

H. J. Stepler

M O N T H L Y R E P O R T S

of the

BANK DEUTSCHER LÄNDER

May 1949

- - - - -

Contents:

Page

The Economic Situation of the Specified
Area (Western German D-Mark Area) during
April/May 1949

Money and Credit

Public Finance

Foreign Trade

Employment, Production, and Sale

Prices and Wages

Overall Situation and Capital
Supply

- - - - -

The Economic Situation of the Western German D-Mark Area
during April/May 1949

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

Short-term Bank Credit

During April and the first three weeks of May again - as had been the case in the previous months since the currency reform - short-term loans newly-granted by the banks considerably exceeded redemptions-effected during the same period. Consequently, the amount of outstanding short-term bank-credits (excluding credits to financial institutions) has continued to increase considerably. According to the monthly banking-statistics, the increase in April amounted to 335 million Deutsche Marks, i.e. 6 per cent of the end-of-March level. By 23 May, the last key day in respect of which data are available on drawing up this report, the 112 weekly reporting financial institutions showed a further expansion of short-term credits by 55 million Deutsche Marks, so that, judging on the basis of the ratio existing during April, the increase during the first three weeks of May for all business banks

(1) Closed on 31 May 1949

(banks outside the central banking system) may be presumed to be about 135 million DM. As compared with the first three weeks of April, when the 112 weekly reporting banks showed an increase in credits by 103 million DM, the rate of credit expansion of all business banks has distinctly slowed down during May.

During April, current account credits chiefly accounted for the credit expansion, while advances on bills of exchange increased but slightly (by 60 million DM), and acceptance credits⁽¹⁾ hardly showed any increase at all. As late as in May, credits on bills of exchange again showed an increase-- at least in the case of the weekly reporting financial institutions. The fact that during April the banks granted, to a rather great extent, credits not eligible for refinancing, may be interpreted as an indication of their effort to satisfy urgent credit requirements even at the sacrifice of liquidity. On the other hand, this development shows to which extent trade and industry at present avoid to incur liabilities on bills of exchange. In view of the market conditions becoming increasingly difficult, this trend is understandable; however, trade and industry should be aware of the fact that the more the banks have to burden themselves with credits not eligible for refinancing, the more their possibilities to grant short-term credit are prejudiced.

Apart from the credit expansion of the business banks, the direct making available of central bank money has considerably increased of late. From the beginning of April through 23 May,

(1) Statistically, acceptance credits and current account credits are comprised in the group; they may, however, be calculated individually from the items "own acceptances in circulation" and "own acceptances in portfolio", although in this case a separation of the credits granted to financial institutions is impossible. It is planned to separate in future current account credits from acceptance credits also in the statistics.

the central banking system increased its credits to public authorities by about 116 million DM by balance. The main reason for this increase is a 168.6 million DM credit, effective 30 April for a four months term, which the Bank deutscher Länder granted to the Department for Finance in order to enable the Combined Economic Area to take over the bizonal grain reserve at the prices valid prior to 1 May 1949. This amount was credited to the Military Government account "proceeds from deferred imports". Nevertheless, the credit balance of the four items for the settlement of foreign transactions which are included in the Statement of the Bank deutscher Länder increased considerably. On 23 May, it amounted to 513 million DM and has thus increased by about 300 million DM since the end of March. The main reason for this increase is to be found in the debiting of the account "proceeds from deferred imports" which is kept on the liability side of the accounts for the settlement of foreign transactions, in favour of the Reconstruction Loan Corporation which so far has received a total of 245 million DM. The decrease of the liability items caused hereby resulted in a corresponding increase of the credit balance of the accounts for the settlement of foreign transactions; however, the difference between the amounts made available to the Reconstruction Loan Corporation and the total increase in the credit balance of the four items for the settlement of foreign transactions shows that additional central bank money has been put into circulation during April and May also by other payments made from these accounts.

The total increase in the volume of short-term credits, including the balance of the foreign accounts, amounts to about 1,850 million DM for the period from the beginning of 1949 through 23 May. Current account credits of business banks probably account for roughly 1 000 million DM of this amount, acceptance credits for roughly 200 million DM, and discount credits for roughly 130 million DM. The central banking system accounts for the remaining 520 million DM, about fifty per cent of which amount derive from the release of counterpart-funds.

Liquidity of Banks

Due to the fact that in May the amount of notes in circulation remained almost on the same level as in April - exceeding the corresponding level of the previous month by 76 million DM on May 23rd, by 7 million DM on May 15th, and by 29 million DM on May 7th -, the extensive creation of central bank money resulted in a considerable increase in the liquidity of the banks. This increase in liquidity is manifested by a declining need for refinancing, an increasing secondary liquidity, and the banks' surplus reserves still continuing to be not inconsiderable. Whereas at the end of March the financial institutions had been granted by the central banking system credits totalling 1,585 million DM (including 1,377 million DM for bills rediscounted), they were able to reduce these credits to 1,413 million DM by 23 May (including not more than 1,151 million DM rediscount credits). The bill holdings of all financial institutions even increased during April by 69 million DM to 1,948 million DM, including 472 million DM own acceptances. Up to 23 May, amounts of bills in the portfolio of the 112 weekly reporting financial institutions continued to increase very considerably, viz., by 175 million DM to 1,294 million DM; the bill holdings of all financial institutions at this date may be estimated at 2,200 million DM at least. The decrease in the share of rediscount credits of banks in the total refinancing credit of the central banking system - which decrease was partly compensated by an increase in collateral loans - permits the conclusion that the banks, too, probably expect a further increase in liquidity and that sufficient bills with short maturity, which would allow a speed reduction of the central bank credit according to this expectation, are probably not available in all cases. For this reason, the collateral loan, though being more expensive, is preferred to some extent at present, since it allows a reduction of the indebtedness with the central banking system at any time as required.

The development of the surplus reserves likewise reflects

the gradually-increasing liquidity of banks. It is true that the average surplus reserve during April, amounting to 219 million DM (= 18.2 per cent of the reserve required), was somewhat below the March average of 272 million DM (= 22.7 per cent of the reserve required). However, when the calculation of the surplus reserves is based on key days, which method according to previous experience fairly exactly reflects the trend of the development of the legal reserve, an increase to 418 million DM (= 32 per cent of the reserve required) is to be recorded. Since the beginning of this year, the surplus reserves have been higher than on 23 May only twice, viz., on 7 and 23 January, when they amounted to 454 and 437 million DM respectively. Since in compliance with the decision of the Board of Directors of 25 May, effective as of 1 June, the reserve rates have been reduced from 15 to 12 per cent for sight deposits at bank places and from 10 to 9 per cent for sight deposits at non-bank places, the reserve position of the financial institutions will probably improve still further. According to the level of deposits as of 30 April, the reduction of the reserve required would amount to 190 million DM. The distribution of the surplus reserves among the various bank groups, and within certain groups among the individual institutions, is still extremely uneven, it is true. During April, as much as about 60 per cent of the surplus reserves were held by the Girozentralen alone. As compared therewith, the surplus reserves of the commercial banks, though not insignificant, were considerably lower. Thus during April the surplus reserves of the 30 successor institutions of the big banks averaged 22 million DM (= 7 per cent of the amount required), those of 75 regional and local banks roughly 21 million DM (= 12.5 per cent of the amount required). In general, the reserve deficits remained within narrow limits, and only in few cases they assumed larger proportions. During April, 651 financial institutions obliged to maintain reserves with the Land Central Bank showed reserve deficits totalling 10.7 million DM. Among these institutions were 98 private banks, 83 savings banks,

189 rural and 257 urban credit cooperatives.

Development of Deposits and Volume of Money

The sizeable creation of credit during April and May led to a considerable increase in deposits with the financial institutions. During April, deposits of non-bank customers with all banks (excluding the central banking system) increased by about 440 million DM, and by 23 May the deposits with the 112 weekly reporting financial institutions - which hold about 35 per cent of all bank deposits (excluding deposits of financial institutions) - had increased still further by 303 million DM. With the central banking system as well, deposits of non-banks revealed an upward trend. They amounted to 1,719 million DM at the end of March, increased by 165 million DM to 1,884 million DM during April, and amounted to 1,961 million DM on 23 May.

With regard to the trend of deposits both with the business banks and with the central banking system, it is to be borne in mind, however, that the increase in deposits by the 23rd of each month is relatively great as compared with the increase during the whole month; this is due to the fact that the amount of notes in circulation always touches the lowest level of the month on the 23rd and therefore bank deposits increase correspondingly. Thus, on 23 May notes in circulation were about 460 million DM below the peak of the last day of April. As a rule, deposits rise somewhat towards the end of the month in accordance with the renewed increase in notes in circulation. Generally, the weekly development of bank deposits - the present upward trend being left out of the consideration - is about in the inverse ratio of the movement of notes in circulation.

In addition to the creation of credits and the influence exercised by the development of the amount of notes in circulation, the conversion of old Reichsmark deposits, which is not completed as yet, has contributed to the increase in bank deposits.

According to data received from the financial institutions, the amount of Reichsmark deposits still subject to conversion dropped from 417 million DM to 285 million DM during April; it is to be assumed, however, that this decrease is partly due to the cancellation of amounts which proved to be non-eligible for conversion. From the blocked account, two thirds of which have to be transferred to free account and one third to investment account, slightly more than 30 million DM were probably transferred to free accounts during April; it may be assumed that the dissolution of the blocked account will be expedited due to the issuance of Regulation No. 25 under the Conversion Law, pursuant to which examination by the tax office of liquidation accounts not exceeding 10,000 Reichsmark is no longer requested. The exact amounts which actually were transferred to free accounts from the conversion and from the dissolution of blocked accounts, are not recorded statistically and therefore can only be estimated (cf. above).

Due to the increase in deposits, the volume of money again has increased considerably. By the end of April, the freely available part - comprising notes in circulation plus giro deposits with the central banking system and deposits on free accounts with the business banks, less deposits of financial institutions - amounted to about 19.2 milliard DM as compared with 18.4 milliard DM in the previous month. By 23 May, an additional increase in the freely available money volume by approximately 300 million DM may be expected.

By subdividing into groups of accounts the increase in deposits as it occurred since the beginning of April, the following figures are obtained:-

Increase in Deposits of Non-Bank Customers
during April
in million DM

	Public Authorities	Other Creditors	Savings Deposits	Total
1 April- 30 April 1949	229	256	119	604
in per cent of total increase	38	42	20	100

As shown by this table, a considerable part of the increase in bank deposits during April occurred in the accounts of public authorities. Statistically, these accounts comprise not only deposits of the Administration of the Combined Economic Area and the Länder and those of Gemeinden and Gemeinde-Verbände, but also those of other public corporations including Railway and Postal Administrations as well as offices of the Occupying Powers. Public deposits thus defined revealed the following upward trend:

Public Deposits with Financial Institutions
in million DM

	31 March 49	30 April 49	23 May 49
with the central banking system	1, 499	1,500	1,525
with business banks	2, 380	2,584	2,775 ¹⁾
total	3,879	4,084	4,300

1) estimated on the basis of the weekly statistics

Since part of these accounts are provisionally kept as a reserve and consequently do not show any movement, it may be assumed that the velocity of money circulation continued to slow down due to the increase in these accounts.

