.

#### V. Summary

It was not the first target of the currency reform to achieve a purge of a purely finance-technical nature. Its aim was and still is, the reconstruction of a reasonable 'market-economy' with considerably increased productivity. The first step, viz. to reinstate money as the sole and general barter and payment instrument, was successful. Goods are again available for money. The preliminary maintaining of some rationings and the tendencies to hold back goods in the expectation of price increases - as can again be observed in some cases - may dull the picture a little but may not change it essentially. Important progress was made in the second phase, viz. raising the level of production. This, at least, applies to output per head of employee. The main incentive factors are better food and the fear of dismissals. The third phase, viz. the necessity of exact accounting and strict economy, is not yet fully reached, either in the case of the consumer, the producer, or public authorities. Due to the technique of the currency reform, the population and governments were first supplied with relatively much new money, a fact which

indirectly alleviated the adaptation problem of large parts of production and distribution. This effect was, however, partly intended: as a first measure, it was intended to equip wages and salary recipients and their families with a sort of advance from the commodity stocks, by way of a considerable first supply of new money, in order to make working for money attractive and reasonable again. Furthermore, it was intended to prevent producers from being compelled to undertake sudden conversions which, in view of the limited elasticity of the German economy, would probably not have ensured the necessary success. Tensions in certain commodity-markets had to be put up with, in view of this aim. In view of the existing unfavourable conditions of elasticity, they were an inevitable consequence of the restoration of the freedom of consumption. The disadvantage of the quota per capita regulation, as provided by law, was not in the first place, the absolute level of these amounts, although it should be emphasised that payments of the second instalment after 8-12 weeks after the reform, can no longer be considered expedient from an economic point of view. It is far worse that the deduction of the quota per capita has cancelled savings of 540 Reichsmarks per head of the family with a stroke of the pen. The already very small incentive of the German population to make savings was thereby given an additional hard blow.

This leads directly to a question of cardinal importance which the currency reform - and also the tax reform - has so far left open, the question of financing investments. After all that has happened, and in view of the present foreign political situation, considerable voluntary savings may - under the most favourable circumstances - be expected in the field of purpose-bound savings only, and especially such savings as involve a claim for future additional housing space. But the major part of investments required for reasons of productivity may neither

be financed by way of purpose-bound savings nor alone by profits of enterprises. Payment to the Aussenhandelskasse of imports given on credit by the occupation powers, especially the United States, must be considered a kind of forced savings exercised at present. Within the scope of these frozen amounts, investments could be financed through creation of money without inflationary effects. For this reason, the Board of Directors decided to suggest that, within this framework, blocked accounts be gradually released in one or another form for the financing of investments through the Reconstruction Loan Bank. It is to be expected, however, that, within a short time, the claim of the public authorities to use these funds for covering at least part of their budget deficits, mainly deficits resulting from the occupation costs, will have to compete with the claim for financing investments, and the same sum can only be used for one or the other purpose. Every creation of money for the financing of investments exceeding the simultaneously freezing of other funds will, however, not be compensated in the commodity-market by an increase of the current production of consumer goods unless it were accompanied by a sudden increase of productivity. This may hardly be expected in Germany in view of the present state of affairs, a fact which makes it all the more necessary to increase production and capacity at least step by step, likewise for reasons of financing.

The increase in productivity always depends upon the improvement of such production factors as are in short supply. In the Western Germany of to-day, this applies particularly to raw materials, coal and several special means of production. For this reason, the following factors are decisive for the further development of the monetary and economic reform (apart from maintaining food imports given on credits, whereby a possible improvement in the selection of the various items should be taken into consideration in the interest of the population of

Industrial cities): speeding up of the raw material supplies under the ERP which are additional to the category B-imports paid for from German exports, an increased availability of coal, in accordance with the increasing industrial needs, after an appropriate supply of domestic fuel is ensured, waiving of the dismantling of production capacities for the manufacture of certain bottleneck-means of production, especially in the field of iron and steel production, and the production of machinery and heavy chemicals. In these fields the occupation powers alone are able to contribute in order to ensure a full success of the currency reform - in accordance with the objectives of the ERP.

