

*M. Sieflus*

**MONTHLY REPORTS**  
**OF THE**  
**BANK DEUTSCHER LÄNDER**

**NOVEMBER 1949**

MONTHLY REPORT  
OF THE  
BANK DEUTSCHER LÄNDER  
November 1949

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Contents:	Page
Economic Situation in the Area of the German Federal Republic in October and November, 1949	
Money and Credit	1
Public Finances	23
Production, Sales, Employment	33
Prices	40
Foreign Trade and Payments	49

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ECONOMIC SITUATION IN THE AREA OF THE GERMAN FEDERAL REPUBLIC  
IN OCTOBER AND NOVEMBER, 1949<sup>1)</sup>

M o n e y   a n d   C r e d i t

Creation of Credit and Circulation of Money.

The considerable expansion of credit which has been observed since the middle of the year again continued in November. Even at the 112 banks which render weekly returns short-term credits to non-bank customers increased in the course of the month by almost DM 258 million. At the same time, for reasons which we shall examine later, considerable fluctuations in their figures took place. Thus, in the first week of November the increase was extremely small. In the next two weeks on the other hand the volume of credit jumped up by more than half a milliard, after which it again declined by DM 265 million in the last week. This decline, like the previous expansion, occurred mainly in the Hamburg banks. The total amount of the expansion in short-term credits which took place at all banks in November may be put at DM 630 million against DM 810 million in October.

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<sup>1)</sup> Report closed on 11th December, 1949.

Short-Term Credits of the Commercial Banks to Non-Bank Customers

in the period Sep - Nov 1949

(In millions of DM.)

Increase (+), Decrease (-)

	Banks reporting weekly	Banks reporting monthly
September		441
Week 1	+ 23.5	
2	+ 91.2	
3	+ 11.3	
4	+ 15.6	
October		+ 810
Week 1	+ 16.6	
2	+ 99.5	
3	+ 59.2	
4	+ 168.4	
November		+ 630 <sup>1)</sup>
Week 1	+ 4.7	
2	+ 144.2	
3	+ 373.9	
4	- 264.7	
Sep - Nov	+ 743.4	+ 1.881 <sup>2)</sup>

1) Estimated      2) Partly estimated

In the last two months therefore the commercial banks granted additional short-term credits amounting to DM 1.44 milliard, that is to say, about DM 300 million more than in October and November 1948. During this period the credits granted by the Central Banking System to business and to public authorities declined only slightly, by DM 30 million; in November alone the decline amounted to DM 16 million.

This considerable expansion of credit was in large measure the result of the increased requirements of money for the financ

of imports. A decisive factor in this process was the fact that, from the middle of October until the beginning of December this year, persons who lodged requests for import permits had to make a cash deposit at the Land Central Banks, the deposit being fixed in many cases at 100 % of the amount requested. The fantastic inflation of requests for foreign exchange led temporarily to a quite extraordinary demand for money; and the banks were evidently very generous in meeting this demand. At all events, if we compare the credit figures of the banks rendering weekly returns with the movement of the cash deposits, we can clearly see the close connection which existed, during the last few weeks, between the movements in the two sets of figures.

Credits and Cash Deposits  
in Millions of DM

Week ending on	Credits <sup>1)</sup> Increase(+)	Cash Deposits <sup>2)</sup> or Decrease(-)	Amount of Cash Deposits
October 7	+ 16.6	+ 0.4	0.6
15	+ 99.5	+ 97.6	98.2
23	+ 59.2	- 48.2	50.0
30	+ 168.4	+ 52.8	102.8
November 7	+ 4.7	+ 36.5	139.3
15	+ 144.2	+279.8	419.1
23	+ 373.9	+583.5	1002.6
30	- 264.7	-789.2	213.4

1) Short-term credits to non-bank customers at the 112 banks which render weekly returns.

2) According to the reports rendered by the Land Central Banks regarding the "B.D.L. Import Licences Suspense Account (Asservaten-Konto)".

In those weeks during which the cash deposits showed a marked increase the credits as a rule also rose; on the other hand when the cash deposits declined (and it must be remembered that these were repaid, once the foreign exchange was allotted) there immediately followed, as a rule, a decline of the credits. It is clear that the putting up of cash deposits on this scale was only

possible at all as the result of the extreme willingness of the Banks to grant credit for such purposes, and that this made nonsense of the real purpose of the requirement of the cash deposits, which was to prevent the inflation of demands for foreign exchange. It is true that from the point of view of monetary policy the resulting inflation of credit produced in the main no effect, apart from its influence on the liquidity of the banks, with which we shall deal later, because the result was simply to lock up money in the Central Banking system corresponding to the total amount of the cash deposits. In any case at the beginning of December it was decided that no further cash deposits should be required, because it was obvious that it would not be possible by this means to achieve the control of requests for import permits which had been hoped for.

It is however probable that the development of credit was strongly influenced by the actual development of imports, which for some time have shown a strongly rising tendency. Here it must be remarked that, in contrast with earlier experience, increased demands for money often arise now as the result merely of an expected increase in imports. This is because since the middle of July this year the system of payment for imports has been amended, so that it now represents an ordinary purchase of foreign exchange. The DM equivalent of the required foreign exchange has now to be paid in, immediately the credit is opened, into the Loro Accounts of the Foreign Trade Banks at the Bank Deutscher Länder, whereas previously payment for the imports was in principle required only when the goods arrived. In point of fact the Loro Accounts at the Bank deutscher Länder rose in November alone by DM 138 million. The total payments for imports, that is to say for commercial imports (imports financed by export proceeds) and imports financed by foreign aid, rose in the same period to DM 904 million, against DM 729 million in October and DM 739 million in September. It remains true that it is not possible to measure statistically the relationship of cause and effect between the increase of imports and the expansion of credit; this is because it is quite uncertain from

what sources the importers obtain the funds with which they make their payments. Thus one cannot say that the expansion of credit served simply to finance imports. It is indeed possible, and in fact quite probable, that a number of other factors were at work in the expansion of credit.

It is however true that, if we consider the various movements in the circulation of money, we find that the expansion of credit during the last few weeks was counteracted by movements of money which to a large extent neutralised its effects. In the first place there was the locking up of money at the Land Central Banks, as mentioned above, in respect of the cash deposits which they held to cover requests for import permits. In addition there was the fact that in-payments to the foreign accounts of the Bank deutscher Länder, as for months past, continued in October and November at a level considerably higher than the out-payments to exporters and the use of Counterpart Funds. This led to a corresponding withdrawal of money from internal circulation.

In-payments in respect of Imports and Out-Payments  
on the Foreign Accounts of the Bank deutscher Länder  
(In Millions of DM.)

Month, or Monthly Average	Inpayments by importers			Out- payments	Excess of In-payment (-) or Out-payment (+)
	Total	For commercial imports	For Imports financed by Foreign Aid		
1949					
First Quarter	397.0	167.9	229.1	412.9	+ 15.9
Second "	474.6	229.8	244.8	597.9	+123.3
Third "	724.1	460.6	263.5	504.1	-220.0
September	905.8	488.0	417.8 <sup>1)</sup>	556.7	-349.1 <sup>1)</sup>
October	729.5	546.5	183.0	414.2	-315.3
November	904.9	704.0	200.9	425.2	-479.7

1) Including transfer of the E.R.P. Accounts of the French Zone, amounting to DM 166.7 million, from the Land Central Bank of Baden to the Bank deutscher Länder.

This development was due in the first place to the considerable worsening of the foreign trade balance during the last two months. This deficit is reflected not only in the foreign trade figures; it is also reflected particularly in the decrease of foreign exchange reserves, in the increase of balances belonging to foreign Central Banks, and also in the increased amount of credits opened and in the resulting in-payments to the Loro Accounts of the Foreign Trade Banks at the Bank deutscher Länder. In addition to this the excess of in-payments increased during the past few months in the non-commercial portion of foreign trade, that is to say in the accounts for imports for which the foreign exchange payments were postponed. This increase was, it is true, smaller than is often supposed. In October the total in-payments in respect of imports financed by foreign aid amounted to DM 183 million, and in November to DM 201 million. As against this there were out-payments of cash to the debit of the Counterpart Funds amounting to about DM 136 million in October and about DM 85 million in November; in neither of these months can these out-payments be attributed to releases for the purpose of investments - they were due to other causes, for instance payments in respect of Drawing Rights granted. Even so the Counterpart Funds accounted in October for the locking up of about DM 43 million and in November of about DM 116 million. These figures cannot of course be identified with the increase in "available" Counterpart Funds, because this increase depends on the result of a whole series of internal settlements.

In considering the creation of credit during the past few months there are perhaps other factors to bear in mind besides those factors of a neutralizing character, which are related in the main to the financing of imports and the technique of such financing. There was for instance a quite considerable concentration of money which took place on the balances of public authorities in the Central Banking System. If we include the funds of public authorities invested in Equalization Claims, the deposits maintained by such authorities in the Central Banking System rose in October by about DM 154 million, and

in November by about DM 201 million. This may in part represent only a transfer of balances from the commercial banks to the Central Banks; probably however another reason for the movement was the fact that the cash receipts of the public authorities' budgets were temporarily higher than their cash out-payments. This resulted from the collection of levies for Immediate Assistance and from relatively higher receipts from taxes, October being, as is well known, a month with "big" dates for the payment of taxes. It is true that it is questionable whether this process can be described as a "neutralization" of the creation of credit. In any case it seems clear that, even if the process to some extent led to a sterilization of resources, this was a merely temporary phenomenon. This is because the tendency of the budget positions to grow worse points to these resources being soon put into use.

In addition to this, however, it would be a mistake to regard the "neutralization" of credit through the excess of in-payments to accounts at the Bank deutscher Länder for settlement of foreign trade as if it was anything definitive. There is every prospect that the Counterpart Funds which have been collected will soon be released and thus cause the available volume of money to rise sharply. Similarly the owners of the still remaining cash deposits are now quite at liberty, since the decision which has been taken to dispense with such deposits, to use them as they like. They might for instance use them, not to repay credits, but to make other payments. It is thus quite possible for the "neutralization" to cease completely without this leading to any automatic reduction in the volume of credit. A true cancellation of created credit occurs only in so far as the additional credits are compensated by the deficit in the foreign trade balance. This is because, when the necessary foreign exchange is bought, money disappears from circulation, so that, unless credit were created, a smaller quantity of money would have to stand against an increased supply of goods resulting from the larger imports.



Credit Creation by Banks in the Months September to  
November, 1949

(In millions of DM) Increase (+),  
Decrease (-).