The increase in savings deposits, too, probably tends to reduce the velocity of circulation. In general, the turnover

on savings accounts also is slower than that on business accounts. During April, it is true, the increase in savings-deposits, amounting to 120 million DM, still was not very outstanding in view of the fact that an essential part of the increase results from the conversion of old Reichsmark savings deposits. Nevertheless, indications of an improvement are unmistakable. Thus the decrease in the excess of cash withdrawals in savings transactions, which in April was considerable for the first time this year, is certainly indicative of the fact that in the whole - i.e. including cashless payments - actual new deposits have been made on savings accounts. Moreover, the decrease in the excess of cash-withdrawals fortunately is due not only to declining withdrawals, but also to rising deposits.

Cash Transactions on Savings Accounts
September 1948 - May 1949
in million DM

	Cash Deposits	Cash Withdrawals	Balance
All financial institutions			
September	59.1	290.5	- 231.4
October	49.8	259.8	- 210.0
November	48.1	169.9	- 121.8
December	58.4	151.9	- 93.5
January	74.6	98.5	- 23.9
February	77.5	100.9	- 23.4
March	89.1	112.2	- 23.1
April	93.9	110.1	- 16.2
12 weekly reporting financial institutions			
1st week of May	5.6	4.1	+ 1.5
2nd " " "	4.2	4.3	- 0.1
3rd " " "	4.7	4.9	- 0.2

According to the statistics of deposits maintained at savings banks¹⁾, which administrate about two thirds of all savings deposits - the remaining one third comprises savings accounts maintained with other financial institutions-, deposits on and withdrawals from

¹⁾ Statistics of the "Arbeitsgemeinschaft deutscher Sparkassen- und Giroverbände and Girozentralen".

savings accounts with the savings banks in the three Western Zones developed as follows:-

Development of Deposits on, and Withdrawals from, Savings Accounts maintained with Savings Banks in the Western German D-Mark Area
in million DM

	Deposits 1)	Withdrawals	Excess of Deposits over Withdrawals	Amounts De- posited as a Result of Con- version
21 June - 31 December 1948	456	1,121	- 665	2,114
1 January - 31 March 1949	357	322	35	206
Total	813	1,443	- 630	2,320

1) Including interest credited

According to the above table, during the period January through March 206 million DM have accrued from the conversion, and 35 million DM are actual new deposits from the excess of deposits (including cashless deposits) over withdrawals. During the period 1 June through 31 December 1948, however, withdrawals had exceeded deposits by 665 million DM, so that during the second half of 1948 about one third of the amount accrued from conversion was withdrawn. During the first quarter of 1949, deposits amounted to more than three fourths of the sum deposited during the second half of 1948.

Although the amount of new deposits can by no means be considered satisfactory, the fact that new deposits have actually been made is an indication of a gradual reactivation of savings transactions. The ability to save, however, is not great in itself due to the still very low real income of the multitude of

the population. Nevertheless, savings today could probably be higher already, but for the generally prevailing exaggerated requirement for liquidity which prevents people from depositing even such money as they could spare for quite some time.

Long-term Credit and Capital Market

Of course, the prevailing desire for liquidity prevents even more the formation of long-term money capital, especially as far as securities are concerned. According to the reports received by the Bank deutscher Länder, the sale of long-term bonds during April still amounted to about 51 million DM, including 35 million DM mortgage bonds, 7 million DM municipal bonds, and 9 million DM industrial bonds; in addition, 12 million DM new shares of an electric supply enterprise were sold. Probably only part of these papers, however, were sold to the public, while the rest has been concentrated with institutional investors. Sale varied very much, according to the region. While, in general, in Northern Germany only small amounts could be sold, the new issues were at first received somewhat more favorably in Southern Germany. Up to April, the fact that mortgage bonds enjoy certain tax reductions which, varying according to the total income and tax bracket of the buyer, raise the net yield very considerably above the nominal interest rate, was hardly able to further the sale of mortgage bonds although owing to increasing information of the public it gradually gains in importance. During May, a more reserved attitude towards mortgage bonds became evident again.

During April as well as during the first weeks of May, the declining trend of prices for old issues has probably hampered the sale of newly issued bonds. Due to a very small turnover, prices continued to decline slightly. By mid-May, the 4 per cent Reichsmark mortgage bonds, being quoted on the average at about 7.6 per cent, yielded about 6.5 per cent, if the reimbursement premium for an average term of 30 years is taken into account.

On the other hand, the newly issued bonds bearing interest at 5 per cent yield from 5.1 to 5.2 per cent. The importance of this difference in yield should not be overestimated, however, since the slump of the older issues of fixed-interest-bearing securities is due partly to technical reasons, in that on account of the deficiency of means it was so far impossible, or hardly possible, to protect these securities from major price fluctuations. Thus very small quantities offered have often resulted in a reduction of prices. At the Frankfurt stock exchange, for instance, the turnover of all fixed-interest-bearing securities throughout April was equivalent to only somewhat over 250 million DM.

In view of the weakness of the security markets, the other sources of capital naturally are the more important. In this respect, the release of the investment accounts for the purchase of certain securities is particularly remarkable. By the end of April, credit balances on investment accounts with all financial institutions totaled about 405 million DM; a gradual increase to about 450 million DM can be expected for the near future. Of this total amount, the accounts showing credit balances not exceeding DM 5 - the individual accounts being unknown - are to be deducted since they may be withdrawn immediately. The remaining amount, estimated at 400 million DM at least, may be used for subscription to loans.

The Board of Directors have declared the loan of the German Railway in the Combined Economic Area, issue of June 1949, and the loans to be issued in 1949 by the Reconstruction Loan Corporation and by the "Finanzierungs-AG" Speyer/Rhine to be eligible for purchase from investment accounts. So far, only the loan of the German Railway, whose financial needs are particularly urgent in view of the high reconstruction costs and must be met as far as possible, has been offered for subscription. The short- to medium-term liabilities of the German Railway in the Combined Economic Area by mid-April amounted to :

million DM

Acceptance Liabilities

(due in three months at the latest)	259
treasury bonds due May 16, 1949	10
" " " June 2, 1949	20
cash credit due June 6, 1949	50
" " " Sept 20, 1949	39
treasury bonds due Dec 1, 1949	14.5
" " " Jan 2, 1950	10
" " " Jan 2, 1950	70
" " " Jan 21, 1950	5
several small amounts	<u>4.5</u>

482

=====

Not contained in this table are liabilities towards suppliers, which from their peak of almost 70 million DM by the end of 1948 were reduced to 40 to 50 million DM by mid-April.

In fact, the total requirement for long-term credits of the Railway is even considerably higher. It has been calculated for the period from the middle of 1948 to the end of 1949 at about 785 million DM, including the above-mentioned consolidation requirement. This sum, however, comprises the equivalent of contracted foreign deliveries, which for 1949 amount to about 284 million DM. It is contemplated to finance them from means of the counterpart funds. 132 million DM have already been made available for this purpose from GARIOA funds. With regard to the domestic capital market, a long-term credit requirement of the Railway in the amount of approximately 500 million DM thus remains to be met.

At present, another important source of long-term credits is the Reconstruction Loan Corporation, which has so far received 245 million DM from the counterpart funds. Of this sum, 110 million DM represent the first instalment for an investment program of the power industry, estimated at an aggregate amount of 613 million DM, 220 million DM of which shall be spent, in guar -

terly instalments of 55 million DM, during the current calendar year. The above-mentioned 110 million DM represent the allocations for the first two quarters of the calendar year; of this amount, the first instalment was almost spent by the end of May, whereas the second instalment is to be apportioned now. The remaining 135 million DM of the total of 245 million DM so far made available to the Reconstruction Loan Corporation represent the first allocation for a comprehensive investment program of the coal mining industry. 35 million DM of this amount are destined for refunding purposes, 10 million DM for imports, and the remainder for new investments. By the end of May, about 65 million DM had been transferred to the companies concerned, while the distribution of the remaining sum, the same as in the case of the power industry program, is expected to be effected by the middle of the current year.

Measures concerning Credit Policy

In order to further encourage as much as possible the gratifying start of the revival of the capital market, and moreover to promote a general relaxation of the credit situation, the Board of Directors in May decided upon a number of important measures easing credit conditions.

First, the rediscount restrictions for bankers' acceptances in force since November 1948, were relaxed considerably. Effective as of 21 May 1949, bankers' acceptances may be purchased by the Land Central Banks whenever they serve the short-term financing of certain specific transactions. Thus the purchase of bankers' acceptances is no longer limited to cases of financing import or export transactions or the government-ordered stockpiling of rationed goods. Thereby the distinction between bankers' acceptances eligible for purchase and such that can serve as collateral only has also become obsolete. A further relaxation has been introduced for the purchase of bills drawn by financial institutions on their debtors (so-called debtor drafts), which

from now on can be purchased up to a maximum of 10 000 DM per debtor instead of 5 000 DM as heretofore, provided they meet the requirements applicable to bankers' acceptances. This measure particularly benefits the Volksbanken (urban credit cooperatives), with which debtor drafts play quite an important part, and will considerably facilitate their refinancing through the Land Central Banks.

In addition, the rates for discount credits, collateral loans and cash credits were reduced by 1/2 per cent each. Beginning 27 May, discount and cash credits cost 4 1/2 per cent and collateral loans 5 1/2 per cent. Moreover, effective as of 1 June - as mentioned above - the reserve rates of financial institutions for sight deposits 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. The reduction of the discount rate and the lowering of the minimum reserves both reduce the costs for bank credit. Furthermore, these measures will contribute towards newly issued fixed-interest-bearing securities meeting with a better reception, as their yield will now compete more favorably with the bank rate than it did formerly. In order to still further promote, as far as possible, the credits on real estate, the Board of Directors moreover recommended the Land Central Banks to purchase from the mortgage banks to an adequate extent, up to the level of their net worth (Eigenkapital), 3 per cent equalization claims which had been apportioned to them under the currency reform (about 40 million DM) as a new supply of capital stock. Thereby the institutions concerned will obtain funds enabling them to intensify the granting ^{of} loans and to more effectively operate so as to prevent greater price fluctuations of their issues.

By these measures, the Board of Directors intentionally adopted a policy of easier money. They could do so because the development of short-term bank credit since the lifting of the credit-restrictions on 22 March has shown that the banks have continued to proceed very carefully, thus effecting themselves the selection of credits which is still necessary. Under the

present economic conditions, legitimate credit, however, can and shall be eased, and its costs lowered. This applies particularly to the import credit, which in view of the marked increase in our imports is at present faced with special tasks. In addition, the measures taken are expected to contribute, be it only for purely psychological reasons, towards a greater relaxation in the capital market.

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

The trend of the L ä n d e r b u d g e t s during April evidently was less favorable than might have been expected in view of the seasonal rhythm of Länder-revenue and expenditure. As a rule, revenue in April is particularly high, since during this month the quarterly advance payments on assessed income tax and corporation tax have to be made. On the other hand, expenditure is usually relatively low unless certain liabilities have to be met in connection with the closing balance for the past fiscal year. This is done on the one hand by definitely booking expenses already effected in the past months by way of advances, and on the other hand by transferring unutilized expenditure allowances which, though booked as expenses of the past fiscal year, are actually spent during the current fiscal year. Therefore expenses stated for this month may be considerably higher than are the payments actually made. If the expenditure thus booked concerns the transfer to reserves or to other funds earmarked for special purposes which need not be shown in the cash holdings, the latter may also decrease, while actually total reserves may possibly increase. It seems that during April of this year expenditure was in fact relatively high in connection with extensive closing entries.