Schätzung des Gesamtbetrages der Festkonten  
 Estimate of total sum of blocked Accounts  
 Estimation du montant total des comptes bloqués

Anlage 1  
 Annex 1  
 Annexe 1

		(in Dnd. RM) (in bill. RM) (en bill. RM)			(in Dnd. RM) (in bill. RM) (en bill. RM)			(in Dnd. DM) (in bill. DM) (en bill. DM)					
		I. Reichsarbeitsverpflichtungen der Geldinstitute RM-Liabilities of Financial Institutions			II. Hiervon sind abzuziehen der RM-Gegenwert für Kopf- und Geschäftsbeträge Herefrom the RM-Equivalent for quota-per-capita and business amounts to be deducted			III. Die umgewandelten Neugeldguthaben the converted new currency credit balances amount to					
		Engagements en RM des établissements financiers			Du montant total, l'équivalent en RM pour les montants par tête et entrepris doit être déduit			davon					
		Angelegene Bankguthaben (mit Vordruck A und B) Bank credit balances reported (on form A+B)			für Geschäfts-beträge (480 Mill. DM) mit 10 RM für 1 DM within			1/2 auf Frei-konto 1/2 on free account					
		Nicht arbeitspflichtige Guthaben Credit balances not liable to be reported Avoirs dont la déclaration n'est pas exigée			Abschlag für nicht anrechenbare Kopf- und Geschäftsbeträge rd. 25 %			1/2 auf Fest-konto 1/2 on blocked account					
		Ausländerguthaben 1) foreigners' credit balances 1)			für Geschäfts-beträge (480 Mill. DM) mit 10 RM für 1 DM within			1/2 auf Frei-konto 1/2 on free account					
		Ostzonen-guthaben 2) eastern zone credit balances 2)			deduction for quota-per-capita and business amounts not to be deducted abt. 25 %			1/2 auf Fest-konto 1/2 on blocked account					
		Schmelzbeträge aus dem Verfallverfahren 3) fines from denazification proceedings 3)			restes à déduire			1/2 auf Fest-konto 1/2 on blocked account					
		Summe der RM-Verbindlichkeiten total of the RM-liabilities			verbleiben abzusetzen			1/2 auf Fest-konto 1/2 on blocked account					
		total des engagements en RM			deduction faite pour des montants par tête et entreprise ne pouvant être déduits. En chiffres ronds 25 %			1/2 auf Fest-konto 1/2 on blocked account					
		540 RM devient être déduites pour chaque tranche de 60 DM on devrait déduire en cas d'une couverture complète en RM bill. de RM			reste à déduire			1/2 auf Fest-konto 1/2 on blocked account					
		pour des montants d'entreprise (480 Mill. DM) avec 10 RM pour 1 DM donc			avoirs en anc. monnaie à convertir			1/2 auf Fest-konto 1/2 on blocked account					
1	2	3a)	3b)	3c)	1	2	3	4	5	1	1a)	1b)	
8,8	169,8	1,6		2,8 +)	123,-	25,5	4,8	7,5	ca 23,-	ca 100,-	ca 10,-	ca 5,-	ca 5,-

1) geschätzt an Hand der Auswertung der Formulare MGF nach Gesetz 53  
 estimated from forms MGF under law 53  
 estimés suivant formulaire MGF de la loi 53

2) könnte nur durch Sondererhebung festgestellt werden  
 could only be determined by special enquiry  
 ne pourrait être déterminés qu'après enquête spéciale

3) ebenfalls nur durch Sondererhebung feststellbar  
 likewise only to be determined by special enquiry  
 ne pourraient être déterminés qu'après enquête spéciale

\*) einschliesslich Ostzonen-guthaben  
 incl. eastern zone credit balances  
 y compris avoirs en zone soviétique