	September	October	November	Total
Short-term Credits of Commercial Banks to Non-Bank Customers	+ 441	+ 810	+ 630	+1881
Credits granted direct by the Central Banking system to business and to public authorities	+ 3	- 14	- 16	- 27
<b>Total:</b>	<b>+ 444</b>	<b>+ 796</b>	<b>+ 614</b>	<b>+1854</b>
Neutralising Factors:				
Cash Deposits in respect of Requests for Import Permits	-	+ 103	+ 111	+ 214
Debit Balance on Accounts for settlement of Foreign Trade at Bank deutscher Länder	+ 185 <sup>1)</sup>	+ 334	+ 461	+ 980
<b>Total:</b>	<b>+ 185</b>	<b>+ 437</b>	<b>+ 572</b>	<b>+1194</b>
Public Deposits in the Central Banking system (including funds invested in equalization claims)	- 174	+ 154	+ 201	+ 181

1)

Excluding an item of DM 167 million representing a book transfer to foreign accounts at the Bank deutscher Länder. See note to Page

It would however be quite wrong to conclude from this that a compensatory creation of credit would in all circumstances be justifiable from the point of view of foreign exchange policy or of general economic policy.

#### Development of the Volume of Money.

As we have seen, the creation of credit by the commercial banks to a large extent corresponded with transfers of money, which they were at the same time making to the Central Banking system. The creation of the credit may even have served the purpose of facilitating these transfers. Consequently in October, in spite of the unusually large expansion of credit, and the fact that the payment media in circulation altered by only a small amount, only a relatively small amount of deposits was formed at the commercial banks. In November these deposits actually declined slightly for the first time since the Currency Reform. In particular the deposits of non-bank customers at the commercial banks increased in October by only DM 295 million, while in November they declined by an estimated amount of DM 150 million<sup>1)</sup>. At the same time, of course, there were appreciable differences between the different banks and between the different groups of depositors. For instance, according to the weekly bank statistics, the deposits of public authorities at the commercial banks rose slightly in November (time deposits alone rising somewhat more than the total of the public deposits), whereas the deposits of business and private customers declined by DM 175 million;

<sup>1)</sup> All these figures are exclusive of currency balances in respect of credits granted, since the equivalent of such balances would have been already transferred in full to the Bank deutscher Länder. These balances thus represent for the commercial banks in practice not deposits at all, but merely transitory items.

in their case savings deposits are excluded, and, characteristically, the amount of the time deposits also fell. One cannot of course say that similar movements took place to the same extent at all the banks. It does however seem clear that the contrary tendency of the movements in the two groups of accounts may be due at least in part to payments for Immediate Assistance.

But even in the Central Banking system the deposits, in spite of the influx of money from the commercial banks, did not grow to any extent corresponding to the creation of credit. During the months of October and November the deposits of non-bank customers, including funds invested in Equalization Claims, increased by only DM 174 million and DM 279 million respectively. These figures however include the cash deposits. If one excludes these, the increase in the deposits of non-bank customers in the Central Banking System <sup>amounted</sup> in October to only DM 72 million, and in November to only DM 168 million. The smallness of this increase is due to the fact that the in-payments into the Central Banking System were made in the main to finance imports. Thus they were reflected either in losses of foreign exchange, or in corresponding increases in the debit balances on accounts serving for the settlement of foreign trade. These accounts are not shown as deposits, and indeed they are by no means "free" deposits in the sense of balances available for making payments.

Thus, neither in October nor in November did the so-called volume of money show an increase corresponding to the creation of credit. We take the "volume of money" for this purpose as being the amount of payment media in circulation, plus public and private balances, but exclusive of Counterpart Funds and the other balances which are shown under the heading of foreign accounts. In October the volume of money in this sense rose, according to the monthly banking statistics and the consolidated return of the Bank deutscher Länder and the Land Central Banks, by DM 665 million. In November on the other hand, the increase may be put at little more than DM 200 million. These figures however include the cash deposits at the Land Central Banks and the currency balances at the commercial banks corresponding to the Loro Accounts of the Foreign Trade Banks.

at the Bank deutscher Länder. If one excludes these balances, the increase in the volume of money in October amounts to only about DM 400 million, whereas in November the net volume of money, thus calculated, even shows a slight decline.

### Liquidity of the Banks

The liquidity of the banks naturally deteriorated a good deal further, owing to the fact that they were creating a considerable amount of credit while at the same time large sums were flowing from them into the Central Banking system. They were only able in a few cases to use excess reserves to finance their payments into the Central Banking system, because in October the total amount of their excess reserves had already fallen to DM 103 million, or barely 11 per cent of the required reserves, and the distribution of this amount between the various groups of banks continued to be extremely uneven. In point of fact the excess reserves declined in November by only a further DM 15 million. This meant that the banks' need to obtain Central Bank help was correspondingly greater. Already in October the banks had taken a further DM 675.6 million of credit from the Land Central Banks. In November they took a further DM 644.8 million. This meant that their borrowings at the Land Central Banks reached a total of no less than DM 3.4 milliard. Their net indebtedness, that is, the total borrowings of the banks from the Central Banking system, after deducting their deposits at the Land Central Banks, rose at the same time by DM 778.8 million, and amounted at the end of the month to a total of almost DM 2.37 milliard. If we compare these figures with the credit expansion of the banks in November, which may be estimated at DM 630 million, we find that in this month the banks had recourse to the Central Banking system to an extent greater than the extent to which they themselves granted credit. The following table, with the aid of the corresponding items in the returns of the Central Banking system, throws some further light on the various movements of money which led to this tightening of the liquidity situation.

Liquidity of the Commercial Banks in the period from 31st August to 30th November, 1949 (According to the Combined Returns of the Bank deutscher Länder and the Land Central Banks).

(in millions of DM)

The Factors.	Changes in the Factors shown in the Left-Hand Column operated on the Banks as below:			
	To decrease their liquidity		To increase their liquidity	
Those producing an increase are shown with a "+", those producing a decrease with a "-"	September October	November	September October	November
Circulation of Payment media	+ 255			- 91
Balance of accounts for Settlement of Foreign Trade	- 686	- 461		
Deposits by Non-Bank Customers in the Central Banking System (including funds invested in Equalization Claims)	+ 64	+ 279		
Items in course of settlement		+ 119	- 7	
Balance of Other Assets and Other Liabilities		+ 2	- 26	
Postal Cheque Balance				+ 5
Credits to Non-Bank Customers	- 11	- 16		
Total of the Factors producing a Decrease or an Increase	1016	877	33	95
Excess of the Factors producing a Decrease over those producing an Increase:	983	781		
Net Effect:	1764			
The decline in liquidity was met by:				
Increased borrowings from Central Banking System			+ 958	+ 645
Decreased balances on Giro Account with Central Banking System			- 23	- 134
Consequent worsening in position of Commercial Banks vis-à-vis the Central Banking system			981	779
Total net Effect:			1760	

In the prevailing circumstances the banks were bound to make efforts to ensure that the new credits, which they granted, should be in such form as would enable them to obtain Central Banking accommodation against them. This was required in order to avoid a too heavy reduction in their holdings of bills of exchange. It was particularly necessary in the case of those credits which were granted for the special purpose of making possible the putting up of cash deposits. Since the ordinary course of business did not provide a sufficient quantity of commercial bills, the banks in the course of the last few months to a very great extent went over to the granting of acceptance credits.

Short-Term Credits to Non-Bank Customers  
at 112 Banks rendering Weekly Returns,  
classified according to the type of credit.

(In per cent of the total amount.)

	31 Aug	30 Sept	31 Oct	30 Nov
Credits in Current Account (together with other Short-Term Credits)	44	43	42	42
Acceptance Credits	25	27	30	30
Liability on Bills of Exchange	31	30	28	28

The consequence of this going over to acceptance credits was that the amount of bank acceptances in circulation very considerably increased. On 31st August DM 1 milliard of bank acceptances were circulating, according to the monthly statistics. Two months later the circulation reached DM 1 $\frac{1}{2}$  milliard, and at the end of November it was estimated to have reached DM 1.7 milliard. In a large number of banks this has led to their acceptances in circulation reaching a quite abnormal proportion in relation to their own capital and reserves. In the interests of sound banking policy this must be corrected.

In spite of the great increase in their own acceptances the banks were obliged to have recourse to a large extent to their

holdings of bills of exchange. Accordingly the bill holdings of all banks together sank from DM 1.9 milliard at the end of August to DM 1.7 milliard at the end of October, and to an estimated amount of DM 1.4 milliard at the end of November. At the same time the banks' liabilities in respect of their endorsements rose from DM 1.7 milliard at the end of August to DM 2.1 milliard at the end of October. They probably reached DM 2.4 milliard by the end of November.

#### Long-Term Credits and Counterpart Funds

There has also been an increase in the long-term credits recently granted by banks, including the Mortgage Banks, the Reconstruction Loan Corporation and other special institutions. During October a total of approximately DM 271 million of medium- and long-term credits was granted by banks to non-bank customers. Of this amount about DM 250 million went to business and private customers, while DM 21 million were made available to public authorities. As against this, during September only DM 159 million altogether were granted by banks in the form of medium- and long-term credits. According to the data so far available for November, it can be assumed that during that month about DM 200 million of medium- and long-term credits were available. In this figure we find for the first time the pre-financing measures of the Central Banking system, within the limits of the 300-million programme<sup>1)</sup>, reflected to the extent of about DM 34 million. The table on pages 15/ shows the amount of medium- and long-term credits granted by the banks in the months of September and October, 1949, and how these credits were financed.

The development of savings, which to a large extent form the basis for the granting of long-term credits by certain of the

1) See monthly Report of the Bank Deutscher Länder for August, 1949, pages 65/66, and for September, 1949, page 18.

Medium- and Long-Term Credits granted by the Banks, and their Method of Financing Such Credits, in September and October, 1949.

The figures for September are shown in brackets.

(According to the monthly Bank Statistics for the West German Currency Area.)