As regards the revenue side, the data on tax revenue permit the conclusion that the total revenue was higher than in the previous month, but by no means reached the level normally attained in April. Taxes on income, property and turnover in the specified area brought somewhat over 160 million DM more than in the previous

month, but 200 million DM less than in January, the last month with comparable dates of payment.

The decrease may be attributed partly to facts connected with tax legislation, partly to seasonal variations, but partly also to the business-trend. The sharp decline of the wages tax as compared with January (11.7 per cent) is certainly due, to a large extent, to the reimbursement of overpaid wages tax introduced again by the First Law on the Provisional Revision of Tax Legislation (Military Government Law No. 64), and therefore partly results from a change of tax legislation. It is likely, however, that the total amount of wages and salaries has decreased somewhat, since from the end of December 1948 to the end of March 1949 not only the number of persons employed

Revenue derived from Taxes on Income, Property
and Turnover in the Specified Area
January - April 1949

	January	February	March	April	percent- age of January
	million DM				
Total of Taxes on In- come, Property and Turnover	1,184.5	872.2	827.6	991.8	83.7
of which					
Assessed Income Tax	364.5	257.0	213.5	303.0	83.1
Corporation Tax	164.1	100.8	99.2	167.9	102.4
Wages Tax	178.9	162.7	169.3	157.9	88.3
Turnover Tax	343.9	276.4	291.3	300.9	87.5

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

dropped by 2 per cent, but also short-time work increased, and there was probably less overtime work. Seasonal reasons are responsible particularly for the decrease in the turnover tax. This tax usually reaches its peak level in January because of

the preceding Christmas business. This year, too, the January results were very favorable. In February there was a sharp decline followed in March and April by an increase by 5 and 3 per cent respectively; the April result, however, still being 12.5 per cent below the January level. Bearing in mind, however, that also in the average of the years 1927 to 1930 the turnover tax decreased from January to April by about 13 per cent, the decrease occurred in the same months of the current year can by no means be looked upon as being high. As shown by experience in the case of assessed income tax, too, the April revenue is usually lower than that of January. Nevertheless, the figures of the assessed income tax probably express also a decline in industrial income caused by the business trend. To a certain extent, the same applies to the corporation tax. It is true that the April revenue in the case of this tax is somewhat higher than that of January, however, the three months from February to April show a considerable slump as compared with the three months from November 1948 to January 1949.

The April excise revenue was about 42 million DM lower than the March revenue, but still above the level of the first two months of 1949.

The total April tax revenue, therefore, amounted to 1.28 milliard DM as against 1.16 milliard DM in March and 1.43 milliard DM in the (comparable) month of January. It must again be emphasized that the decrease in the tax revenue is by no means due exclusively to the business trend.

No data are available so far on the April expenditure. The fact, however, that the finance administrations report a general deterioration of the budget situation in April, permits the conclusion that in April there was a not insignificant deficit at least on the books. The question which particularly interests us from the view-point of monetary policy is whether or not there was an actual deficit, i.e., whether the Länder as a whole put more money into circulation than they withdraw from it by

way of taxation and by other means; as important as it may be for the appraisal of the trend, however, this question cannot be answered reliably as long as the budgetary accounts for the past year are not available. The development of public deposits with the banks, as outlined below, does not exclude, however, the possibility that the ratio of cash receipts and cash disbursements was much more favourable than it might appear in view of the deficits shown in the books.

Revenue derived from Customs and Excise Duties
in the Specified Area

	January	February	March	April	in per cent of January
	million DM				
Excise Duties total	247.0	254.3	333.5	291.8	118.1
including					
Customs Duties	10.6	13.1	16.3	16.0	150.9
Tobacco Tax	129.5	140.4	187.1	165.8	128.0
Coffee Tax	19.9	19.6	26.7	20.4	102.5
Sugar Tax	30.4	28.0	33.6	34.8	114.5
Beer Tax	14.4	12.7	15.1	13.8	95.8
Alcohol Tax	19.6	23.4	36.1	32.5	165.8

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

Differences in the financial situation of the Länder were as marked as previously, and the decrease of tax revenue under way since January obviously has still further accentuated these differences. Taxes on income, property and turnover, which altogether in April were 16.3 per cent lower than in January, decreased in the financially weak Länder Schleswig-Holstein and Hesse by 26 per cent, in Rhine/Palatinate by 27 per cent, and in Bavaria by 30 per cent, which is much higher than the average of the remaining

Länder, while Northrhine/Westphalia reported a decrease of only 7 per cent, and Bremen even reported an increase by 13 per cent. Among the financially strong Länder, only Württemberg-Baden likewise showed a sharp decrease in taxes on income, property and turnover by 22 per cent, which may, however, have been partly offset by the increased excise revenue.

The problem of financial equalization between the financially strong and the financially weak Länder was again the subject of discussions between the ministers of finance. Agreement was reached, on the basis of the original draft (cf. April report) providing that, first for a period of half a year, equalization payments shall be made by means of cash credits in the amount of 250 million DM to Schleswig-Holstein, Lower Saxony and Bavaria until such date as legal settlement by the Ordinance Concerning Provisional Adjustment of Burdens Resulting from the War in the Fiscal Year 1949, which has been submitted to the Economic Council and according to which the equalization shall be effected by the Administration for the Combined Economic Area, has been approved. In addition, a draft Ordinance Concerning Final Adjustment of Burdens Resulting from the War in the Fiscal Year 1949 has been submitted to the Economic Council, according to which draft ordinance the Combined Economic Area shall finance these burdens from the excise revenue (with the exception of the beer tax), the transportation tax and the turnover tax; thus, important provisions of the Bonn Basic Law shall practically be implemented already by this ruling.

The budget of the Combined Economic Area appears to have been balanced in April. The major part (168.6 million DM) of the cash credits utilized during this month served to finance the bizonal grain reserve which was purchased at the old prices, before the 30-cents rate was applied to food imports. The advance will be reimbursed in the same proportion as the grain will be taken over by commerce. On 25 May, the budget of the Combined Economic Area for the current fiscal year was

passed by the Economic Council. As compared with the original draft (cf. April report), the financial aid to Berlin was reduced by 230 million DM to 250 million DM. Inclusive of new grants amounting to 193 million DM (for the establishment of the customs service, stockpiling of agricultural products, investments, and the establishment of reserves), the aggregate amount is now 892 million DM. On the revenue side, 140 million DM derived from customs duties have been newly included, so that, according to the present expenditure liabilities ascertainable, the balancing of the budget seems to be secured.

The unemployment insurance fund apparently showed surpluses again. For March, they were computed at about 20 million DM, taking into account certain repayments from unemployment relief; in April, they have probably been lower, due to the increased number of recipients of benefits. By the Ordinance to Revise Social Insurance Benefits, approved in mid-May and effective as of 1 June 1949, however, future surpluses of the unemployment insurance will be reduced even in the case of an improved employment situation. As is known, the Ordinance provides for an adjustment - considered to be urgent for socio-political reasons - of the invalid insurance pensions to the increased cost of living by generally increasing the monthly payments by DM 15 for invalid pensions, DM 12 for widows' pensions, and DM 6 for orphans' pensions, and by fixing minimum pensions (viz., DM 50 for invalid pensions, DM 40 for widow's pensions, and DM 80 for orphans' pensions monthly.) The means shall be made available from the re-introduced basic contribution to each pension by the Länder and from an increase of the contributions to the old-age insurance, while the contributions to the unemployment insurance shall be reduced at the same time. The basic payments replace the previous Länder subsidies which had been granted only in the amount of the deficits of the old-age insurance. The revenue of the unemployment insurance will be reduced from 6.5 per cent of the remuneration, as heretofore, to 4 per cent. Since at the same

time the contributions paid hitherto by the unemployment insurance to the old-age insurances, which amounted to 1.6 per cent, will be discontinued, the above-mentioned reduction will have only a limited-effect on the financial situation of the unemployment insurance fund. Nevertheless, it must be presumed that, with all other circumstances remaining unchanged, the surpluses will be reduced by about 20 per cent.

The surpluses of the unemployment fund in the bizonal area accrued in the period from the currency reform to the end of March amounted to about 310 million DM and the cash holdings including converted old-currency credit balances totaled about 420 million DM. The British Zone accounts for the major part (about 230 million DM). To a certain extent, these funds are already planned to be used for the building of dwelling houses. Concerning the still very considerable free amounts, negotiations are under way to place an essential part at the disposal of the Reconstruction Loan Corporation. For the unemployment fund it is, of course, of importance in this connection that its liquidity is ensured even if the employment situation should further deteriorate. For this purpose, the Boards of Directors of the Land Central Banks shall be requested to declare any bonds of the Reconstruction Loan Corporation which the unemployment insurance fund may acquire to be, on principle, acceptable as collateral for loans.

In connection with the closing of the fiscal year, G e - m e i n d e n as well as the Länder obviously showed certain deficits which, however, could be met without recourse to the credit market.

Summarizing the r e s - u l t for the above-mentioned budgets, we may say that the deficits of the regional public authorities in April were higher than the surpluses of the unemployment insurance fund. This, however, probably applies only to the deficits as shown in the books. The actual deficit, i.e. the excess of the cash expenditure of public authorities

over their cash receipts, may have been much smaller, if there was any deficit at all. This presumption is confirmed by the development of public deposits during April. Although the deposits of the Länder, the Gemeinden, the Combined Economic Area, and the social insurances constitute but a part of all public deposits, their share in the total public deposits nevertheless is so high that a development differing from that of the total trend hardly seems to have been possible. While total public deposits remained practically unchanged in March, they increased again in April by about 200 million DM. By the end of the month, they amounted with the business banks alone to 2,584 million DM as compared with 2,380 million DM on 31 March. Inclusive of the deposits with the central banking system, amounting to about 1.5 milliard DM, which in April remained practically unchanged, the total amount of public deposits with the banking system was 4.08 milliard DM by the end of April, and after deducting the deposits of the Generalpostkasse about 4 milliard DM, as compared with 3.8 milliard DM by the end of February 1949. The month of May shows a further increase; with the 112 weekly reporting institutions alone, the increase was 154 million DM by 23 May, and with the central banking system (excluding Generalpostkasse) approximately 109 million DM.

The fact that public deposits with the central banking system remained unchanged during April, whereas they increased with the business banks, leads to the conclusion that the provisions of the new Laws concerning the Land Central Banks, effective as of 15 April, according to which the Länder shall deposit with the Land Central Banks their revenue derived from the first supply of new currency and from taxes, did not yet have any effects during April. The same applies to the first three weeks of May. It is true that by 23 May considerable Länder funds accrued to the Land Central Banks - deposits by Staatskassen (cashiers offices of the Länder) alone accounting for 71 million DM of the above-mentioned increase in public deposits with the central banking system in the amount of DM 109 million DM-, but the

major part of the increase is due to deposits of Northrhine-Westphalia and Hamburg, which Länder had already in the past deposited their funds to a large extent with the Land Central Banks.