Die Entwicklung des Kreditgeschäfts von 112 Geldinstituten der Trizone  
Development of Credit Transactions of 112 Financial Institutions of the three Western Zones  
Le développement des opérations de crédit de 112 établissements financiers de la trizone  
(in 1000 DM) (en 1000 DM)

Berichtswoche Period Semaine du rapport	Während der Berichtswoche neu gewährte Kredite *) New Credits granted during Week *) Credits nouvellement accordés dans la semaine du rapport *)				Während der Woche zum Rediskont wei- tergegebene Wechsel Bills rediscounted during Week Lettres de Change réescomptées dans la semaine du rapport	Kredite an öffentl. rechtliche Körper- schaften. Stand am Ende der Woche Credits to Public Authorities. Balan- at end of Week Crédits accordés aux Corporations de droit public. état fin de semaine	
	Gesamt total total (3 - 6)	aufgegliedert in: breakdown into: subdivisés en:					
		Handelswechsel Commercial Bills Lettres de Change commerciales	Bankakzepte Banker's Accep- tances Acceptations de banques	Solla-Wechsel Promissory Notes Seules de Change			Kleinkredite bis 500 DM Small Credits of 500 DM max. Petits crédits jusqu'à 500 DM
1	2	3	4	5	6	7	8
28.6. - 3.7.1948	130.371	28.738	57.260	42.755	1.618	36.293	4.396
5.7. - 10.7.1948	108.758	34.143	43.751	29.315	1.549	11.183	5.011
12.7. - 17.7.1948	119.655	61.645	36.422	20.491	1.097	10.866	28.552
19.7. - 24.7.1948	101.167	37.084	45.556	17.385	1.142	12.037	51.205
26.7. - 31.7.1948	130.516	65.965	44.298	19.030	1.223	14.447	62.357
	590.467	227.575	227.287	128.976	6.629	84.846	

\*) ohne Kredite an öffentlich-rechtliche Körperschaften  
\*) other than to corporations under public law  
\*) sans les crédits accordés aux corporations de droit public

Die Entwicklung von Barreserven und Einlagen bei 112 Geldinstituten der Trizone  
Development of Cash Reserves and Deposits maintained with 112 Financial Institutions of the three Western Zones  
Le développement des réserves liquides et des dépôts entretenus auprès de 112 établissements financiers de la trizone  
(in 1000 DM) (en 1000 DM)

Stand am Date	I. Barreserve Cash Reserve Reserves liquides				II. Einlagen Deposits Dépôts							Einlagen insgesamt Deposits total
	d a v o n of which dont	Gesamt total	auf Festkonto Deposits on blocked Account En Compte Bloqué	d a v o n of which dont	Gesamt total	auf Freikonto einmischlich Deposits on free Account incl. new Deposits En Compte libre y compris nouveaux dépôts	auf Freikonto einmischlich Deposits on free Account incl. new Deposits En Compte libre y compris nouveaux dépôts	auf Freikonto einmischlich Deposits on free Account incl. new Deposits En Compte libre y compris nouveaux dépôts	sonstige Gläubiger Other Deposits autres créanciers	Spareinlagen Saving Deposits Dépôts d'épargne		
3. 7. 1948	79.180	780.687	86.308	16.226	905.724	229.615	495.112	177.222	3.775	992.632		
10. 7. 1948	75.428	823.314	236.156	39.972	1.363.883	340.302	559.990	369.355	34.236	1.540.639		
17. 7. 1948	67.783	894.189	334.394	43.972	1.646.658	490.222	538.672	581.789	37.375	1.983.652		
24. 7. 1948	67.566	965.332	380.240	36.679	1.897.764	572.533	599.765	688.662	27.324	2.285.944		
31. 7. 1948	61.481	872.166	475.167	40.668	2.046.541	643.629	508.636	655.580	38.696	2.521.768		

Verfügungsbescr.  
gem. § 26, 2 des US  
2 Conversion Law  
sujet à l'art. 26  
2<sup>e</sup> Loi de Convers.