(in millions of DM)

Banks	Credits Granted				
	Total	Medium and Long-term claims	Mortgage Debts, secured on Real Estate and otherwise	Communal Loans	Transitory Credits
All Banks reporting monthly:	271(159)	152(65)	69 (58)	7 (7)	43 (29)
of which:					
Credit Banks	16( 15)	10(11)	4 (3)	- (-)	2 (1)
Mortgage Banks, and institutions incorporated under Public Law and granting credits on real estate	40(42)	1(-3)	32 (30)	- (1)	7 (14)
Central Giro Institutions	41(30)	10( 8)	12 ( 9)	5 (5)	14 ( 8)
Savings Banks	42(30)	9(10)	21 (15)	2 (1)	10 (4)
Zentralkassen (Central offices of credit co-operatives)	1( 1)	1( 1)	- (-)	- (-)	- (-)
Credit Co-operatives	8( 5)	7( 4)	- (1)	- (-)	1 (-)
Other Banks	123(36)	114(34)	- (-)	- (-)	9 (2)



Banks	Borrowed Funds						
	Total	of which					Non-repayable monies out of counter-part funds
		Money and credits taken up for longer than 6 months	against bonds	against other Loan Documents	Transitory Credits		
All Banks reporting monthly:	223(32)	+336(10)	278 <sup>1)</sup> (32)	133 <sup>1)</sup> (58)	54	(32)	94 (-)
1. Credit Banks	28(18)	6(4)	5 (7)	13 (3)	4 (4)		- (-)
2. Mortgage Banks and Institutions incorporated under Public Law and granting credits on real estate	34(39)	-(-)	10 (10)	20 (20)	4 (9)		- (-)
3. Central Giro Institutions	55 (50)	7(-)	4 (15)	17 (15)	27 (20)		- (-)
4. Savings Banks	20 (8)	7(-1)	- (-)	3 (12)	10 (-3)		- (-)
5. Zentralkassen (Central offices of credit co-operatives)	- (-)	-1(-)	- (-)	1 (-)	- (-)		- (-)
6. Credit Co-operatives	4 (-3)	3(-3)	- (-)	1 (-)	- (-)		- (-)
7. Other Banks	82(120)	-358(10)	259 <sup>1)</sup> (-)	78 <sup>1)</sup> (8)	9 (2)		94 (-)

1) These movements arose from a book-transfer of DM 258 million to Bonds and DM 57 million to Other Loans.

banks, seems to have taken a more favourable turn in November than in the previous month, so far as can be judged from the weekly figures. These figures however only cover about 15 per cent of the banks and therefore do not provide a fully representative sample. At all events savings deposits at the 112 banks showed, during November, an excess of in-payments amounting to DM 13.0 million, against DM 11.4 million in October and DM 7.4 million in September. If this upward trend was in fact characteristic of all banks which received savings deposits, one could conclude that the total excess of in-payments into savings accounts in November amounted to some DM 75 to 80 million.

Up to the end of November, 1949 a total of DM 470 million of Counterpart Funds was released. Up to the same date DM 432.5 million of this amount had been used, while DM 37.5 million still stood at the disposal of the borrowers. The two tables on pages 18/19 show how the releases were distributed between the various branches of economic activity, and also the extent to which they were used. The greatest portion of the released Counterpart Funds, namely DM 184.2 million, was received by the coal-mining industry. The electricity supply industry in the area of the German Federal Republic received DM 110.1 million, the Berlin Electricity Works (BEWAG) received DM 44 million, other industries DM 33.9 million and agriculture DM 5.0 million. At the same time Counterpart Funds were used to a considerable extent for granting credits to the Federal Railways. For this purpose two different courses were adopted. In the French Occupation Zone a part of the releases, amounting to DM 40 million, was used for granting credits to the Management Association of the South-West German Railways, and of this sum DM 19.5 million had been used up to the end of November. On the other hand, in the former Combined Economic Area, the Federal Railways received a credit out of the GARIOA account up to a limit of DM 360 million to enable them to meet their liabilities for making DM payments in respect of commercial deliveries from abroad, particularly in respect of deliveries of railway waggons

The Release of Counterpart Funds <sup>1)</sup>  
(in millions of DM)

The amounts released were used through the agency of the  
Reconstruction Loan Corporation  
Financing Co.

For the following purposes:

Date	Amount	Source	Power (Electricity)	Coal	Other	Industries	Agriculture	Build- ing of Dwelling houses	BEWAG (Berlin)	Build- ing of Dwelling houses for Occupying Powers	S.W. Ger- man Rail- ways	Power (Electricity)	Gas	Water
1949 April 14	110	GARIOA	110											
May 6	135	GARIOA		135										
June 7	14	STEG								14				
June 17	20	STEG								20				
July 21	10	GARIOA			10									
Aug 2	10	GARIOA			10									
Sep 16	57	ERP												
Sep 26	20	GARIOA			15						40	14	1	2
Oct 8 <sup>2)</sup>	50	ERP		50			5							
Oct 14 <sup>2)</sup>	44	ERP							44					
Total Apr 14														
Nov 30	470		110	185	35		5	0	44	34	40	14	1	2

1) Excluding credits granted to the Federal Railways in the form of postponement of payments which they were due to make in DM into the Counterpart Funds. Total of such credits granted up to 30 Nov. 1949: DM 360 million.

2) This amount was made available on 16 Sep. 1949, but has not yet been released for employment.



and repairs to such waggons. Up to 30th November this credit had been used by the Federal Railways to the extent of DM 347.7 million. This amount ought properly to be added to the DM 432.5 million of funds which were passed on to borrowers, as mentioned above. Thus, by the end of November, 1949, in point of fact a total of DM 780.2 million of credits had been granted to German borrowers, out of Counterpart Funds.

Out of E.R.P. Counterpart Funds, up to the end of November only DM 151 million had been released: viz., DM 50 million for coal-mining, DM 44 million for the BEWAG, Berlin, and DM 57 million for the French Occupation Zone. In addition to this the E.C.A. in Washington agreed in principle to a request, made in July this year by the German Administration, for the release of DM 500 million of E.R.P. Funds. Out of this amount the O.E.E.C. in Paris has selected items amounting to DM 305 million and approved them individually. In addition to this the O.E.E.C. approved certain portions of the so-called Immediate

Programme, amounting to DM 273 million: this programme was drawn up at the beginning of this year by the Economic Administration and the Reconstruction Loan Corporation jointly. At the same time the O.E.E.C. approved DM 68 million for the French Occupation Zone and DM 95 million for West Berlin. Accordingly, in addition to the DM 151 million mentioned above, further requests for the release of E.R.P. Counterpart Funds to the extent of DM 741 million received the necessary approval of the Allied Authorities. This amount is made up as follows:-

millions of DM

1. Portions of the 600-million Programme:

Shipping	50	
Iron and Steel Industry	38	
Other Industries	150	
Agriculture	60	
Tramways	7	305

2. Portions of the old Immediate Programme:

Other Industries	50.5	
Building of Dwellings	81.5	
Agriculture	48	
Power	93	273

3. Other Releases:

French Occupation Zone	68	
West Berlin	95	163

TOTAL		<u>741</u> =====
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In order to carry out these programmes, which have now been approved, the unblocking of DM 600 million of E.R.P. Counterpart Funds was envisaged. This amount was to be distributed between the programmes amounting to a total of DM 741 million. This was to be achieved by granting a preference to those projects in the case of which it could be expected that the funds would receive the earliest application. The unblocking of the DM 600 million is to take place immediately after the initialling of the "Agreement for Economic Co-operation between the United States of America and the Federal Republic of Germany", under which the Federal Republic of Germany took over the Counterpart Funds and certain obligations connected with them. The initialling of this agreement occurred on 15th December. The economy of the country will accordingly soon receive very considerable resources for investment.

## Stock Exchange

On the Stock Exchange the marked upward tendency of share prices, which began about the beginning of September, and continued with only slight interruptions throughout September and October, persisted during the first three weeks of November. On the 22nd November share prices on the average stood about 140 per cent higher than at the beginning of September. Mining shares in many cases showed an even greater increase in price, while shares of electricity, machine building and motor companies lagged behind the average rise. On the 23rd November the long awaited decline set in, although the falls in prices did not in general proceed at the same speed as the rises which had earlier occurred. Consequently, at the end of November prices still stood appreciably higher than at the beginning of the month, and in the first few days of December there was even a remarkable rise again to be observed. Fixed-interest-bearing securities remained during November almost without alteration. Only a few issues of banks which have transferred their activities to Western Germany, as well as a few industrial bonds, rose slightly in price.

In considering the sharp rises in prices, however, one must not overlook the present narrowness of the market. As a result of the blocking of the Central Registries of Securities, only a small part of the total amount of existing securities can be bought and sold on Stock Exchanges. In addition, persons who have acquired securities, while claiming the right to certain taxation privileges, are prohibited from dealing in them for a period of three years. Altogether the turnover on all West German Stock Exchanges, at make-up prices, amounted in October about DM 20 million: of this sum roughly a tenth consisted of bonds. In comparison with the previous month the turnover on the Stock Exchanges during October more than doubled. In November there may even have been a still further increase in activity. Nevertheless the turnover, judged by former standards continues to remain small.

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

The finances of the Lands have shown at least one more favourable tendency: that is that the yield of taxes in October increased quite considerably, and it would seem that at least a part of this increase was maintained during the succeeding period. It is true that the yield of taxes in the first month of any quarter in the calendar year is always higher than in the other months, because the first month of each quarter contains the principal dates for payment of the Assessed Income Tax and the Corporation Tax. This October however the increase was particularly marked. In comparison with July, the last previous month with comparable dates for the payment of taxes, a full DM 80 million more were collected.

Yield of Taxes in the Area of the German Federal Republic  
(July and October are months with comparable tax maturity dates)

	July	August	September	October	
	in millions of DM				July = 100
1. Total of Taxes on Property and business	1,026.9	835.4	726.5	1,054.4	102.7
of which					
Wages Tax	173.8	175.6	177.4	181.0	104.1
Assessed Income Tax	285.2	163.5	135.7	274.1	96.1
Corporation Tax	177.8	97.1	85.3	179.8	101.1
Turnover Tax	317.6	323.3	271.7 <sup>3)</sup>	356.1	112.1
2. Consumption Taxes and Customs	307.9	367.4	343.0	361.4	117.4
3. Total Yield of Taxation	1,334.8	1,202.7 <sup>2)</sup>	1,069.5	1,415.8	106.1
Of which:					
Amount of Taxes to be paid over to Federal Government <sup>1)</sup>	31.5	72.5	89.0	57.5	182.5
5. Yield of Taxation remaining to the Lands	1,303.3	1,130.2	980.5	1,358.3	104.2

1) Transfers in cash of the proceeds of the Coffee Tax, Tea Tax and Customs. Such transfers are not identical with the yield of these taxes in the individual months.

2) Difference arises from rounding-off of figures.

3) Decline of DM 47.6 million is due to Export Bonus and Bonus to Exporters.