On 25 May, the Economic Council in the fourth reading passed the First Ordinance on the Equalization of Burdens (Immediate Aid Ordinance), which is now called "Ordinance to Alleviate Social Hardships". The new version, which includes the amendments desired by Military Governments, has been but slightly modified as compared with the draft decided upon on 1 December 1948. In view of the delayed coming into force of the ordinance, the provisions concerning the dates of payment had to be changed. 20 August, 20 November and 20 February have now been fixed as dates of payment for the general tax, with the stipulation that payments on agricultural and forestry property shall be made on the last-mentioned two dates only. The rate for the general immediate-aid tax still amounts to 3 per cent of the assessed property, and to 2 per cent of the agricultural and forestry property having a standard value not exceeding 15 000 DM only in the case of one-family houses and rented house property, the rate was generally reduced from the original 3 per cent to 2 per cent in the present draft. The special tax on stock property with rates of 4 per cent, or 15 per cent respectively (the latter rate on "excessive" stock property), is likewise maintained and will become due on 20 September 1949, 20 December 1949 and 28 March 1950. The hope entertained by trade and industry that the rates would be reduced in view of the situation having changed essentially as compared with that of December 1948, thus did not materialize. The finance administrations theoretically compute the revenue to be derived from the two immediate-aid taxes at about 2.75 DM milliard (including revenue under the Ordinance to Secure Claims Arising out of the Equalization of Burdens Legislation) of which 2.25 milliard DM are expected from the general immediate aid tax, and about 0.5 milliard DM from the special tax - all figures being theoretical estimates. Since

these payments have to be made in equal instalments, by 20 August about 600 million DM should be received from the general tax on real property and business property, and by 20 September about 170 million DM from the special tax, provided that the above estimates are correct. As comprehensive respites are to be expected, the actual receipts will probably be much lower. With regard to disbursements, the Ordinance shall become effective retroactively as of 1 April 1949, and the first payments shall begin in July. This provision will probably call forth a considerable demand for means not covered by receipts. Supposing that about 90 million DM will be required monthly for the payment of pensions and about 12 million DM for the grant for household effects, an aggregate amount of about 500 million DM is calculated for the period April through August. As the examination of the applications will require quite some time, however, it is hardly probable that the payments due will have to be made as early as in July. Nevertheless, the demand for amounts not covered by receipts will result in a certain strain on the financial situation of the Länder during the next few months.

F o r e i g n T r a d e

Exports of the Combined Economic Area continued to develop comparatively favourably during April despite the increasing difficulties they have recently met with in the world markets. Amounting to 288.4 million DM, exports were about 21 million DM lower than during March, but still exceeded the monthly average of the first quarter of 1949 by about 8 million DM. Export of finished goods almost completely maintained its March level; its share in the total export increased from 42.5 per cent during the first quarter to 45.3 per cent. The share of compulsory exports (coal, coke, timber, and scrap) of about 45 per cent remained unchanged. Coal export increased from 1.6 million tons in the monthly average during the first quarter 1949 to 1.8 million tons, i.e. by about 10 per cent. The fact that for many purchasing countries German coal is cheaper than coal from other

exporting countries, plays a part in this connection.

Imports during April amounted to 452.4 million DM and were thus about 6 million DM above the level of March imports. Subdivision by groups shows, however, that food imports account in full for the increase as compared with the previous month, whereas industrial imports slightly decreased. Imports of both raw materials and semi-finished goods decreased, whereas imports of finished goods continued to increase. Imports of end products were almost twice as high as in the monthly average of the period January through March, and amounted to approximately 8 per cent of all imports.

Contrary to the Deutsche-Mark equivalent, the Dollar value of the imports, which the Statistical Office of the Combined Economic Area now was able to state for the first time, has decreased, viz. from 151.1 million Dollars to 148.1 million Dollars. This decline is primarily explained by the fact that world-market prices for food have dropped. In March, each Dollar of the food imports required a domestic equivalent of DM 2.59; during April, however, the equivalent was DM 2.88. The 1948 average for the conversion of world market prices into domestic prices in connection with imports was 44 cents for every 1 Reichsmark, or 1 Deutsche Mark respectively, of import value, whereas the corresponding figure for April was 32.7 cents. The "conversion factor" for imports thus to a great extent adapted itself to the 30 cents rate as early as in April. As from May 15 onward food imports are calculated at the 30 cents rate, the process of adaption will probably have continued.

On the exports side, the adaption of the conversion factor to the 30 cents rate was already accomplished to a large extent about the middle of last year. Until very recently, however, certain exceptional regulations were still effective in this field, too. Yet, during April the average proceeds for 1 DM export value were 28.5 cents, as compared with 43.0 cents in June 1948.

Foreign Trade of the Combined Economic Area
in million DM

	I m p o r t s					
	Monthly Average			February 1949	March 1949	April 1949
	first half 1948	second half 1948	Jan/ March 1949			
Food industry	124.5	179.6	180.2	219.0	174.8	187.7
Industrial commodities	70.6	152.6	232.3	257.4	271.0	264.7
Raw Materials	39.2	82.7	125.6	154.6	146.6	143.2
Semi-finished Goods	24.3	51.2	67.0	67.2	68.3	64.0
Finished goods	7.1	18.7	39.7	35.6	56.1	57.5
Pre-manufactur- ed products	4.4	10.9	21.8	19.0	34.5	21.6
End products	2.7	7.8	17.9	16.6	21.6	35.9
Total	195.1	332.2	412.5	476.4	445.8	452.4

	E x p o r t s					
	Monthly Average			February 1949	March 1949	April 1949
	first half 1948	second half 1948	Jan/ March 1949			
Food industry	4.6	3.5	9.8	8.8	8.2	6.3
Industrial Commodities	76.2	218.5	270.1	267.7	301.0	282.1
Raw Materials	21.9	54.4	56.6	51.4	62.9	57.1
Semi-finished goods	23.6	66.8	94.6	96.1	106.2	94.4
Finished goods	30.7	97.3	118.9	120.2	131.9	130.6
Pre-manufactur- ed products	16.7	51.1	60.5	59.4	64.9	62.1
End products	14.0	46.2	58.4	60.8	67.0	68.5
Total	80.8	222.0	279.9	276.5	309.2	288.4

Imports from Marshall-Plan funds are considerably increasing of late. According to information by Bipartite Control Office, during April alone ERP deliveries amounted to 50.7 million Dollars. Thereby Marshall-Plan imports to the Bizonal Area up to now increased to 243.5 million Dollars or to 228.0 million Dollars exclusive of freight charges. The so-called "Total Program" for the ECA aid in the first Marshall-Plan year, consisting of five quarters, actually comprised 511.1 million Dollars according to the figures as of 30 April 1949 - the program is subject to frequent changes. Of this amount, 43.2 million Dollars had been provided for freight charges requirement of which naturally depends on the deliveries effected and which therefore can be contracted in connection with these deliveries only. According to the programs, 419.6 million Dollars of the remaining 467.9 million Dollars were provided for deliveries up to 30 June 1949. According to the above-mentioned figures on the deliveries (228.0 million Dollars), 191.6 million Dollars were still outstanding by the end of April.

As outlined in the last monthly report, some time ago it was apprehended that the deliveries provided under the delivery programs for 1948 and for the first quarter of 1949 would have to be received by 30 June 1949, or otherwise the amounts would be cancelled. In the meantime, it has been clarified that it will suffice if the permits issued for the procurement of these deliveries are changed by ECA, if necessary, so as to be valid for subsequent quarters. As may be taken from the following table, as of 30 April 1949 all necessary permits were issued, so that the danger of cancellation of the foreign aid may be considered eliminated.

It is still difficult, however, to find domestic buyers for a number of imports previously contracted by the central agencies. As already explained in the last monthly report, the problem is by no means confined to the ECA sector of imports only, but also affects other imports which were not contracted by an individual importer, but were procured by a central agency. Apart from the

Performance of the Delivery Programs for Imports under the Marshall Plan¹⁾ to the Combined Economic Area

Figures as of 30 April 1949

in million Dollars

	Second quarter 1948 to first quarter 1949			Second quarter 1949			second quarter 1948 to second quarter 1949		
	food sector	in-dus-try	total	food sector	in-dus-try	total	food sector	in-dus-try	total
Delivery Programs	151.5	152.5	304.0	28.1	87.5	115.6	179.6	240.0	419.6
thereof delivered	140.7	84.5	225.2	2.5	0.3	2.8	143.2	84.8	228.0
out-standing	10.8	68.0	78.8	25.6	87.2	112.8	36.4	155.2	191.6
thereof contracted but not yet delivered	10.1	56.9	67.0	2.0	8.7	10.7	12.1	65.6	77.7
approved, but not yet contracted	1.0	15.4	16.4	-	23.2	23.2	1.0	38.6	39.6
not yet approved	-0.3 ²⁾	-4.3 ²⁾	-4.6 ²⁾	23.6	55.3	78.9	23.3	51.0	74.3

1) Excluding freight charges

2) Deliveries already approved beyond the programs available

ECA and GARIOA imports, there are also some specific B-imports for which JELA had made the necessary contracts. It has now become evident that the contracts, some of which were made months ago, in many cases no longer meet the requirements of the present market, the former demands no longer existing due to the changes in the economic conditions that have occurred in the meantime. In addition, the old contracts had often been made at prices which are now underbid in the world market, so that importers often obtain the commodities ^{concerned} more advantageously through direct purchases, now that such purchases have been rendered possible by introduction of the Individual Import Procedure. In this connection, the price problem plays an important part. As, due to previous delays in imports, considerable quantities must be accepted now which can be transferred to the consumer or manufacturer only in the course of a prolonged period of time, the price risk is, of course, very great for the importer. In addition, part of the goods globally imported are still subject to allocation and control, so that the importer does not know whether he has to store the goods concerned for a longer period, or whether they will eventually be released on short notice and then can be sold only at reduced prices.

Thus, the difficulties concerned are not due to a declining demand for import goods, but to a large extent to the transition from a centrally controlled foreign trade to individual imports intended to meet the requirements of the market. The adaptation considerably aggravated by the fact that, in consequence of the imports not being planned continuously by the former import agencies, within a relatively short time large quantities of goods must now be accepted, and that the price risk has greatly increased due to the unstable world-market conditions. There are still negotiations on the problem as to how the old contracts shall be carried ^{out}, which had been made by JELA or through GARIOA in the "Central Procurement" without the sale through German importers being ensured. At any rate, steps have been taken that all documents will be accepted and the goods will be stored properly, if necessary. For the final operations, the experiences

of other countries which had to tackle similar difficulties may perhaps be utilized. The British Government, for instance, is reported having recently granted to the industry import licenses at the present world market prices only if corresponding quantities of the old, highly overpaid governmental purchases are taken over.

If the question of the price and sale risks has been clarified at the time of taking over the imports which temporarily are unsaleable, there should be no difficulties in obtaining credits. Of the rather considerable amounts of credit created in the past months, a large part has doubtlessly benefited the import business, whose credit requirements increased even to a larger extent than did the volume of the imports themselves. This is due to the fact that under the old import procedure goods had not to be paid before their arrival in Germany, whereas now their financing must be ensured practically at the time the offer is made or, as is still the case in the French Zone, 50 per cent of the value of the goods must be provided in cash. In addition, the period of sale of the goods has been extended and the payments are received more slowly by the importers themselves. There is no doubt, however, that the banks will continue to grant import credits rather generously, the more so as these credits are refinancesable without difficulty. The reduction of the discount rate, effective as of 27 May also will considerably facilitate for the importers the financing of warehousing which might be necessary.