Kreditinstitute öffentlich-rechtlich  
d. Vermögensg. Körperschaften  
Deposits of public authorities  
Etablissements de crédit dans le territoire touché par la réforme monétaire  
corporations de droit public

Die Entwicklung des Kreditgeschäfts der Landeszentralbanken der Trizone  
 Development of Credit Transactions of Land Central Banks of the three Western Zones  
 Le développement des opérations de crédit des Banques Centrales Provinciales dans la Trizone

von 15. 7. - 31. 7. 1948  
 from 15. 7. - 31. 7. 1948  
 du 15. 7. - 31. 7. 1948  
 (in 1000 DM)  
 (en 1000 DM)

Anlage 4  
 Annex 4  
 Annexe 4

Berichtsdatum Date of Report Date du rapport	Wechselbestand Bills in Portfolio lettres de change en portefeuille					Bestand an Balance on hand of		Stand der Total of		Berichtswoche Period Semaine du rapport	In der Berichtswoche hereingenommene Wechsel Bills purchased Lettres de change achetées dans la semaine du rapport
	Gesamt Total	Handelswechsel Commercial Bills Lettres de change commerciales	Bankakzpte Bankers Acceptances acceptations de banque	Solawechsel Promissory Notes seules de change	angekauften Aus- gleichsforderungen purchase equaliza- tion claims	behandelten Aus- gleichsforderungen equalization claims against collateral	Kassenkredite an die öffentl. Hand cash credits to public authorities	Kredite für Lebens- mittellieferungen nach Berlin credits for food supplies to Berlin			
	total	subdividiertes in aufgegliedert in breakdown into									
1	2	3	4	5	6	7	8	9	10	11	
15. 7. 1948	132.999	44.650	46.756	42.191	2.440	2.353	1.005	19.357	8.7. - 15.7.	27.403	
23. 7. 1948	143.635	56.153	42.624	44.658	2.715	2.808	1.361	20.140	16.7. - 23.7.	22.607	
31. 7. 1948	167.802	73.767	43.655	51.650	4.127	3.495	1.042	26.175	24.7. - 31.7.	36.346	



circulation of money, and notes stock as per 14 August 1948

<u>1.) circulation of money</u>		<u>in million DM</u>
"Notes issued" according to detailed statement of the Bank Deutscher Länder of 14/8/48.		5 777
<u>less: cash holdings</u>		
1.) of the Bank Deutscher Länder according to statement of 14/8/48	55	
2.) of the Land Central Banks	<u>1.894</u>	<u>1 949</u>
Total of notes in circulation (including cash holdings of the credit institutions)		<u>3 828</u> =====
The figure for circulation of notes does not comprise the notes sent to Berlin agregating		428 =====
<u>2.) Notes stock</u>		
Special stock of the Bank Deutscher Länder maintained with the Land Central Banks	1 945	
Notes stock held by Bank Deutscher Länder	603	
Cash holdings of the Bank Deutscher Länder	<u>55</u>	<u>2 603</u> =====

Hereof 14.358.000.-- DM with " B " stamp.

Debit and Credit Interest in the States of the three Western Zones  
as per mid - August 1948