Source: Federal Ministry.



Among individual items of revenue the yield of Consumption Taxes and Customs showed a particularly noticeable increase. The principal share in this increase was taken by the Tobacco Tax, the Beer Tax and the Brandy Monopoly. The yield of the Turnover Tax also rose sharply. This shows clearly the close connection that exists between the increased yield of taxes and the rise in economic activity which has occurred since September, especially the greater demand for consumers' goods. One should furthermore observe that the yield of the Wages Tax rose to a greater extent than in the previous months, and the Corporation Tax brought in more than it did in July. It is therefore not only the total sums paid in wages and salaries which are increasing. In addition, business profits must have risen rather than fallen. The only tax which showed a lower yield in October as compared with July was the Assessed Income Tax. This probably reflects a delayed effect of the tax reliefs granted in April. These reliefs caused the yield of the Assessed Income Tax, during the second quarter of the financial year, to drop to about DM 106 million below the level of the previous quarter. The decline from July to October was however relatively small. One may accordingly conclude that the losses of revenue caused by the granting of the tax reliefs have now drawn to an end. Thus in future one may expect that, apart from any new changes in taxation, the tax yield will again be mainly determined by the level of business activities.

With regard to expenditure, it is unfortunately still the case that no data are published by the Lands. It is therefore not possible to get any clear picture of how the somewhat better revenue position has affected the position of the budgets as a whole. In the second quarter of the financial year it seems clear that the budgets of the Lands, taken as a whole, showed for the first time a considerable deficit: they did so at least if, in the first quarter of the year, one excludes the out-payments made for account of the previous financial year. In part, it is true, this deficit may only have been an accounting deficit, since in particular those funds which were made

available for investment purposes were not fully expended. Consequently the deposits of the Lands in the banking system remained relatively high, and their indebtedness, taken as a whole, scarcely showed any increase. There is no doubt that in October the cash position of the Lands, under the influence of their high revenues, showed a marked improvement. The deposits of the Lands in the Central Banking system, which at the end of August, it is true, made up only 33 per cent of the total bank deposits of the Lands, at all events rose from DM 420.6 million at the 30th September to DM 609.8 million at 31st October; and even on the 30th November, at DM 487.4 million, they still remained higher than at the end of September or the end of August.

Funds held by the Lands at Land Central Banks  
since the end of August 1949

(in millions of DM)

	Deposits according to Statistical Data <sup>1)</sup>	Amounts invested in Equalisation Claims	Total
1949			
August 31	192.6	242.5	435.1
September 30	164.8	255.8	420.6
October 31	305.7	304.1	609.8
November 30	216.6	270.8	487.4
Change on 30th November as compared with 31st August	+24.0	+28.3	+52.3

1) Including deposits of the Municipalities in Hamburg and Bremen.

The indebtedness of the Lands, at least up to the end of October - no later data are available - shows relatively little change. As against a further increase of their indebtedness vis-à-vis the Unemployment Insurance Fund and the Post Office there was a decrease of almost equal amount in their banking indebtedness. What the position will be in November and December

still remains to be seen.

At the same time the expenditure of the Lands at present shows a tendency to fall rather than to rise. Since November there has been no further burden on the Lands in respect of prefinancing of the Immediate Assistance. Furthermore, the investment expenditure of the Lands in the second half of the current accounting year will, according to the programmes, be considerably smaller than in the first half. It was during this half year that the investment expenditure reached a relatively high amount owing to the "push for investments" in the third quarter of the calendar year. Finally, Occupation Costs have for some time shown a tendency to decline, although it cannot yet be seen whether and to what extent this tendency will continue.

On the revenue side one must bear in mind that the seasonal high-point of the yield of taxes is usually reached in January. Even the reductions of Income Tax, amounting on the average to between 15 and 20 per cent, which are planned to take place with effect from 1st January, 1950, will produce little effect in the current financial year. This is because, in the case of the Wages Tax, they will be reflected for the first time in the yield for February, and in the case of the Assessed Income Tax for the first time, to any appreciable extent, in April 1950. In any case the increase in economic activity during the last few months has caused the yield of taxes to run at a somewhat higher level than during the summer months. It is accordingly quite possible that the deficit which appeared in the budgets of the Lands in the second quarter of the accounting year may grow considerably smaller or even disappear; that is, at least, if the Lands are not burdened with any obligation to incur further expenditure, and if economic activity does not need to be further reduced during the winter months.

At the same time there continue to be great differences between the positions of the individual Lands. This is plainly shown by the fact that some of them were obliged during the past few months to have recourse to borrowing, while other Lands were able to show increased holdings of cash. However, the

differences have grown somewhat smaller in comparison with the previous financial year. This is a consequence of the "Horizontal Financial Equalisation Scheme" which has been in force since April this year, and of the decline in Occupation Costs, which are particularly burdensome to those Lands that are financially weak. For the second half of the accounting year it has been decided to extend the effect of the Financial Equalisation Scheme between the Lands. The Lands which are to receive financial help will now include, besides Schleswig-Holstein, Lower Saxony, and Bavaria, also the Land of Hesse, which hitherto was one of the Lands extending help to the others, but whose financial position has been for some time growing rather difficult. With the setting up of the German Federal Republic the Land of Rhineland-Palatinate, the most heavily burdened Land in the French Zone, has also been included in the Financial Equalisation Scheme as one of the Lands which are to receive payments.

Previous and Present Basis of the Financial Equalisation Scheme (In millions of DM)

Lands	In the period from 1st April to 30th September, 1949		In the period from 1st October 1949 to 31st March, 1950.	
	To receive	To pay	To receive	To pay
North-Rhine-Westphalia	-	37.5	-	80
Lower Saxony	90	-	90	-
Schleswig-Holstein	110	-	110	-
Hamburg	-	98	-	108
Bavaria	50	-	45	-
Hesse	-	5	20	-
Württemberg-Baden	-	64.5	-	64.5
Bremen	-	45	-	55
Rhineland Palatinate	-	-	42.5	-
Baden	-	-	-	-
Württemberg-Hohenzollern	-	-	-	-
Total:	250	250	307.5	307.5

In spite of the Financial Equalisation Scheme, however, there will still be Lands whose budget closes with a deficit, and

other lands which continue to achieve surpluses.

If no deficit should occur during the next few months in the budgets of the Lands, taken as a whole, this will be in part merely due to the following circumstances. That is that, in the first place, certain liabilities of the Federal Republic to bear expenditure have been increased. In addition the Federal Republic, in the interests of the Land budgets, has renounced the right to draw, until the next accounting year, on the yield of certain taxes which it could claim according to the Basic Law. This means that in the budget of the Federal Republic there is likely to be a considerable deficit. At all events, in the transitional budget which has been drawn up for the period 1st October, 1949 to 31st March, 1950, no proper means have yet been provided to meet the prospective expenditure in connection with the Price Equalisation Scheme for imported food-stuffs (about DM 350 million net), for the extension of the assistance to Berlin by DM 23 million per month (making a total of DM 115 million in the period from November, 1949 to March, 1950<sup>1)</sup>), and for making good the expected failure of deliveries by the Federal Railways (DM 84 million). The situation will be difficult even if the yield of other revenues of the Federal Republic, especially for instance the Coffee Tax, the Berlin Emergency Offering and the Customs, should continue to turn out more favourably than was expected in the budget: receipts from the Berlin Emergency Offering ran on an average at about 28 million during the months August to October, and were thus about 30 per cent higher than was estimated in the budget. On the present facts a deficit of about DM 500 million can be expected. Even this figure does not take account of the liabilities which the Federal Republic may incur owing to the fact of its having taken over Counterpart Funds.

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1) The total amount of the financial assistance to Berlin is expected to be DM 60 million per month. An amount of DM 37 million per month was already carried in the budget of the Combined Economic Area, which was taken over by the Federal Republic. This expenditure was to be met by the allocation of the so called "Berlin Emergency Offering" (whose yield could be applied only to specified purposes, and which for the time being has produced about DM 28 million); in case of need other resources were also to be provided, in particular the contribution which, since the end of last year, has had to be made to the Combined Economic Area, and afterwards to the Federal Republic, out of the yield of the Coffee Tax.

Up to the present this budget situation has only in part been reflected in the cash position of the Federal Republic. This is because, in the first place, up to the end of November no payments had been made either for current subsidies on foodstuffs or for the extended assistance to Berlin. In addition, in November considerable repayments were made by the Office for Immediate Assistance; during October the payments by this institution were still being pre-financed to a considerable extent by the Federal Republic. Apart from these repayments, the Federal Republic's cash position was helped by the further circumstance that the demands of the Industrial Credit Bank continued to remain small: this institution was to have been entitled to a share of DM 50 million in the proceeds of the Combined Economic Area's Treasury Bill issue of August this year. Nevertheless, in view of the expenditure expected in December, the Treasury Bills from the August issue which should have been due for payment at the end of November were not repaid but prolonged. In addition Treasury Bills amounting to DM 34 million out of the new issue in October were placed on the market. Thus at the end of November the Federal Republic possessed relatively high cash resources, although it is true that these, all except for a small portion, represented only the proceeds of the two Treasury Bill issues mentioned above. Since then however the cash position of the Federal Republic has grown quite tight. This is a result of the increased payments to Berlin and payment of the amounts which still remained due in respect of subsidies on imported foodstuffs for the period from 1st July to 30th September.

The Immediate Assistance, which during September and October was financed solely out of resources of the Federal Republic and the Lands, has been supported since the beginning of November entirely by monies received out of the Immediate Assistance Levies. The Main Office for Immediate Assistance estimated the yield of these up to the end of November, for the Combined Economic Area, at DM 375 million. Of this amount, DM 310 million came from the first advance payment, due on 31st October 1949, on account of the levy on real estate and

industrial property, as well as from the first instalment of the levy on agricultural property and forests which had to be paid on 20th November. The remainder, amounting to DM 65 million, comes from the first instalment of the special levy on stock in trade, which has not yet been fully collected. It is thus possible to estimate the total proceeds of the first two payment dates, on which approximately one-third of the total payments required under the levies fell due, at about DM 400 to 450 million. This includes late payments which may still be expected to come in, and the proceeds from the French Zone, which are not yet known. If the remaining payment-dates were to produce roughly similar results, the total proceeds of the Immediate Assistance levies could be estimated at about DM 1.2 to 1.3 milliard. This estimate does not take account of the sums which are still being collected by the Lands under the Law for Securing Claims in connection with the Equalisation of Burdens. Even so the proceeds would fall considerably short of the original estimates. They would however be sufficient to cover the payments due up to the end of March, 1950 for Maintenance Assistance, amounting to about DM 550 to 600 million (viz., 7 monthly payments of about DM 80 million each), and the Household Furniture Assistance, amounting to about DM 180 million. This would leave about DM 400 to 500 million to be applied to Education Assistance and, in particular, to the productive projects.