As to the money turnover on the accounts for the settlement of foreign transactions, deposits of importers decreased sharply during April in spite of the recent considerable increase in imports. As compared with the peak level reached so far, viz. the level of March, the reduction amounted to about 30 per cent. During May, this development continued as far as normal deposits are concerned. Deposits were given a certain impetus only by the payment of 168 million DM, effected by the Bizonal Administration

for the grain stock-pile bought at the domestic price shortly before 1 May. For this purpose, the Bizonal Administration had raised a cash credit with the Bank deutscher Länder.

Deposits of Importers
in million DM

Monthly Average, or Month respectively, 1948/1949	GARIOA, ERP and STEG Imports	B-Imports	Total of Imports
July-September	171.5	52.3	223.8
October-December	182.3	109.2	291.5
January-March	229.1	167.9	397.0
January	184.3	132.4	316.7
February	224.7	152.8	377.5
March	278.3	218.5	496.8
April	171.0	167.9	338.9

Disbursements to exporters also showed a decrease in April as compared with March, although being in the range of the average export disbursements in the first quarter of 1949. The other disbursements, however, which by order of Military Governments are made from the Counterpart Funds, increased considerably both during April and May; this increase is due mainly to higher transfers to Berlin and the previously mentioned disbursements to the Reconstruction Loan Corporation for the financing of certain investment projects totaling 245 million DM. In addition, during April and May a respite was granted to the Railway Administration, to the debit of the GARIOA funds, for about 82 million DM, being the Deutsche-Mark-equivalent for specific investment goods imported the aggregate amount of such respites thus increased to about 132 million DM. Additional disbursements via the accounts for the settlement of foreign transactions consequently increased from 210.6 million DM on 31 March to 513.1 million DM on 23 May. The increase would have been even greater but for the above-mentioned

payment of the grain stock-pile; as this payment was effected by means of a cash credit granted by the Bank deutscher Länder, the transaction, which otherwise would have been booked via the accounts for the settlement of foreign transactions of the Bank deutscher Länder, appears, for the time being, on the account "Cash Advances to the Administration of the Combined Economic Area". Deduction of this amount shows that even without counterpart-funds having been made available for investment purposes (including respites granted to the Railway Administration) the excess of disbursements over deposits on the accounts for the settlement of foreign transactions would have increased by about 130 Million DM from the end of March through 23 May.

Inclusive of the compensations for March carried through towards the middle of April, the Combined Economic Area under the European Clearing received drawing-rights amounting to 20.7 million Dollars, and made available drawing rights in the amount of 56.9 million Dollars. At the same time, a settlement between debit and credit-balances amounting to 16.1 million Dollars was carried through by way of first-category compensations. During the first six months in which the Paris Payment and Compensation Agreement of 16 October 1948 has been in force, the foreign trade of the Combined Economic Area with the partner countries resulted in deficits of 71.3 million Dollars and surpluses of 136.3 million Dollars on the accounts kept with the respective Land Central Banks. The surplus imports have been balanced with 29 per cent through drawing rights received and with 23 per cent through first-category compensations, the surplus exports with 42 per cent through drawing rights given and with 12 per cent through first-category compensations.

The trade of the Combined Economic Area with the partner countries has risen remarkably since the Paris Agreement became effective. As compared with the last quarter of 1948, the increase in imports during the first quarter of 1949 was 136 per cent and the increase in exports 181 per cent. Among the factors that caused this increase were, among a number of others, the prospects

of buyers to be able to settle the debit balances incurred without effecting Dollar payments. As far as the Combined Economic Area is concerned, exports were facilitated in the first place so far. Of the drawing rights which the Combined Economic Area has to grant by 30 June 1949, 69 per cent had been made available on the grounds of the compensations in the period 31 October 1948 - 31 March 1949, i.e., the Combined Economic Area as supplier has contributed to the extent planned towards the recovery of the other European countries. Of the drawing rights which the Combined Economic Area is entitled to receive, however, only 21 per cent were received by the end of March 1949. This is partly due to the fact that it was impossible to import from the partner countries to the extent pre-estimated and partly to the fact that deficits could be settled by first-category compensations, so that the drawing rights could be saved up.

The progressive unification of the Combined Economic Area and the French Zone also becomes noticeable for the European Clearing. The major part of the accounts which so far had been maintained abroad by the Military Government of the French Zone having already been united with the accounts of the Combined Economic Area, and the remainder having been passed to the trust ship of the Bank deutscher Länder, the latter has been authorized by the French Military Government to deal with all questions concerning the Paris Payment and Compensation Agreement, including those affecting the French Zone. In this connection, the drawing rights of the French Zone have been united with those of the Combined Economic Area, as far as the same partner countries are concerned.

The total amount of drawing rights of the Western German economic area (Combined Economic Area and French Zone) as of the end of March 1949 can be seen from the following table:

Drawing-rights to be granted by 30 June 1949	97.4 million Dollars
thereof granted so far	57.1 " "
Drawing-rights to be received by 30 June 1949	104.1 " "
thereof received so far	23.7 " "

Effective as of 11 April, the export procedure introduced for the Combined Economic Area on 1 December 1948 has been extended to the French Zone. At the same time, an import procedure became effective in the French Zone which is considered a transitory regulation pending the coming into force, in that zone, of the regulation applied in the Combined Economic Area since 1 March 1949. This is - after the merger of the former OFICOMEX (Office du Commerce Extérieur) with JEIA on 18 October 1948 - the most decisive step taken so far in the field of foreign trade towards a gradual unification of the Bizonal Area and the French Zone into a uniform Western German Economic Area. Adaptation of the foreign-trade statistics, however, has not as yet been effected, so that a joint consideration of the foreign trade of the French Zone and that of the Combined Economic Area is not yet possible, at least as far as the movement of goods is concerned. Nevertheless, a general survey of the goods trade and the exchange of services between the French Zone and foreign countries for the period from 1945 through February 1949, based on the statements concerning the respective payment transactions, is given in the following.

Subsequent to the resumption of trade relations after the war, the foreign trade of the French Zone at first showed credit balances. With total turnover during the years 1945 and 1946 still being low, exports exceeded imports by 40 per cent. The year 1947 brought a tremendous increase in both imports and exports, but at the same time a slight deficit in the trade balance. The deficit could be met from the surpluses of the years 1945 and 1946. During 1948, imports continued to increase, namely by 39 per cent as compared with 1947, while exports

Exchange of Goods and Services of the Combined Economic Area
and the French Zone with Foreign Countries
according to the statistics of JEIA and OFICOMEX

Goods and Services	1945/46 1-8-1945 11-12-1946	1947	1948	Monthly average			1948			1949										
				1945/46	1947	1948	Oct.	Nov.	Dec.	Jan.	Febr.	March								
Imports in 1000 \$	759,000	708,000	1,399,981	Combined Economic Area									147,000							
				French Zone																
				45,961	135,271	188,340	2,706	11,273	15,695	13,552	18,635	12,188		11,132	12,233					
				64,473	124,132	108,931	3,790	10,344	9,077	10,424	9,249	5,850		4,654	5,920					
				140.3	91.7	57.8	140.3	91.7	57.8	76.9	49.1	48.3		41.8	48.4					
				10.97	21.03	20.02	0.64	1.75	1.66	2.00	1.77	1.13		0.88	1.12					
				Exports in 1000 \$	227,473	349,174	707,924	Combined Economic Area and French Zone									94,276			
								French Zone												
								46,176	70,273	132,360	98,052	132,935		136,288	134,748	124,819				
								13,378	29,098	58,993	73,222	76,697		77,701	96,010	94,276				
								28.7	41.4	44.5	74.6	57.8		58.5	71.3	75.5				
								5.13	7.52	15.06	1.56	1.63		1.63	2.03	1.99				
Exports in % of Imports	22.0	31.8	42.8					Combined Economic Area										58.5		
								French Zone												
								22.0	31.8	42.8	74.0	58.9	57.9	71.0	78.4					
								0.24	0.46	1.18	1.52	1.61	1.72	2.18	2.08					
								14.23	0.24	0.46	1.18	1.52	1.61	1.72	2.18	2.08			2.05	
								4.12	5.55	14.23	0.24	0.46	1.18	1.52	1.61	1.72			2.18	2.05
				Exports p. capita in \$	4.12	5.55	14.23	Combined Economic Area									2.05			
								French Zone												
								0.24	0.46	1.18	1.52	1.61	1.72	2.18	2.08					
								0.24	0.46	1.18	1.52	1.61	1.72	2.18	2.08	2.05				
								10.97	21.03	20.02	0.64	1.75	1.66	2.00	1.77	1.13			0.88	1.12
								10.97	21.03	20.02	0.64	1.75	1.66	2.00	1.77	1.13			0.88	1.12
Imports in 1000 \$	784,961	843,271	1,588,321					Combined Economic Area and French Zone										124,819		
								French Zone												
								46,176	70,273	132,360	98,052	132,935	136,288	134,748	124,819					
								13,378	29,098	58,993	73,222	76,697	77,701	96,010	94,276					
								28.7	41.4	44.5	74.6	57.8	58.5	71.3	75.5					
								5.13	7.52	15.06	1.56	1.63	1.63	2.03	1.99					
				Exports in % of Imports	28.7	41.4	44.5	Combined Economic Area									75.5			
								French Zone												
								28.7	41.4	44.5	74.6	57.8	58.5	71.3	75.5					
								0.32	0.63	1.26	1.56	1.63	1.63	2.03	1.99					
								15.06	0.32	0.63	1.26	1.56	1.63	2.03	1.99	1.99				
								4.12	5.55	14.23	0.24	0.46	1.18	1.52	1.61	1.72			2.18	2.05
Exports p. capita in \$	4.12	5.55	14.23					Combined Economic Area										2.05		
								French Zone												
								0.24	0.46	1.18	1.52	1.61	1.72	2.18	2.08					
								0.24	0.46	1.18	1.52	1.61	1.72	2.18	2.08	2.05				
								10.97	21.03	20.02	0.64	1.75	1.66	2.00	1.77	1.13			0.88	1.12
								10.97	21.03	20.02	0.64	1.75	1.66	2.00	1.77	1.13			0.88	1.12

decreased by 13 per cent. Both trends are to be explained in the first place by the economic separation of the Saar on 1 April 1948, which rendered necessary, inter alia, the importation of coal and foundry products, i.e. commodities which had been exported until that time. The 1948 debit balance amounted to 79.4 million Dollars. Taking into account foreign exchange credit balances from former years in the amount of 7.4 million Dollars, ECA-imports amounting to 36.6 million Dollars, and a further increase of 4.1 million Dollars, there remains a foreign exchange deficit of 31.3 million Dollars for the year 1948.

During January and February 1949 (more recent figures are not yet available), the monthly average of imports decreased by 21 per cent and that of exports by 38 per cent as compared with the last quarter of 1948. This renewed shrinkage of exports may be due, among other reasons, to the decrease in timber exports and to the efflux of export goods to foreign trade enterprises in the Combined Economic Area, due to which they can no longer be registered as exports of the French Zone. For the latter reason, the foreign trade statistics of the French Zone become less and less representative of the actual international trade relations of this area.