Land Central Bank	Bremen	Düsseldorf	Frankfurt/Main	Freiburg	Hamburg	Hannover	Kaiserslautern	Kiel	Minchen	Reutlingen +)	Stuttgart
Credit interest in % (total charge of borrower)											
	1) bank acceptances										
a) above 5000 DM	7 1/2 %			)	)	7 - 8 %	6 1/2 - 8 %	not yet fixed	) 7 1/2 % xx)	7 1/2 %	7 1/2 %
b) below 5000 DM	8 %	agreement not yet existing	8 %	)	7 1/2 %	according to underlying transactions	8 %	fixed	)	7 1/2 %	7 1/2 %
c) for export credits x)	7 %		)	)	7 1/2 %	7,5 - 8,4 % according to amount	8,4 %	9 %	)	7 1/2 - 8 %	according to solvency and amount
d) for preferential imports x)			)	)	8 %				)		
e) for other commodities transactions x)			)	)	8 %				)		
2) commercial bills of exchange											
a) above 5000 DM	7 1/2 %	6 1/2 %	7 1/2 %	) 7 1/2 %	7 1/2 %	7,5 - 8,4 %	7 1/2 %	7 1/2 %	7,2 %	6 1/2 - 7 %	6 1/2 - 7 %
b) 1000-5000 DM	8 %	7 %	8,4 %	)	8 %	according to amount	8 %	8 %	7 1/2 %	7 - 7 1/2 %	7 - 7 1/2 %
c) below 1000 DM	9 %	7 1/2 %	9 %	) 9 %	9 %		8,4 %	9 %	8 %	7 1/2 - 8 %	7 1/2 - 8 %
d) below 1000 DM		8 %		)	out LDB- 9				8 %		
3) one-time bills of exchange (to be settled from 8.8.)	9,6 %	1 % increase on 2)	9 %	9 %	9,6 %	1 % more than commercial bills	8 %	9 1/2 %	9 % xx)	8 1/2 %	8 1/2 %
4) deposit loan small credits	9,6 %	9,6 %	9,6 %	9 - 10 %	not yet fixed	9,6 %	9 %	9 1/2 %	9 % (lump rate)	7 1/2 - 9 %	7 1/2 - 9 %
5) credits on current account		9 %									
Credit interest											
1) call deposits											
a) account free of commission	1 %	1 %	1 1/2 %	1 %	1 %	1 %	1 %	rates not yet fixed, might be between 1-3% subject to authority	1 %	1 %	1 %
b) account subject to commission	1 3/4 %	2 %	2 %	1 1/2 %	1 3/4 %	1 3/4 %	1 3/4 %		1 1/2 %	1 1/2 %	
2) savings deposits											
a) subject to legal notice of withdrawal	2 %	2 1/2 %	2 %	2 %	2 1/4 %	2 %	2 %		2 1/2 %	2 3/4 %	2 3/4 %
b) recallable within 6 to 12 months	3 %	3 %	2 1/2 %	2 1/2 %	2 1/2 %	2 1/2 %	2 1/2 %		2 3/4 %	2 3/4 %	2 3/4 %
c) recallable after 12 months and more	4 %	4 %	3 %	3 %	3 %	3 %	3 %		3 3/4 %	3 3/4 %	3 3/4 %
+ Reutlingen: for the present and also presumably definite as at Stuttgart											
++ giro accounts of clearing members up to DM 10.000.- without interest, above 10.000.- - 1 %											
x) Hamburg and Bremen only											
xx) pursuant to notification of the Bavarian State Ministry for Finance BA Nr. 5312 I 1093 dated 3 July 1948.											

1) 3 to 6 months  
2) above 6 months  
3) for Düsseldorf only

Enclosure 7

Figures illustrating the economic development in 1948

1. Labor situation in the Bizone

	Unemployed	Beneficiaries of Unemployment relief
	(1000's omitted)	
31. 5.	435	13
2. 7.	500	15
19. 7.	622	38
31. 7.	648	79
19. '8.	763	165
Number of vacancies on 31 May		597.000
" " " on 19 August		227.000

2. Production

Coal output in the British Zone

(per working day in 1,000 t)

May	265,8
1. 6. - 19. 6.	279,0
21. 6. - 26. 6.	291,0
28. 6. - 3. 7.	291,8
5. 7. - 10. 7.	285,1
12. 7. - 17. 7.	289,4
19. 7. - 24. 7.	288,5
26. 7. - 31. 7.	283,2
2. 8. - 7. 8.	279,9
9. 8. - 14. 8.	286,1
16. 8. - 21. 8.	289,1