With regard to the payments so far made, no exact figures are yet available. Up to the beginning of December a total amount of DM 265 million was paid out for Maintenance Assistance and Household Furniture Assistance, and DM 41 million were made available for Community Assistance (building of dwellings). In addition to this the Assistance Office at the end of November and beginning of December repaid in full the advance of DM 100 million which it had received from the Federal Republic.

In the budgets of the remaining public authorities there has been no substantial change during the last few months. Apparently the municipal budgets, taken as a whole, continue

Receipts and Expenditure in respect of Unemployment Insurance in the former Combined Economic Area in the Period from August to October, 1949.

(In millions of DM)

Period	Receipts		Expenditure		Excess of Receipts(+) or Expenditure(-)
	Total	Of which contributions	Total	Of which Benefit Payments	
August	113.4	82.8	112.4	98.9	+ 1.0
September	108.4	74.5	115.0	99.9	- 6.6
October	114.8	75.9	114.2	100.8	+ 0.6
Total	336.6	233.2	341.6	299.6	- 5.0

to be at least balanced. In those cases where there are deficits it would seem that these have been kept within quite narrow limits. It is true that according to the banking statistics the indebtedness of local authorities, including their medium-and long-term indebtedness, rose in September and October by DM 13 and 22 million respectively, these rises being somewhat larger than in the preceding months; but the total borrowings of DM 120 million are still small if one takes into account the fact that the local authorities on 31st August had bank balances amounting to a total of nearly DM 700 million. The position as regards Unemployment Insurance has so far grown only gradually worse. In October the amount required for benefits was only slightly higher than in August. However, in view of the renewed increase in unemployment, one must expect the expenditure under this head to rise appreciably. On the other hand, there is a continued increase in the claims of the Unemployment Insurance Fund on the Lands on account of advance payments in respect of unemployment relief. If the Lands were to make their payments



Public Deposits and Short-Term Indebtedness of Public Authorities  
(In millions of DM)

Deposits or Indebtedness	Aug. 31	Sept. 30	Oct. 31	Change in September as compared with August	Change in October as compared with September
Total of Public Deposits 1)	4,360.9 <sup>2)</sup>	4,138.1	4,331.2	-222.8	+193.1
Public Deposits, excluding Deposits of the Occupying Powers 3)	3,690.0	3,630.0	3,805.0	- 60.0	+175.0
Total Short-Term Indebtedness of Public Authorities towards the Banking System and on the Money Market 4)	1,167.8	1,161.7	1,154.1	- 6.1	- 7.6
of which:					
a) towards the Banking System	(570.7)	(580.6)	(571.4)	+ 9.9	- 9.2
b) on the Money Market	(597.1)	(581.1)	(582.7)	- 16.0	+ 1.6
Amount by which the Deposits of German Public Authorities exceed their Short-Term Indebtedness (2 minus 3)	2,522.2	2,468.3	2,650.9	- 53.9	+182.6

- 1) Including sums invested in Equalisation Claims
- 2) Figures from the Monthly Bank Statistics
- 3) Balances of the Occupying Powers at the commercial banks are estimated
- 4) Excluding indebtedness towards the Post Office and towards Public Authorities

punctually, it is probable that the Unemployment Insurance Fund, even to-day, would still be achieving surpluses. At all events in October, when payments by the Lands were somewhat higher than in the preceding months, the Unemployment Insurance Fund's account of receipts and expenditure again showed a small surplus of receipts, in spite of the fact that its expenditure for benefits was larger than in September.

Some light is thrown on the movements of money resulting from the budgets of public authorities, taken as a whole, by observing the movement of public deposits in the banking system and the short term indebtedness of public authorities, although it must be remembered that both these items include deposits and indebtedness of various public corporations other than public authorities. The table on page 32 shows that in September the net balances fell, but that in October they again rose, no doubt as a result of the heavy maturities of tax payments.

#### P r o d u c t i o n , S a l e s , E m p l o y m e n t

The production of industry during the last few weeks continued to show the same quite strongly marked signs of increased activity as have been observed since August this year. Even the seasonal tendencies, which were at least partly in the direction of reducing activity, seem on the whole as yet to have produced little or no effect. However, the comprehensive production figures of the Federal Ministry of Economics are as yet only available up to October. According to them the index of total industrial production rose from September to October by a full 1 per cent per working day, viz., from 92 to 93 per cent of the level in 1936. It thereby reached a level some 8 per cent higher than the low point of July, which was largely due to seasonal causes, and some 12 per cent above the monthly average for the first quarter of the year.

Industrial Production in the Area of the German  
Federal Republic  
since beginning of 1949  
Per working day: 1936 = 100

Industries	Monthly Averages			October	October (per head of popula- tion)
	First Quarter	Second Quarter	Third Quarter		
Total					
incl. Elec- tricity and Gas	83	88	89	93	75
excl. Elec- tricity and Gas	80	85	85	89	72
Industries pro- ducing Invest- ment Goods					
Total	77	82	83	86	69
Finished Goods	84	87	86	93	.
Raw Materials	66	75	78	76	61
Industries produc- ing Producers' Goods in general	103	103	106	109	88
Industries produc- ing Consumers' Goods	73	80	80	89	72

The greatest part of this increase continued to be due to the industries producing consumers' goods. Since the summer there has occurred a considerable increase in the turnover of retail trade. This has occurred not only as the result of the buying of winter clothing and shoes, but also of furniture, household utensils and the like. To that extent it is a consequence of the building of dwelling houses which was carried out during the past building season. Evidently wide

circles of the population have been saving up for such purchases ever since the spring, so that the present revival in retail trade can be regarded as being to some extent a reaction against the manner in which buyers previously held back, particularly during the spring months. This tendency has probably been in part still further increased by the fact that many people not only regard the decline in prices as having reached its end, but are even expecting gradual rises in prices. It is quite possible that expectations of this kind have caused a certain amount of Christmas buying to be carried out during the months of autumn. Shopkeepers were obliged to pass on this increased demand by final consumers very rapidly to the producers, because during the months of spring and summer they kept their replenishments of stock very low and even, in some cases, reduced the amount of stock which they were carrying. Some of them have now placed orders for quantities which exceed their current sales, because the change in the situation has made them inclined to increase their stocks. Indeed, under the pressure of competition, many of them have even been obliged to keep a more varied assortment of goods. This led to some industries, whose production was already near the limit of their capacity, having difficulties in meeting demands promptly, so that there were cases where the periods for delivery grew longer. As against this there have as yet been no difficulties over the supply of raw materials. In certain trades however the consumption of raw materials during the past few months has already been running quite considerably higher than the level prescribed for raw material imports during the current Marshall Plan year. Consequently, if demand were further to increase, these trades would increasingly feel the limits which are set to any expansion of production by the rather restricted position in which Western Germany finds itself from the point of view of foreign trade.

In the industries producing basic materials and production goods, production continued to rise in October, and probably also in November. In these industries however the increase in production was appreciably less than in the industries producing

## Consumption and Imports of Cotton

	<u>Tons</u>
Production of Cotton Yarn in the area of the German Federal Republic :	
September and October, 1949, monthly average	22,100
i.e., per year	<hr style="width: 100%; border: 0.5px solid black;"/> 265,200
Add:	
Loss during spinning, estimated at 7%	19,000
Consumption of raw material	approx. <hr style="width: 100%; border: 0.5px solid black;"/> 285,000
Deduct consumption of staple fibre (estimated proportion of admixture 25%)	"
Consumption of cotton	71,000
Planned imports of cotton in the second Marshall Plan year (1st July, 1949 to 30th June, 1950)	" 214,000
Deficiency in supplies to be expected if the rate of consumption of Sept/October 1949 continues	" 183,000
	" 31,000
	= about 15%

consumers' goods, and moreover it was not at all evenly spread. With the exception of certain branches of the machine building industry, it was characteristic that the greatest increase in production took place in those industries in which the boundary between production goods and consumers' goods is a fluid one. Examples of this are the industries constructing vehicles and the industries producing electrical equipment. A similar process took place in those industries which have the definite character of supplying their products to industries that produce consumers' goods. In fact it may be said that during the last few months "consumption activity" was more in evidence than

"investment activity". Even the effects of the relatively high level of activity in building ceased to be uniformly felt. Whereas production still increased, at least in October, in those branches which mainly supply articles for use in interior building, the production of ordinary building materials in October had already passed its highest point. The production of iron and steel in October again fell considerably, but in November showed once more a marked rise. Apart from a slight increase in exports and in deliveries to the Eastern Zone of Germany, this tendency is mainly due to the improvement shown in October by other orders, which however only in part reflect a development of consumption. In fact, <sup>the</sup> iron- and steel-working industries had so greatly reduced their stocks between the spring and the autumn that they were now obliged to carry out a certain amount of replenishments. It is quite difficult to form an idea of how demands will now develop. People are still complaining that demands from those firms which mainly work for the coal-mining industry and for the railways are small, the reason being that on both these lines of business the present difficulties in arranging finance have obliged producers to show great reserve both in making replacement purchases and in their programmes of new investment. However, it is a fact that the production of iron and steel is again being increased, and this shows that no general conclusions can be drawn from the experience of the producers mentioned above.

Good progress was made during the last few months as regards the supply of basic materials. The production of bituminous coal in November reached nearly 368,000 tons against 346,000 tons in October and 337,500 tons in September. This was a new record, although to a large extent it was due to seasonal causes. Production of lignite has also risen. In addition to this, for some months past foreign countries have not been taking the full quantities of coal to which they have a claim under the Moscow Agreement. In consequence, apart from a few special varieties, the supply of coal has so improved that coal rationing is to be to a large extent abolished.

as from January, 1950. Similarly the production of electric current continued in general to rise until a very recent date. The only places where there were any serious difficulties over electricity supply were in those parts of South Germany which depend to a large extent on water power. The reason for this was that the shortage of rain sharply reduced the ability of the hydro-electric plants to produce power. This meant that, in certain industries which use large quantities of current, production in these areas had to be cut down.