Employment, Production and Sale

The domestic business trend continued to be characterized by an increasing degree of unemployment, with the level of industrial production remaining the same. In the whole specified area, the number of unemployed increased by 63,000 during April and by an additional 20,000 during the first half of May. That means that by the middle of May 1,252,100 or 8.5 per cent of all wage- and salary-earners were out of work. As compared with the first three months of this year, when the increase amounted to 203,000 106,000 and 100,000 respectively, the rise of unemployment has continued to slow down during April and May; however, it must be borne in mind that in view of the season the degree of

- 38 -
Unemployment in the Specified Area

Area	1948		
	May	August	December
	in 1000		
Bavaria	148.0	270.0	227.1
Württemberg-Baden	28.1	31.7	25.0
Hesse	40.6	65.1	61.1
Bremen	8.7	10.4	11.5
Northrhine-Westphalia	125.3	157.1	106.2
Lower Saxony	57.7	123.4	171.0
Schleswig-Holstein	18.6	81.7	114.8
Hamburg	12.1	28.8	26.2
Combined Economic Area	439.1	768.2	742.9
Baden	3.0	4.3	4.3
Württemberg-Hohenzollern	1.1	2.3	2.0
Rhine-Palatinate	5.0	9.5	10.4
French Zone	9.1	16.1	16.7
3 Western Zones	448.2	784.3	759.6

Area	1949					Mid-May percentage of workers, employees and officials
	Jan	Feb	March	April	May	
	in 1000					
Bavaria	300.8	340.5	364.7	360.2	351.7	12.7
Württemberg-Baden	33.7	39.5	44.5	48.1	51.3	4.3
Hesse	79.4	89.0	98.9	101.1	102.9	7.9
Bremen	13.5	14.7	15.5	16.9	16.7	7.2
Northrhine-Westphalia	124.6	127.4	139.7	167.3	175.5	4.2
Lower Saxony	213.2	236.9	259.9	273.3	279.5	13.5
Schleswig-Holstein	140.6	155.4	170.4	183.7	186.8	22.7
Hamburg	32.0	34.8	38.5	44.1	46.7	7.6
Combined Economic Area	937.8	1038.2	1132.1	1194.7	1211.1	9.1
Baden	4.9	5.0	5.8	6.0	6.0 ²⁾	1.7
Württemberg-Hohenzollern	2.2	2.9	4.3	4.6	4.5	1.4
Rhine-Palatinate	18.0	22.8	27.0	27.1	30.5	4.2
French Zone	25.1	30.7	37.1	37.7	41.0	8.9
3 Western Zones	962.9	1068.9	1169.2	1232.4	1252.1	8.5

1) (Including the unemployed)

2) Estimated

unemployment should have normally decreased since March. This actually happened, however, only in Bavaria, and even there the decrease was comparatively small. In general, the slight decrease of unemployment in farming and in the building trade was exceeded by an increase in the other sectors of economy.

Nevertheless, even for the last few weeks a number of circumstances can be named which somewhat diminish the importance, as a symptom of crisis, of this constant expansion of unemployment which is contrary to the normal seasonal trend. First, a large number of the newly unemployed still come from clerical professions and in many cases this layoff^{of} salary earners is to be welcomed for economic reasons. Nor should the reduction of the number of persons employed by the Military Governments¹⁾ which by no means affects only clerical personnel - be judged negatively from the viewpoint of economics, and even in other sectors there are many dismissals which are to be considered only a symptom of gradually progressing rationalization. It is remarkable, for instance, that, expressed in percentage, women are much more affected by the recent increase in unemployment than are men.

The fact that the fluctuation between unemployed and employed still appears to be rather pronounced at present, i.e. that the number of "permanently unemployed" is still relatively low, also indicates that shiftingsⁱⁿ production still largely are responsible for the unemployment.

Duration of Unemployment in the Combined
Economic Area as of the End of March 1949

Of the total number of unemployed,
..... per cent were out of work

up to 14 days	12
over 14 days to 3 months	43
" 3 months to 6 "	24
" 6 " to 12 "	16
" " 12 "	5

1) According to data furnished by the Director of the Department for Labour; 78,000 during the period January through March.

Finally, the increase in unemployment to a certain extent does not result from a decline in employment, but only from the continuous influx of people seeking work from the circle of persons not being salary- or wage-earners hitherto, of juveniles having finished school, and of immigrants from the Western Zone. So far, however, the increase in unemployment only reflects the increasing working potential of the economy.

However, just the recent development of the labour market contains also a number of less favourable factors. First, there was during the past few weeks a particularly strong increase in the degree of unemployment in Northrhine-Westphalia and Württemberg-Baden, which Länder so far had been affected to a comparatively small extent only. This shows that also the employment situation of the industry, which so far had been relatively stable, has recently deteriorated and that the slump no longer spares those Länder which according to the structure of their economy and their population are much less likely to be affected by depression than are, for instance, Schleswig-Holstein and Lower Saxony. The fact that in the Combined Economic Area of all trades/^{and} professions skilled metal workers showed the sharpest increase in the number of unemployed during April - viz. 17,500 of a total of 62,500 - is no less serious. In addition, short-time work seems to have expanded recently. In this respect, statistics are available only for the end of March and comprise but those short-time workers who receive relief payments - they then numbered 39,000, - corresponding to only about 10 - 11,000 fully employed, measured by the loss of work but the number of short-time workers not receiving relief payments is said to have been considerably higher at that time already, and to have increased of late. The Department for Economics recently estimated the total number of short-time workers at 200 - 300,000 and it is feared that a new increase in the number of fully unemployed might result therefrom.

Unemployment in Vocational Groups

Vocational Group	Number of Unemployed	Unemployed Percentage of total unemployed
Clerical professions	198.2	16.6
Unskilled labour of any kind	162.5	13.6
Skilled metal workers	128.1	10.7
Building workers and related trades	87.5	7.3
Transport	86.9	7.3
Farming and forestry	80.3	6.7

Industrial production, however - which, as far as covered by the official production index, comprises only somewhat less than one third of all employed, it is true -, has well maintained its level at least during April and probably during May too. The April index of production, calculated by the Department for Economics and expressed in working days, amounted to about 86 per cent of the 1936 level and was thus rather somewhat higher, and not lower, than the March level, although the monthly result as such, amounting to 82 per cent of the 1936 level fell by 8 points short of that of March. This constancy, however, probably is partly due to seasonal influences only. The building trade, which itself is not covered by the production index, but by the trend of its supplier industries in some way affects it, revealed a delayed seasonal upturn during April, although this upturn - apart from specific regional developments - so far did not reach the customary extent, and the building volume, in general, still lags behind the pre-war level to a higher degree than does the volume of the other branches of production.

Nevertheless, the power of resistance of industrial production against the various depressive influences is remarkable. Even the

investment goods industries as a whole were not retrogressive during April; on the contrary, they developed somewhat more favourably than the remaining industries. Especially the production of iron and steel, of non-ferrous metals and of plate glass, the construction of vehicles, and the production of electrotechnical, precision and optical articles reached a new peak during April, expressed per working day. The output of general production goods, although showing some differentiation in the individual case, has at least maintained its level. The further increase in coal output is of particular importance; with a daily output of almost 340,000 tons during the fourth week of May it reached a new post-war peak. Since March, this trend has been in definite contrast to the seasonal downward trend usually experienced during the spring and summer months. During April, production of consumers' goods, as a whole, likewise maintained its level, but the development of individual industrial branches within the sector was even more divergent than in the case of the other groups. In the case of those products which for some time already, at the present level of income and prices, have shown a satiety of demand - such as particularly rubber goods, household furniture, fine-pottery, leather goods, shoes and certain metal goods -, production further decreased, whilst production partly increased notably in such cases where sale, even under present market conditions, is still elastic or where there even is a scarcity of supply, as for instance in the case of textiles and paper.

Statistics on turnover and unfilled orders unfortunately wanting, it is still difficult, if not impossible, to obtain a clear picture of the development of sale. Revenue from the turnover tax, which ^{gives} at least a general impression of the development of turnover, has well maintained its level in March and April - the last months for which statistics are available -, especially if the seasonal trend is taken into account, (cf. page 18); however, the April figures express the March turnover only, because the turnover tax is payable monthly, and post festum. The figures on traffic and communications as given in the chart (see German report, p. 23, "Zur Verkehrsentwicklung") are not up to the present time. However, they are not uninteresting inasmuch as the

reveal that, contrary to a wide-spread opinion, there can be no question of a considerable decrease in turnovers; moreover, it is instructive when considering a prolonged period of time that as compared with the period prior to the currency reform, the predominantly consumptive services of traffic and communications, such as the passenger traffic of the railway and the number of trunk calls, have decreased considerably while the productive services, as for example the goods traffic, have substantially increased.

As to the most recent development of turnover, since March turnover of the retail trade partly increased, especially in branches of business which are subject to pronounced seasonal fluctuations. The reluctance of consumers as observed during the first months of the year has thus been replaced by more liberal buying, at least for seasonal reasons. However, this development appears to exert little influence on the industry, as trade and commerce still dispose very carefully, trying to reduce their stocks which in some cases are still rather high. Therefore, as reported by the Department for Economics, industry is still characterized, in general, by stagnancy of sale and dwindling of unfilled orders. An increased number of branches of industry are said to have worked for store of late. The development in the investment goods industries is described as being particularly unfavourable in this connection. Here the cancellation of orders - and not only of the fictitious orders given during the boom as a precautionary measure or for speculative reasons - appears to have made further progress. Only recently there were complaints of orders having been cancelled by the Railroad and other big customers. Just customers giving ^{large} orders are said to have declared their inability to take over goods previously ordered. Nevertheless, even in the investment goods industries there can hardly be spoken as yet of a general crisis regarding cancellation or lack of orders. Even such an important industry as the iron and steel industry shows but a slight reduction of new orders by the end of April, so that there still seems to have been equilibrium of production and orders, at

least until April. In other industries, as for instance in the foundry industry (see table below) and in the machine-building industry, the number of unfilled orders at least is still high- not to mention the fact that in some industries,

Development of Orders in the Foundry Industry
(Iron casting, steel casting, malleable
cast iron)

in tons

	Unfilled Orders 1)	Incoming Orders	Production	Deliveries
1948				
September	485 911	103 584	103 568	93 299
October	496 496	145 995	110 551	108 887
November	533 604	112 175	112 094	108 584
December	537 195	119 040	122 679	118 612
1949				
January	537 623	104 984	130 354	122 586
February	520 021	94 906	125 762	114 404
March	500 523	101 296	139 382	133 729
April	468 090	86 248	119 847	116 400
May	437 938			

1) As of 1st of month

as for instance the construction of vehicles (passenger cars), the situation is still characterized by production rates being too-low, and long terms of delivery. In some investment goods industries, however, which so far maintained themselves, the time is dangerously near when production would slump unless orders rise again, so that, in order to avoid a crisis, the supply of the necessary investment capital becomes more and more urgent. With a new considerable expansion of unemployment, however, the market conditions for the consumers' goods industries - which partly are very unsatisfactory - would necessarily deteriorate.