Iron and Steel Industry

(per working day in 1,000 t)

	pig iron	steel ingot	rolling-mill production
January to May	9,5	10,7	7,4
June	11,2	12,6	8,7
July	13,0	14,8	14,9
2. - 8. 8.	13,3	14,9	13,8
9. - 15. 8.	13,3	15,4	15,6
16. - 22. 8.	13,6	16,0	16,0

3. Prices

<u>Wholesale prices (1938 = 100)</u>		<u>Dec. 44</u>	<u>15 June 48</u>	<u>31 July 48</u>
coal	(fat rough coal delivered at colliery)	104	164	203
pig iron	(free consignee's station)	111	215	215
bar-iron	(Oberhausen)	105	194	194
scrap	(A 1 steel delivered at Rhenish-Westphal. contract works)	100	174	174
copper	(wire ingot)	127	261	300
lead	(orig. soft 99,9 %)	111	455	758
zinc	(orig. works 97,5%)	116	493	564
aluminium	(crude pigs from stocks)	96	96	126
ox hides	(Stuttgart)	100	100	207
calfskins	(Stuttgart 4 1/2-7 1/2 kgs)	100	100	347
sulfate of ammonia	(21% free to consignee's station)	102	150	128
sulfite cellulose	(1b unbleached)	110	181	199

R e t a i l p r i c e s

( Black market, at Düsseldorf)

	American wheat flour kg	butter kg	white sugar kg	coffee kg	American cigarette each	ladies' stockings 1 pair
25.6.	4,--	30,--	8,--	70,--	-,30	4,50
1.7.	4,--	30,--	6,--	70,--	-,30	4,50
10.7.	3,--	28,--	6,--	56,--	-,50	6,38
20.7.	2,44	25,--	5,50	59,--	-,33	6,81
30.7.	2,56	22,05	4,85	50,--	-,44	9,46
11.8.	2,56	24,25	4,25	48,--	-,38	13,--

4. Rates

DM - Quotations in Zurich free market

	<u>Swiss francs for every 100 DM</u>
7. 7.	60,00
10. 7.	27,00
17. 7.	30,00
24. 7.	23,00
31. 7.	27,00

7. 8.	29,00
14. 8.	29,00
21. 8.	27,50

Frankfurt Stock Exchange Rates

	<u>18.6.</u>	<u>14.7.</u>	<u>28.7.</u>	<u>16.8.</u>
<u>Industry shares</u>				
Adlerwerke	137 7/8	15	25	18 1/2
B.M.W.	156 1/2	11	21	17
Conti-Gummi	173 1/3	42	57	47
Gutehoffnungshütte	530	31	38	30
Löwen-Bräu, Munich	251 1/4	49	58	51
R.W.E.	185 1/2	43	55	42
Südd. Zucker	213	46	56	51
<u>Bank shares</u>				
Commerzbank	150 3/4	7	11	6 3/4
Deutsche Bank	94	6 1/2	8 1/2	6 1/2
Dresdner Bank	92	5 1/2	9 1/2	6
<u>Fixed Interest Bearing Securities</u>				
4 % Fft. Hyp. Bank-Pfandbriefe	106,5	9	9 1/2	9
4 % Bayr. Hyp. u. Wechselbk.	106,5	9 1/2	9 3/4	9 5/8
5 % Rhein. Br. Kohle. von 40	112	8	8 1/2	7 7/8

5. Finances

Budget figures for the fiscal year 1947/48

	<u>U.K. zone</u>	<u>U.S. zone</u>	<u>French zone</u>	<u>Three western zones</u>
<u>Total receipts</u> (in m. RM) 9.767 <sup>1)</sup>	6.666	2.140	18.573	
of which tax receipts (in m. RM) 7.283	5.437	1.650	14.370	
<u>Total expenditures</u> (in m. RM) 10.167	5.665	1.770	17.602	
of which occupation costs & other occupation bound expenditures (in m. RM) 2.912	1.651	750 <sup>2)</sup>	5.313	
occupation costs and other occupation- bound expenditures	% of receipts 30	25	35	28
	% of expenditures 29	29	42	30

1) Provisional figures

2) Estimate