The amount of building in progress, as can be seen from the trend of employment, continued to increase until October, or at least to remain at a high level. The chief reason for this, in addition to the mild weather, was that in the course of this year a good deal of building was begun rather late. This is especially true of buildings which were erected in pursuance of the building programmes of certain public authorities. As a result of this the end of the "building season" was correspondingly postponed. In certain areas building activity was so great that, even in October, complaints were heard in some quarters about the shortage of skilled workers and of materials such as tiles for roofing. Nevertheless, in September, the last month for which data are available, the index of buildings produced for the whole area of the German Federal Republic reached only 98 per cent of the monthly average for 1936. Thus, it is true, it stood about 10 per cent higher than the general index of industrial production. Since however seasonal fluctuations in building are considerably greater than those in industrial production, this means that the amount of building, taken for the year as a whole, will probably remain even further behind the level of 1936 than will total industrial production. It must still be borne in mind that, if repaired dwellings are included, during the current year some 175,000 to 200,000 dwellings are likely to be completed. This number is not much less than in the years before the war, although in those years of course the buildings completed were almost exclusively new buildings. For the year 1950 the Federal Ministry for the Building of Dwellings is even aiming at a

new addition of about 250,000 dwellings.

Thus even in November the production of industry, to judge by all available indicators, still continued to rise. In some contrast with this is the fact that unemployment has recently again increased rather sharply. Thus, whereas during the months of August to October the total number of unemployed only increased by about 14,000 (of which only 2,000 in October), it rose in November by some 71,000. During this month the unemployment figures for men alone, which in the months August to October had fallen by more than 20,000, rose by about 61,000.

In looking at these figures one must remember that neither they nor the figures for unemployment during earlier months give a true picture of the course of employment. This is because the labour market in Western Germany is still in an abnormal state, inasmuch as the continued influx of refugees from the Eastern areas and the return of prisoners of war to their homes are constantly producing numbers of persons seeking employment far in excess of the normal increase of population. This fact had a particularly important influence on the situation in November. It is true that in that month the influx of refugees capable of work, at a figure of 20,000 to 25,000, was probably at a rather lower rate than during the summer, but the number of prisoners of war returning home rose very considerably. It is estimated by the competent authorities that this number amounted in November to considerably over 30,000, whereas during the summer months not more than 5,000 to 10,000 at most arrived. It is not at present possible, without the statistics of employment which will only become available at the end of the year, to see how far this additional labour force has yet been registered at the Labour Exchanges. There can however be no doubt that the growth in the unemployment figures in November was to a large extent due to the increased arrivals of new labour.

On the other hand it is quite plain that in certain forms of activity the capacity for employment has somewhat declined. It is clear that the decrease in employment is confined in the



main to outdoor occupations dependent on seasonal influences. It can in any case be seen from individual reports, and from the movements in the unemployment figures of the different regions, that the increase in unemployment is greatest in those areas where agriculture is of relatively great importance. Thus, of the total increase of 71,000 in November, nearly 50,000 was due to the Lands of Lower Saxony, Bavaria, and Schleswig-Holstein: these generally being, as it happens, together with Hesse, the first areas to receive refugees. As against this, North Rhine-Westphalia shows an increase of only 3,000 unemployed, and in Württemberg-Baden and Bremen unemployment actually declined. Up to the present the increase in unemployment is also quite small in comparison with earlier years. On the average of the years 1928 to 1935 the seasonal increase in unemployment used to begin by October, and by the end of November used to reach some 13 or 14 per cent: of this increase about 6 per cent would occur in October and about 7 per cent in November. In the present year, on the other hand, the increase in October was only 0.2 per cent and in November 5.4 per cent. It has further to be remembered that, for the reasons which have been outlined, the increase in unemployment this year is probably only to a minor extent due to a decline in the number of employed. In earlier years on the contrary unemployment reflected with considerable accuracy the level of employment. It is thus clear that on the whole up to now the seasonal tendencies towards contraction have been outweighed by the overriding tendency to an upswing in general economic activity.

#### P r i c e s

In the absence of adequate statistical data it continues to be difficult to form a clear picture of price movements. It does however seem that during the past few weeks, as before, no very large alterations have taken place. It is nevertheless worth remarking that, although the great majority of prices seem to have continued to remain stable, among those changes

which have occurred, rises in price are gradually beginning to outweigh the falls in price, even though these are still quite important. Thus for instance in Hesse, out of the whole number of the retail prices which were observed in November, 60 per cent remained the same, 17 per cent fell and 23 per cent rose. Thus the percentage of the prices which rose in November even exceeded the percentage of those which rose in September, the month in which devaluation occurred.

Movement of Retail Prices in Hesse

Month	Out of the observed (regular) prices the following percentages		
	Rose	Fell	Remained unchanged
1949			
September	18	26	56
October	13	27	60
November	23	17	60

The most important reason for the price rises is beyond doubt the increase in the cost of certain imports. The level of world market prices, expressed in dollars, did not fall to anything like the same extent as that to which the pound was devalued. In fact in some cases dollar prices rose, and prices in the Sterling Area were increased to an extent which more than made up for the devaluation of the pound. Consequently, in the case of the principal imported raw materials, the change in the conversion rate of the DM vis-à-vis the dollar produced its full effect in pushing prices upwards. Further, in consequence of the movement of prices in the

Sterling Area, even the slight upward revaluation of the DM vis-à-vis the pound brought scarcely any relief so far as raw materials are concerned. In fact the index of prices for basic materials rose again in October for the first time for some months, and this was in the main the consequence of price rises such as those mentioned above.

World Market Prices of Important Raw Materials,  
in Dollars

Commodity	Beginning of Sep. 1949	End of Nov. 1949	Increase (+) or Decrease (-), in per cent
Wheat (Chicago: \$ per bushel)	2.02	2.15	+ 6.7
Maize (Chicago: \$ per bushel)	1.33	1.35	+ 1.3
Coffee (New York: cents per lb)	25.05	42.02	+ 79.7
Sugar (New York: cents per lb)	5.40	5.30	- 1.9
Hogs (Chicago: cents per lb)	20.75-21.50	15.50	- 26.6
Cotton (New Orleans: cents per lb)	30.25	29.60	- 2.2
Hides (Chicago: cents per lb)	19.91	20.80-85	+ 4.6
Rubber (New York: cents per lb)	17.50	16.75	- 4.3
Copper (New York: cents per lb)	17.375	17.50	+ 0.7
Tin (New York: cents per lb)	103.00	85.00	- 17.5
Lead (New York: cents per lb)	15.125	12.00	- 20.7

At the same time there are unmistakable signs that in many quarters efforts are being made, so far as possible, to counteract the effect of the rise in costs of raw materials by reducing costs in the processing industries and while the goods are passing through the various stages of trade. This is because business people are aware that the purchasing power of consumers is now relatively low, and that if prices were raised this would in many cases lead to a limitation of demand. An example of this is to be seen in the textile industry. Here the associations of producers recently came to an agreement under which the increased costs of imported raw materials caused by the alteration in the rate of exchange, as well as increases in costs due to other causes, must be borne in varying percentages at different stages of the processing industries and of trade, and must not be passed on to the final consumer. However, the success of efforts such as these largely depends on the proportion of the price of the final product which is due to raw materials, as well as on the general market situation. One accordingly finds in all cases where the proportion of material in the product is relatively high, or where demand is faced by a supply which is only capable of slight expansion (for instance in the better qualities of shoes and in the finer textiles), that the tendency for prices to rise is gradually becoming stronger and more frequent.

From another point of view imports in some cases are exerting a certain downward pressure on the price level. This is especially true of the strong influx of imports which was let loose by the "Liberalising of Intra-European Trade". This influx brought in large quantities of goods, the prices of which were in some cases much lower in their countries of origin than in Germany. Even in other cases similar goods produced inside Germany were exposed to powerful competition. Apart from foodstuffs for general and luxury consumption this is especially true in the case of a whole series of articles of electrical equipment, lubricants, iron, steel, tin and metal goods, fibre-wood, and even, in individual cases, of machinery. In fact certain industries will have to undertake a good deal

of rationalisation if they are to keep going without the protection which import quotas previously gave them against foreign competition; There can of course be no doubt that the compulsion to make these adjustments will in the long run be a thoroughly good thing for the German economy.

Further tasks of adjustment are becoming necessary as the artificially low prices which have survived from the period of price controls are progressively got rid of. The character of these controlled prices as a foreign body in the apparatus of market control is becoming increasingly apparent. Furthermore, in so far as the controlled prices depend on subsidies from public funds, they give rise to an inflation of public budgets which is of highly doubtful desirability. The result of abolishing the remains of price control will in the first place be an increase in the prices of various basic materials. Steel prices for instance still stand at a considerably lower level than the prices of most finished goods as compared with the period before the war; but already, as the result of long negotiations between the iron-producing and iron-using industries, they have again been slightly increased as from December. This followed a first increase, as compared with the previous controlled price, which took place in April, 1948. As the result of the change in December the basic price for bar steel was fixed at DM 225 per ton against the previous price of DM 212.50 per ton. If one takes into account the simultaneous revision of the scale of supplementary "prices for quality", the additional amount received by steel producers will, it is true, be only DM 7 per ton instead of the DM 18.50 for which they asked. There are however now to be similar price changes for sectional steel and rolled wire. In addition to this, as from the beginning of the New Year, the prices of fuel oils are to be raised. According to the proposals of the Federal Government, on which the Parliament and Bundesrat still have to decide, the price is to be raised by 20 pfennigs to a level of 60 pfennigs per litre of petrol, and by 13 pfennigs to a level of 45 pfennigs per kilogramme of Diesel oil - these rates not however to apply to coastal shipping. The new prices are to be regarded as

preparatory to a gradual lifting of the control of prices for fuel oil. Besides this, in accordance with the agreement reached in connection with the new fixing of the conversion rate for the DM, the question of coal prices is now being examined. The prices inside Germany, as is well known, still stand at a lower level than world market prices, which are declining, and in some cases they even stand at a level below the cost of production. Furthermore, very lively discussions are taking place about the raising of rents, which, as is known, are still held down almost to the pre-war level: the object is to improve the prospect of remuneration for persons who undertake the building of new dwellings, and in this way to attract private capital once more to the construction of dwelling-houses.

When all is said and done, however, the most important and also the most difficult problem which arises in connection with the re-establishment of more natural market conditions is the regulation of grain prices. It is notorious that German grain prices are at present far below prices on the world market. Not only that, but in addition, if measured in the light of the relationships which existed before the war, they have lagged far behind the rise in price of other agricultural products and in the prices of the articles which farmers use in the course of production.