P r i c e s a n d W a g e s

It is in correspondence with the difficult sale conditions that the reduction of prices under way since the beginning of this year did not yet come to a standstill even in April and May. The reductions, it is true, were less numerous and, in general,

of less importance than in the two preceding months.

Cost of living for the rank and file of the population has declined during the last few weeks. A rather remarkable decrease of prices for clothing and household furniture is faced, though, by an increase of the prices for stimulants. During the last weeks, however, some food prices (potatoes, vegetables, eggs, salt-water fish, cheese) went down - mainly for seasonal reasons - so that in this field, too, there evidently was a noticeable relief for all consumers. The cost-of-living index, however, does not, or but very unsufficiently, express the marked improvements in quality and choice of the goods offered and the special prices granted to ensure a fast clearance of stock. Yet, all these characteristics of a buyer's market also reduce the cost of living. The table on p. 77, based on prices in Frankfurt/Main, gives an idea as to the extent to which some typical retail prices have slumped from their peak level after the currency reform.

Due to these price reductions, the price "mirrors" for various groups of commodities established last fall have for a considerable period of time already been without practical importance, and were now discontinued officially. It is difficult to judge in how far producers' prices have already been fully adjusted to the reduced retail prices and, vice-versa, whether wholesale traders and retailers in all cases have established a reasonable ratio between the selling prices and the producers' prices lowered in the meantime; apparently, there is still a certain margin in both directions, so that a future downward revision of prices appears to be feasible. Furthermore, the downward tendencies originating from the world market may in the case of some products - especially if imports of finished goods increase - effect a decrease of prices. The fact that in certain domains of the market the stagnancy of sale might be considerably mitigated by price reductions, has been repeatedly emphasized here.

Particularly characteristic of the present formation of prices is the divergence, still extraordinarily great by com-

parison with normal times - of prices of different producers and dealers for one and the same product. In many cases the different effects of direct and indirect war damages on producers costs have not become fully noticeable till now. The adaption of prices, which is under way in this connection, will probably take some time, since it can be effected only by way of shifting production to firms operating at lower costs, and by large-scale rationalization measures.

Prices of basic materials continued to fall in the month covered by the report. The index number in April was 186.9 against 192.6 in December and 187.7 in October 1948. As coal miners' wages were raised by 10 % recently, demands for a rise of coal prices may be expected, however. The price of soft-coal briquettes has already been raised some time ago from 13.20 DM per ton to 16.20 DM per ton within the so-called "Kerngebiet" ("core area ") and to 17.20 DM per ton outside this area. It cannot be recognized yet whether any major significance is to be attributed to the slight increase in prices of hides and leather, which prices had proven particularly reactive and - as will be remembered - initiated the downward price movement at the turn of the year.

From their peak, mostly reached in November or December of last year, black-market prices have dropped by about one half in the very rough average.

The real slump had occurred during the months of January and February. After that, however, prices still continued to drop remarkably. With the increase of regular supply, the difference between the prices of the regular market and those of the black market diminished considerably; it still exists, however, wherever it is necessary to supplement rations and this cannot easily be done by means of other, free commodities. This holds good primarily with regard to meat, fat and sugar. As already mentioned in the April report, in some sectors (e.g., coffee, cigarettes) the black market began to underbid the prices of regular supply, which is easily possible, since as a rule it evades taxes and customs, and operates with different costs.

Reduction of Retail Prices in the Regular Market
(Data from Frankfurt/Main)

	Unit	Maximum price after currency reform	Prices as of May 24-31 1949	Reduction by ... %
		i n	DM	
Gentleman's suit (containing wool, carded yarn)	each	128.10 ¹⁾	110.00	14.1
Shirt (sports) with collar attached	"	21.53 ²⁾	15.00	30.3
Drawers for men, wool mixed	pair	6.63 ¹⁾	5.50	17.0
Ladies stockings (Rayon)	pair	15.00 ³⁾	8.00	46.7
Ladies knickers (wool with cotton, size 44)	pair	7.57 ²⁾	5.70	24.7
Apron (coat) colour printed	each	23.04 ¹⁾	17.50	24.0
Gentlemen's shoes	pair	37.24 ²⁾	30.59	17.9
Ladies' "	"	35.32 ²⁾	28.80	18.5
Brief case (neat's leather)	each	125.10 ²⁾	55.00	56.0
Gentlemen's wrist watch (anchor escapement, 15 jewels, Swiss works)	"	121.76 ⁴⁾	70.00	42.5
Cup without saucer (china)	"	1.40 ²⁾	0.95	32.1
Bucket, zinc (diameter 28 cm)	"	5.90 ¹⁾	4.50	23.7

1) November 1948 2) December 1948 3) October 1948 4) January 1949

O v e r a l l S i t u a t i o n a n d C a p i t a l
S u p p l y

To sum up, the economic development of the last few weeks may be diagnosed about as follows: Though the declining trend, which started at the beginning of this year, has continued and in some sectors of the economy the situation is still unstable, the economy as a whole shows a remarkable power of resistance against depressive influences, while at the same time efforts to solve the problem of capital supply are increased. It is the more justifiable to emphasize the economy's strong power of resistance as

it is a gratifying contrast to various diagnoses which, months ago already, predicted a sudden sharp decline in business activity and therefore culminated in demanding comprehensive measures in order to influence the business trend. Contrary to such pessimism, just the last weeks have again proved that, on the one hand, the self-assertion of an economy, be it as far from the normal state as is the German economy, is much greater than is frequently presumed, and on the other hand perhaps the contractive pressure apart from taxes - has not quite attained the degree generally apprehended. If one realizes that during the past few weeks the decline of prices was not accentuated, but mitigated, and that now and then already more significant new price increases occur, one might altogether doubt whether the sale and liquidity crisis really is as comprehensive and far-reaching as it is some times described.

However, in the present situation of Western Germany, such considerations covering primarily the general situation, the "average" so to speak, can be made with much reserve only. - If, for instance, the economy's remarkable power of resistance against the undoubtedly existing depressive influences is mentioned, sight should not be lost of the fact that within the specified area there are Länder the tenacity of which in fighting such tendencies is of little importance compared with the fact that they are already deep in an undeniable crisis. A Land like Schleswig-Holstein, for example, will find little comfort in the fact that the average number of unemployed in the specified area from the end of January until the middle of May rose "only" from 7 to 8.5 % of the total number of workers, employees and officials since its own percentage is 22.7. Also in the various branches of business the differences in the business trend often are so great today that not seldom prosperity and pronounced stagnation are close together.

In general, we hardly do justice to the present difficulties by arranging them under one general heading, as for instance "tightness of money" or "lack of capital", and accordingly trying to apply one single remedy. The characteristic feature of the crisis which the economy has been undergoing for some time is just the fact that it expresses very different disturbances

which all have their individual causes and therefore in their majority are in need of different therapy also. First, considerable parts of the Western German economy, some Länder in particular, are in a "structural crisis" originating from numerous dislocations in the structure of economy and population in the whole of Germany, caused by the war and its consequences, and from the numerous inadequacies resulting from our present constitutional set-up; this crisis can be remedied not by means of credit policy, but only by measures ^{which} hit the root of the evil. The particular difficulties of Schleswig-Holstein and Lower Saxony, for instance, can never be cured by a "credit injection". A better financial equalization between the Länder would at least be quite as important, but the only radical remedy for such a "structural crisis" will probably be a new regional order permitting an adequate redistribution of the increase of population caused by the war.

Another element of the present difficulties is the so-called "crisis of adaptation" or "crisis of purification". As repeatedly explained here, it stems from the necessity to adapt to the new market conditions a structure of production which in many cases is still based on the conditions prevailing during the Reichsmark period; this means that certain productions, which under the present conditions of income and competition are no longer saleable, must be stopped. This process also, certainly painful for the persons concerned, cannot be rendered superfluous by measures of credit policy, but just the contrary holds good, viz., it must be brought to a speedy close by a selective credit policy, which the banks should apply also in their own interest. Bankruptcies and temporary unemployment are unavoidable in connection with this process; that this fact is sometimes hardly taken into account when judging insolvencies, difficulties in sale and reduction of employment, is symptomatic of how little are yet understood the laws of competitive economy, which mean not only profit chances, but also risks.

Nevertheless, it is uncontestable that in addition to the various structural crises and the so-called purification crisis there has developed a disturbance which concerns rather the

total mechanism of the business cycle. It is manifested particularly by the fact that the maintenance of the investing activity meets with difficulties which, if they could not be overcome, would generate a more or less general shrinking process. Of course such a development must be prevented, since it would paralyze the forces intended to re-occupy both the manpower and the productive capacities set free by the rationalization, so that the crisis of purification also would soon lose its character of a process of consolidation. The structural crises also would then become even more pronounced.

As is well known, the main cause of the typically cyclical disturbances is the deficiency of capital for long-term investment projects. However, at present it is by no means the case that capital formation in itself is insufficient, i.e. that we save too little and consume too much. The consumers' goods industries likewise are complaining of sale being inadequate, that is to say, neither their production nor that of the investment goods industries meets with a demand sufficient to balance formation and spending of income. Certain parts of the income thus are used neither for investment nor for consumption purposes, since also the amount which the consumer does not or cannot spend because it is withdrawn from him by taxes or social contributions, does not flow to the capital market to be used by the investors, but remains unused, mostly in the form of inactive accounts. Thus the crisis of investment financing is caused, at present, not so much by insufficient saving but rather by the general propensity for liquidity, which keeps the saved means away from investment.

Under these circumstances it cannot be the primary aim of an active cyclical policy to create new money, but it must concentrate chiefly on channeling to the capital market the means already existing, i.e. at least to bring about a stronger fluctuation from the money market to the capital market. In this respect essential tasks are to be performed by the public authorities with whom, as repeatedly set forth in this report, considerable means have accumulated and continue to accumulate. These means,

as far as they have not perforce to be reserved for other purposes, should be used as soon as possible— directly or indirectly — for investment purposes. It would be absolutely out of place to reserve them as a liquidity guaranty for an eventual crisis, since the formation of excessive reserves, as proved by experience, is the surest means to actually bring on a crisis. It therefore deserves high appreciation that the Unemployment Insurance Fund, as already mentioned previously, seems to be ready to place at the disposal of the Reconstruction Loan Corporation a considerable part of its liquid means still available. The central banking system tries to facilitate this resolution by assuring the administrations of the unemployment insurance that collateral loans will eventually be granted, so as to guarantee the maintenance of a certain liquidity.

Besides, it is necessary to increase the attraction of the capital market for means hitherto invested in the money market. An important step in this direction are the big loans soon to be offered for subscription, viz., in addition to the Reichsbahn loan already floated — described in the chapter on the capital market — in the first place the loans of the Reconstruction Loan Corporation, which will follow immediately. All these loans undoubtedly will make available considerable means for investment purposes, the more so as the investment accounts so far blocked have been released for them. Even though a considerable part of the Railroad Loan is destined for refunding purposes only, the money market nevertheless will become more liquid to such an extent as to be ready, in case of need, for short-term prefinancing of new investments.