There is no doubt that these maladjustments give rise in many cases to great inconvenience. In order to maintain the relatively low inland grain prices without a complicated apparatus of controls, the price of grain imported from abroad is forced down to the inland level by means of costly subsidies. These subsidies represent a heavy burden for the budgets of the public authorities. At the same time the low prices prevent German farmers from producing more grain, or from giving less grain as food to their animals. They also cause German consumers to be slow in turning away from the consumption of grain, and of animal products resulting from the use of grain as fodder, to the consumption of other foods. If these things, which are at present prevented, were to happen, then our need to import grain, which at present undoubtedly makes the greatest hole in our

Price Relationships of German Agricultural Products

According to the calculations of the Institute  
for Agricultural Market Research,

(Brunswick - Völkenrode)

I. Prices of Grain in Germany and on the  
World Market

Type of Grain, and Price	Import Price in Sept/ Oct. 1949, c.i.f. at North Sea Port		'Correspond- ing German "Equilibrium Price"	Actual German Price to Producer
	In Dollars per Ton	In DM per Ton at the rate of 23.8 cents per DM		
Wheat				
Contract Price <sup>1)</sup>	100	420	430	} 260
Prices under Wheat Agreement 1949/50				
Maximum	80	336	346	
Minimum	69	290	300	
Rye				
Contract Price <sup>1)</sup>	80	336	356	} 246
Market Price				
Average	70	294	314	
Minimum	65	273	293	
Fodder Maize				
Contract Price <sup>1)</sup>	75	315	345	} 210
Market Price				
Average	65	273	303	
Minimum	56	235	265	

1) These are the prices which serve as basis for the purchases  
of the U.S. Military Government in Germany.

## II. Present Price Relationship in Germany

Commodities	1938/39 = 100
All Agricultural Produce	164 <sup>2)</sup>
Articles used by Farmers in Production 1)	169 <sup>2)</sup>
Wheat	125
Rye	127
Fodder Barley	124
Fodder Oats	125
Edible Potatoes	192
Sugar Beet	145
Edible Peas	201
Rape	281
Milk	177
Oxen	177
Hogs	221
Calves	126
Sheep	184

1) 1938 = 100. Calculations of the Economic Administration  
("V.f.W.")

2) As at May 1949

of  
dollar balance/payments, would by degrees fall. There is therefore general agreement that a rise in grain prices would benefit not only the budgets of our public authorities but also our balance of payments, which would then stand a better chance of balancing. It would not of course be possible to raise the prices up to the level of the contract prices which at present govern the cost of imports financed by foreign aid. But there is no need for this, because Germany has been given the prospect of being allowed to adhere to the World Wheat Agreement, and this would bring the advantage of much lower import prices. In addition the tendency of prices on the international grain markets seems likely on a longer view to be downward. It can therefore be assumed that subsidies for equalising the price of grain on the inland market and the world market would become superfluous



if the inland prices were to rise by only a fraction of the gap which at present separates the two.

Of course even that would give rise to some quite complicated problems. In particular the competent authorities quote the following as a reason against any early raising of grain prices. They point out that an increase in price before the end of the crop year would damage those farmers who have already delivered the quantities of grain required by the regulations. In this connection it should be pointed out that in point of fact, up to 31st October, 63 per cent of the required deliveries had already been effected. In addition to this it would be quite wrong to underestimate the burdensome effect of an increase of grain prices from the point of view of social policy. It is true that it has been calculated that, if the price of wheat was raised to DM 320 per ton and the price of rye to DM 280 per ton, then the price of bread (even after taking into account the simultaneous increase in those elements of its cost which depend on prices) would rise on the average by only 12.5 per cent. This would mean that the expenditure per head per month on bread foodstuffs and flour would only rise by 75 pfennigs. This amount may look small, but it does mean as much as DM 3 per month for a family consisting of four persons. If this happened, then for people in certain income groups, especially for instance persons in receipt of maintenance benefit, old age or disability pensions and the like, some form of compensation would be certainly necessary. Thus any revision of the scale of grain prices, especially if an increase of rents took place at the same time, might well lead to a further increase of the nominal costs in our economy, these costs being already on the upgrade as a result of the revision of other price-scales.

Against this it can be said that, in the interests of our balance of payments, the prices of any of our goods which may be exported must in any case be kept low. Our economy must therefore not be allowed to pass on any increased costs automatically in the form of higher prices for its products.

Steps must be taken to ensure that, if any of the elements which determine costs rise to a higher level, then this must be counteracted by rationalising production, as well as by reducing the price margins which arise in the various stages of processing and of trade.

The rightness of this conclusion is shown by a glance at the latest developments in our foreign trade and payments.

### F o r e i g n   T r a d e   a n d   P a y m e n t s

The characteristic feature of our foreign trade during the past few months was a large rise in imports, while at the same time the movement of our exports was very unsatisfactory. After the Currency Reform our exports showed a very desirable increase, but, as will be remembered, in June this year the rising tendency gave way to a state of stagnation. In October there is now a definite decline to be observed. There are still no complete data for the French Zone, but in the Combined Economic Area the exports, expressed in DM, have gone back again to about the level of the third quarter of the year: and they have done this in spite of the higher rate of conversion which has been applied to the DM. The dollar proceeds stood at \$ 75 million against \$ 93 million in September, thus showing a decline of no less than 20 per cent. This decline was attributable, to the extent of about three-fifths, to the alteration in the rate for conversion of the DM, i.e., to the reduction of dollar prices: but, to the extent of about two-fifths, it was also due to a decline in the volume of exports. This development caused no surprise. It was partly explained by the fact that, during the ten days which elapsed between the devaluation of the British pound and the fixing of the new rate for the DM, no contracts could be concluded. Exporters were obliged, in view of the changed situation on world markets, to wait for a new basis of calculation before they could begin to trade again. Our foreign competitors of course made good use of this temporary handicap suffered by German exports. Nevertheless it may well be that the poor results shown by our exports in October may be only a passing phenomenon.

Foreign Trade of the Combined  
Economic Area

(in millions of DM)

	I m p o r t s					
	monthly average					
	2nd half 1948	Jan/ March 1949	April/ June 1949	July/ Sep 1949	September 1949	October 1949
Foodstuffs	179.6	180.3	270.7	270.7	264.6	464.2
Industrial Products	152.6	231.9	333.9	324.4	279.0	304.4
of which:						
raw-materials	82.7	125.6	174.7	155.3	146.5	166.4
semi-finish- ed goods	51.2	66.6	86.9	86.0	79.2	81.7
finished goods	18.7	39.7	72.3	83.1	53.3	56.3
of which:						
for fur- ther pro- cessing	10.9	21.8	28.2	30.7	26.7	23.7
finally finished	7.8	17.9	44.1	52.4	26.6	32.6
Total	332.2	412.2	604.6	595.1	543.6	768.6
	E x p o r t s					
	monthly average					
	2nd half 1948	Jan/ March 1949	April/ June 1949	July/ Sep 1949	September 1949	October 1949
Foodstuffs	3.5	9.8	3.7	2.2	2.0	8.0
Industrial Products	218.5	270.1	301.9	313.7	333.2	307.7
of which:						
raw-materials	54.4	56.6	60.6	68.2	69.3	67.0
semi-finish- ed goods	66.8	94.6	96.9	84.5	92.6	73.7
finished goods	97.3	118.9	144.4	161.0	171.3	167.0
of which:						
for fur- ther pro- cessing	51.1	60.5	64.4	71.8	70.9	58.8
finally finished	46.2	58.4	80.0	89.2	100.4	108.2
Total	222.0	279.9	305.6	315.9	335.2	315.7

However that may be, the developments of the last few months again show with especial clarity the size of the export problem which Western Germany still has to solve if it is to succeed by its own efforts in reaching equilibrium of its balance of payments. The results of the export trade during the first four months of the second Marshall Plan year, i.e. from July to October, 1949, show that the Combined Economic Area is exporting at an annual rate of about \$ 1 milliard. To this should be added some \$ 100 million for the exports of the French Zone and a similar amount for invisible exports. Against these \$ 1.2 milliard however, there are imports at a yearly rate of about \$ 2.3 milliard. Thus nearly half our imports still depend on foreign help. If examined in detail, the position gives even more food for thought than would appear from these overall figures. This is because, as will be seen from the following table, a very large part of German exports goes to countries with a "soft" currency. In such countries the pressure of international competition on prices has only a limited effect. At the same time our exports to "hard" currency countries still make up considerably less than half the amount of those of our imports which are really important for the existence of Western Germany and which we obtain from these countries. Moreover, for a considerable time to come, we shall have to continue drawing imports to a large extent from these "hard" currency countries.

In the limitation of our exports no small part is played by the strong power of suction exercised by the internal market. To a great extent this follows naturally from the fact that the level of our production still remains low in comparison with the period before the war. Even in October, the highest point so far reached, the production of industry per head of population reached only 75 per cent of the level of 1936. Another reason is the high level of our requirements for reconstruction. The "Export quota", that is to say the proportion which exports bear to total production, has accordingly reached only a fraction of the pre-war level in most branches of industry. The only exception to this is the coal mining industry. Accordingly, as the volume of foreign help declines, it will more and more

Trade Balance of the Combined Economic Area  
by Countries and Groups of Countries  
Monthly Average in millions of dollars