The central banking system itself also has taken a number of important measures to encourage fluctuation from the money market to the capital market. Apart from the release of the investment accounts already mentioned, the decisions concerning monetary policy taken of late should be cited in this connection, viz. expansion of the rediscountability of bankers' acceptances, facilitations for debtor drafts, reduction of the discount rate, and lowering of minimum reserves. Though all these measures in the first line concern the money market only, they will not fail

to exert a certain effect on the capital market, because they distinctly show the readiness of the central banking system by its credit policy to oppose deflationary tendencies, just as last fall it opposed inflationary tendencies, and because, as shown by experience, the situation of the money market in the long run influences also the capital market. In a special case, the Board of Directors tried to support the capital market even in a more direct way, viz., by recommending the Land Central Banks to purchase to an adequate extent from the mortgage banks - which cannot issue mortgage bonds before the necessary cover is available - the equalization claims received by them as supply with new capital stock. This will enable the mortgage banks to somewhat increase their loans, and especially to prevent major price fluctuations of their formerly issued mortgage bonds, thus contributing to a somewhat more cheerful tendency on the bond market.

Of course, the Board of Directors also have given close attention to the repeated requests that the central banking system should take a more active part in the financing of investments. Many of these requests, however, cannot be taken into serious consideration because they are based on a complete misconception of the tasks of a central banking system, and often show a surprising ignorance of the by-laws of both the Bank deutscher Länder and the Land Central Banks. A massive "open market policy" as recommended by some quarters would moreover render the central bank credit somewhat unelastic - a factor no responsible management of a bank of issue would readily put up with. But also in projects endeavouring to better maintain the scope of activity of the central banking system, and for that reason recommending only a prefinancing of the future capital supply, it is overlooked that even prefinancing meets with many legal obstacles and particularly that in most cases of prefinancing which are expected from the central banking system, the character of preliminary financing would not be guaranteed at all. If there were long-term credit requirements which for the time being could be met by long-dated

loans whilst there was no doubt as to time and amount of the future refunding, then it would be possible to obtain the necessary means on the money market without any difficulty. There would then be no reason for the central banking system to deprive the business banks of such investment opportunities, particularly as the central banking system endeavours, as far as possible, to leave to the banks all kinds of intermediate financing. It is desirable that borrowers also support this policy and, by selecting the proper form of credit, first try the ability of the open market before contacting the head organization of the banking system whenever there are financing requirements.

An important source of capital is being made available more and more to the economy with the assistance of the central banking system through the release of the DM equivalents of proceeds from deferred imports. The progress made in this respect during the period covered by this report has been explained in the chapter "Money and Credit". The total amount released up to the end of May is 245 million DM, whereof about 110 million DM have already been paid out. Further considerable sums may be released shortly, especially as also the accrued ERP means will to a larger extent be gradually placed at the disposal of the economy. The first problem is to finance the rest of the so-called "immediate program" (Sofortprogramm) of the Reconstruction Loan Corp., providing 90 million DM for the building of dwellings, 53 million DM for agriculture, and 78 million DM for various industries. Beyond that, there will fall due in July a further 55 million DM instalment for the investment program of the power industry, for which firm promises were given by the Allied Governments some time ago already. For further releases also definite investment plans had already been prepared. In view of the pronounced slowing down of the flow of money, the central banking system readily puts up with the fact that by such withdrawals the excess of disbursements on its accounts for settlement of foreign transactions - concerning which figures were given above - continuously increases, and thus more and more central bank money passes into circulation.

The significance of the release of counterpart funds could be considerably enhanced, it is true, if it were possible, similarly as in the case of the power industry, to obtain already now binding promises, at least as far as the total amount is concerned, of which a prospect was held out some time ago for the second Marshall-Plan year. The enterprises for which according to the investment program submitted to O.E.E.C. these means are destined, would then be able to make their plans already and possibly to prefinance them on the money market. In the present situation, when the business trend is strongly prejudiced by psychologic uncertainties, such promises would have a far-reaching effect.

At any rate, it can be finally stated that from various sides the possibilities of capital supply are improved - partly with the help of the central banking system, partly independent of it. The regional public authorities have planned for the current fiscal year investments amounting to 1.95 milliard DM; the Unemployment Insurance Fund contemplates providing for investment purposes a considerable part of its means still available; the Railroad Loan, an attractive issue, applies for uninvested savings, and similar issues will follow; the investment accounts have been released for subscription to these securities; the Reconstruction Loan Corporation will moreover be provided with counterpart funds to an increasing extent; and the recent measures of the central banking system concerning monetary policy will, at least indirectly, contribute to ease the stringency of the capital market. Taken all in all, we are fully entitled to expect a gradual broadening of the capital current, so that the chances of maintaining our volume of investments are undoubtedly growing.

Bekanntmachung Nr. 1
der Bank deutscher Länder
betreffend verlagerte Geldinstitute.

Auf Grund von § 3 Abs. 4 der 35. Durchführungsverordnung zum Umstellungsgesetz geben wir folgendes bekannt:

- 1) Der Finanzminister des Landes Nordrhein-Westfalen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 28.9.1949 - II A 2251 - 5857-49 die

Deutsche Industriebank, Hauptniederlassung Berlin,
gemäß § 3 Abs. 3 der 35.DVO/UG als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Deutschen Industriebank im Währungsgebiet gilt gemäß § 2 Abs.1 der Verordnung Düsseldorf.

Als Zeitpunkt der Verlagerung gilt der 16.Juni 1947.

- 2) Der Finanzminister des Landes Nordrhein-Westfalen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 28.9.1949 - II A-2281-49-5706 - die

Mecklenburgische Hypotheken- und Wechselbank, Schwerin,
gemäß § 3 Abs. 3 der 35.DVO/UG als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Mecklenburgischen Hypotheken- und Wechselbank im Währungsgebiet gilt gemäß § 2 Abs. 1 der Verordnung Köln.

Als Zeitpunkt der Verlagerung gilt der 25.November 1947.

- 3) Der Finanzminister des Landes Nordrhein-Westfalen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 28.9.1949 - II A 2281-49-5705 - die

Thüringische Landes-Hypothekenbank A.G., Weimar,
gemäß § 3 Abs.3 der 35.DVO/UG als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Thüringischen Landes-Hypothekenbank A.G. im Währungsgebiet gilt gemäß § 2 Abs.1 der Verordnung Hagen i.W.

Als Zeitpunkt der Verlagerung gilt der 21.Mai 1948.

- 4) Der Finanzminister des Landes Nordrhein-Westfalen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 28.9.1949 - II A -2281-5707-49 - die

Deutsche Landesrentenbank, Berlin,
gemäß § 3 Abs.3 der 35.DVO/UG als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Deutschen Landesrentenbank im Währungsgebiet gilt gemäß § 2 Abs.1 der Verordnung Lotte, Kreis Tecklenburg.

Als Zeitpunkt der Verlagerung gilt der 7.Mai 1946.

- 5) Der Finanzminister des Landes Nordrhein-Westfalen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 3. Oktober 1949 - II A-2281-5703-49 die
Deutsche Girozentrale - Deutsche Kommunalbank, Berlin,
gemäss § 3 Abs. 3 der 35. DVO/UG als verlagert anerkannt.
Als Sitz für die Geschäftstätigkeit der Deutschen Girozentrale - Deutsche Kommunalbank im Währungsgebiet gilt gemäss § 2 Abs. 1 der Verordnung Düsseldorf.
Als Zeitpunkt der Verlagerung gilt der 22. November 1947.
- 6) Das Hessische Staatsministerium - Der Minister der Finanzen - hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 28.9.49 - B 4730 P 1 - V/6 - die
Preussische Landespfandbriefanstalt,
Körperschaft des öffentlichen Rechts,
Hauptniederlassung Berlin,
gemäss § 3 Abs. 3 der 35. DVO/UG als verlagert anerkannt.
Als Sitz für die Geschäftstätigkeit der Preussischen Landespfandbriefanstalt im Währungsgebiet gilt gemäss § 2 Abs. 1 der Verordnung Wiesbaden.
Als Zeitpunkt der Verlagerung gilt der 20. Februar 1945.
- 7) Das Hessische Staatsministerium - Der Minister der Finanzen - hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 28.9.49 - B 4730 D 7 - V/6 - die
Deutsche Wohnstätten-Hypothekenbank A.G., Berlin,
gemäss § 3 Abs. 3 der 35. DVO/UG als verlagert anerkannt.
Als Sitz für die Geschäftstätigkeit der Deutschen Wohnstätten-Hypothekenbank A.G. im Währungsgebiet gilt gemäss § 2 Abs. 1 der Verordnung Wiesbaden.
Als Zeitpunkt der Verlagerung gilt der 31. Mai 1947.
- 8) Der Niedersächsische Minister der Finanzen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Urkunde vom 4. Oktober 1949 die
Deutsche Centralbodenkredit-Aktiengesellschaft,
Berlin,
gemäss § 3 Abs. 3 der 35. DVO/UG als verlagert anerkannt.
Als Sitz für die Geschäftstätigkeit der Deutschen Centralbodenkredit-Aktiengesellschaft im Währungsgebiet gilt gemäss § 2 Abs. 1 der Verordnung Oldenburg i. Oldbg.
Als Zeitpunkt der Verlagerung gilt der 6. Mai 1947.

- 9) Der Niedersächsische Minister der Finanzen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlaß vom 21. Oktober 1949 - 20 52 32 - die

Sächsische Bodencreditanstalt, Dresden

gemäß § 3 Abs. 3 der 35. DVO/UG als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Sächsischen Bodencreditanstalt im Währungsgebiet gilt gemäß § 2 Abs. 1 der Verordnung Oldenburg i. Oldbg.

Als Zeitpunkt der Verlagerung gilt der 24. Januar 1948.

- 10) Der Niedersächsische Minister der Finanzen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlass vom 3. November 1949 - 20 52 01 - die

Deutsche Rentenbank-Kreditanstalt, (Landwirtschaftliche Zentralbank, Berlin,

gemäß § 3 Abs. 3 der 35. DVO/UG, als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Deutschen Rentenbank-Kreditanstalt (Landwirtschaftliche Zentralbank) im Währungsgebiet gilt gemäß § 2 Abs. 1 der Verordnung Goslar.

Als Zeitpunkt der Verlagerung gilt der 1. Juli 1945.

- 11) Der Niedersächsische Minister der Finanzen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlaß vom 3. November 1949 - 20 52 01 - die

Deutsche Rentenbank, Berlin,

gemäß § 3 Abs. 3 der 35. DVO/UG, als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Deutschen Rentenbank im Währungsgebiet gilt gemäß § 2 Abs. 1 der Verordnung Goslar.

Als Zeitpunkt der Verlagerung gilt der 1. Juli 1945.

- 12) Der Niedersächsische Minister der Finanzen hat auf Vorschlag der Bank deutscher Länder und nach Anhörung der Bankaufsichtsbehörden der anderen Länder durch Erlaß vom 3. November 1949 - 20 52 01 - die

Zentrale für Bodenkulturkredit, Berlin,

gemäß § 3 Abs. 3 der 35. DVO/UG als verlagert anerkannt.

Als Sitz für die Geschäftstätigkeit der Zentrale für Bodenkulturkredit im Währungsgebiet gilt gemäß § 2 Abs. 1 der Verordnung Goslar.

Als Zeitpunkt der Verlagerung gilt der 1. Juli 1945.

Frankfurt a.M., den 12. November 1949

BANK DEUTSCHER LÄNDER

gez. Könneker

gez. Budczies