Countries	Monthly Average 1949				Monthly average 1949				October 1949			
	Im-ports	Ex-ports	Bal-ance	Total of both	Im-ports	Ex-ports	Bal-ance	Total of both	Im-ports	Ex-ports	Bal-ance	Total of both
USA	61.7	4.0	-57.7	65.7	61.2	2.7	-58.5	63.9	80.2	2.5	-77.7	82.7
Canada	1.8	0.5	-1.3	2.3	1.5	0.5	-1.0	2.0	2.5	0.4	-2.1	2.9
Latin America	9.5	1.9	-7.6	11.4	13.3	2.9	-10.4	16.2	17.4	3.5	-13.9	20.9
Sterling Countries	19.5	12.1	-7.4	31.6	21.2	15.7	-5.5	36.9	16.8	12.2	-4.6	29.0
ERP Countries excluding Sterling Area	49.6	59.2	+9.6	108.8	61.6	61.3	-0.3	122.9	45.3	46.7	+1.4	92.0
of which:												
Countries with Liberalized Trade Agreements (status as at the beginning of December 1949)	33.9	37.8	+3.9	71.7	47.1	38.2	-8.9	85.3	31.4	28.6	-2.8	60.0
Belgium-Luxembourg	10.3	10.3	0.0	20.6	18.3	8.7	-9.6	27.0	7.2	7.7	+0.5	14.9
Netherlands	7.0	9.3	+2.3	16.3	8.9	9.0	+0.1	17.9	10.7	5.6	-5.1	16.3
Denmark	2.8	1.5	-1.3	4.3	2.8	0.9	-1.9	3.7	2.2	0.9	-1.2	3.1
Norway	3.6	1.6	-2.0	5.2	1.4	1.4	0.0	2.8	0.9	1.9	+1.0	2.8
Sweden	5.7	5.1	-0.6	10.8	10.1	7.5	-2.6	17.6	5.4	2.5	-2.9	7.9
Austria	1.2	5.1	+3.9	6.3	1.0	5.4	+4.4	6.4	0.6	4.8	+4.2	5.4
Switzerland	3.3	4.9	+1.6	8.2	4.6	5.3	+0.7	9.9	4.4	5.2	+0.8	9.6
Other Countries	15.7	21.4	+5.7	37.1	14.5	23.1	+8.6	37.6	13.9	18.1	+4.2	32.0
France	4.2	14.9	+10.7	19.1	5.8	14.6	+8.8	20.4	6.4	11.7	+5.3	18.1
Greece	0.8	1.2	+0.4	2.0	0.5	1.1	+0.6	1.6	0.2	0.7	+0.5	0.9
Italy	7.7	4.2	-3.5	11.9	6.2	5.8	-0.4	12.0	3.8	4.5	+0.7	8.3
Portugal	1.5	0.2	-1.3	1.7	0.9	0.3	-0.6	1.2	1.1	0.5	-0.6	1.6
Turkey	1.5	0.9	-0.6	2.4	1.1	1.3	+0.2	2.4	2.4	0.7	-1.7	3.1
Eastern Europe	18.3	3.1	-5.1	11.3	8.3	4.3	-1.8	19.8	12.3	7.9	-5.6	19.6
Other Countries	160.8	82.9	-77.9	243.7	173.9	90.4	-83.5	264.3	184.1	74.6	-109.5	258.7

## Export Quotas<sup>1)</sup> of the German Industry

	1936 <sup>2)</sup>	Second Quarter 1949 <sup>3)</sup>
All industry, except Building, Gas and Electricity Supply	8	5.5
All Industry, except Building, Gas and Electricity Supply and production of Bituminous Coal, Coke and Briquettes	8	4
Bituminous Coal production, including Coke and Briquettes	15	28
Salt Mines and Salt Pans	31	15
Machine-building	15	8
Production of Electrical Equipment	13	3
High-grade Mechanical and Optical Industry	28	12
Glass	18	3
Chemicals	16	5
Textiles	7	6

- 1) Exports as a percentage of total sales
- 2) For the area of the former German Reich
- 3) For the Combined Economic Area, excluding sales to Occupying Powers.

become one of the most difficult tasks of German economic policy to find the right balance between the needs of the internal market and the need for exports.

Imports in October showed a quite violent upward movement. There are as yet no complete figures for the French Zone, but in the area of the former Combined Economic Area the value of imports, expressed in DM, was 41 per cent higher than in September. This rise in imports was due, in part, only to the new rate for the DM making imports dearer. This factor did exert a considerable influence, especially since more than half our imports came from countries whose currencies were not devalued.

But, even if measured by volume, imports rose by almost a quarter. The increase in volume was due in great part to GARIOA imports, whereas the Marshall Plan imports, as can be seen from the table on page 55, only reached about the same level as in the previous month measured in terms of dollars.

In November the rise in imports has evidently continued. At all events the balances held by the Bank Deutscher Länder at foreign banks fell from DM 1,070.3 million on 31st October to DM 986.6 million on 30th November, and this certainly points to a further increase in the deficit on the balance of trade. Furthermore, to judge by the way in which credits are being opened, and, in cases where credits are not used, orders for payment for imports are coming in, we must expect a quite considerable increase in commercial imports to continue during the next few months. The value of the import credits opened by the Bank deutscher Länder in November, excluding credits for E.C.A. imports, amounted to \$79.4 million against \$64.7 million in October and \$60.1 million in September. These figures are arrived at after uniformly applying the new conversion rates. The rise in the figures took place although since the middle of October they have included few or no Dutch credits, because these are now opened direct by the Foreign Trade Banks to the debit of the collection accounts which they keep with Dutch banks. At the same time it must be remarked that there has been a sharp upward movement in the granting of import permits, which are a preliminary to the opening of credits; in the case of these import permits, however, as well as in the case of the credits which are being opened and the payment orders which are coming in, the increase is due very largely to imports from E.R.P. countries.

As is probably well known, what has given rise to all these movements is the "liberalising of European trade" on which the council of the C.E.E.C. decided in July. Since then this scheme has led to far-reaching reductions in the import quotas previously in force, such reductions being partly of a bilateral and partly of a unilateral character. From the beginning Germany has played a full part in putting into execution this high-minded

State of Delivery Programmes for ECA Imports  
by the Federal Republic of Germany as at 31st Oct., 1949

(in millions of Dollars)

Delivery programmes so far drawn up for the first and  
second years of ECA aid 1)

	Combined Econ. Area				French Zone				Total			
	Food stuffs	Indus- trial Pro- ducts	Freight	Total	Food stuffs	Indus- trial Pro- ducts	Freight	Total	Food stuffs	Indus- trial Pro- ducts	Freight	Total
Delivery Programmes	208.2	320.8	50.0	579.0	67.7	45.1	15.5	128.3	275.9	365.9	65.5	707.3
of which de- livered:	190.8	196.6	30.4	417.8	61.3	24.6	11.0	96.9	252.1	221.2	41.4	514.7
not yet de- livered:	17.4	124.2	19.6	161.2	6.4	20.5	4.5	31.4	23.8	144.7	24.1	192.6
of which con- tracted, but not yet deliv- ered:	9.3	43.2	3.5	56.0	4.9	13.2	-	18.1	14.2	56.4	3.5	74.1
approved, but not yet con- tracted for:	-	75.6	19.2	94.8	1.5	7.3	4.5	13.3	1.5	82.9	23.7	108.1
not yet approv- ed:	8.1	5.4	3.1	16.6	-	-	-	-	8.1	5.4	3.1	16.6

1) The ECA allocation for the second ERP year is as yet only partly programmed.



concept, the object of which is to bring about a closer economic integration of the European countries taking part in the Marshall Plan. In addition Germany, in spite of the fact that its position is in many respects weaker than that of other countries, has cut down its previously existing restrictive import quotas to an extent which has given it a place in the front rank of the liberalising movement. Up to the beginning of December bilateral liberalising agreements had been concluded with seven European countries, namely Switzerland, Holland, Belgium-Luxemburg, Austria, Norway, Sweden and Denmark. These agreements removed all quota restrictions for an important part of the imports which had been coming from these countries. More than this, on the 4th November the unilateral free list was put into force. This meant that for about 350 categories of goods, which in the first half of 1949 accounted for some 35 per cent of Western Germany's imports from O.E.E.C. countries, imports from the European E.R.P. countries were entirely freed from restriction. It will be remembered that the O.E.E.C. put forward the request that by 15th December, 1949 at least 50 per cent of the imports coming from E.R.P. countries in each of the three categories raw materials, finished goods and foodstuffs should be freed from restriction. It can be assumed that the effect of the unilateral list and the bilateral liberalising agreements mentioned above has been that already in November Germany had met this requirement of the O.E.E.C. both for raw materials and for finished goods, although it has perhaps not yet done so for foodstuffs.

The effects of this liberalisation on the demands by German importers were enormous. The growth in the amount of credits opened and of orders for payment has already been described above. To complete the picture it may be further mentioned that the amount of import permits, which were in fact granted in pursuance of the bilateral trade agreements and the unilateral free list in the interval between the time when the agreements and the free list became effective and the 7th December, reached a monthly average amounting to several times the previous imports. For instance the licenses granted in pursuance of the agreement

Balance of Payments of Western Germany  
vis-à-vis Countries participating in the Intra-  
European Payments Scheme <sup>x)</sup>

Monthly balances for payment in the  
Clearing at the Bank for International  
Settlements

(In millions of Dollars)

Monthly Averages	Vis-à-vis 6 countries to which Germany has granted Drawing Rights 1)	Vis-à-vis 3 countries in which Germany (or has received Drawing Rights) for meet- ing current settlements 2)	Vis-à-vis 4 countries with which a "balanced account" is expect- ed	Vis-à-vis all countries taking part in the Intra- European Payments Scheme 4)
Actual Balances for Payment				
1948 4th Quarter	+ 5.6	+ 3.4	- 4.2	+ 4.8
1949 1st "	+ 19.6	- 1.4	- 2.8	+ 15.3
2nd "	+ 19.2	+ 0.2	- 13.5	+ 5.9
3rd "	+ 10.9	+ 9.2	- 7.6	+ 12.5
October	+ 0.1	- 8.9	- 2.5	- 11.3
Prescribed Balance for Payment in 1949/50				
Total	+ 163.9	- 90.1	± 0	+ 73.8
Monthly Average	+ 13.7	- 7.5	± 0	+ 6.1

x) Including non-participating countries in the Sterling Area

- 1) Austria, France, Greece, Netherlands, Norway, Turkey
- 2) Sterling Area, Sweden, Denmark
- 3) Belgium-Luxemburg, Italy, Portugal, Switzerland
- 4) O.E.E.C. countries plus non-participating countries in the Sterling Area

with Holland reached, in barely two-and-a-half months, about six times the total amount of the imports from Holland in the third quarter of 1949.

The exports of Western Germany to the E.R.P. countries have not as yet been affected to anything like the same extent by the liberalisation of trade. This is partly because the other countries have not yet gone so far as we have in the direction of liberalisation, and partly because in those countries the vacuum which requires filling by imports is a good deal weaker than in Germany. In consequence of this, the structure of Western Germany's balance of payments with these countries is going through a process of complete transformation. As will be seen from the table on page 57, Western Germany's balance of payments with the other O.E.E.C. countries in the first quarter of 1949 showed a surplus of \$15.3 million. This was in part in accordance with the traditional structure of trade relations between Germany and Western Europe. To a certain extent of course it was also due to the go-slow import policy followed by J.E.I.A., which was only abandoned in the spring of 1949, and to J.E.I.A.'s complicated import procedure, which was also only changed in March. The change in Germany's import policy had already appreciably altered the balance of payments position in the third quarter of 1949; but even in this period, as our table shows, there was still a surplus. In October, the first month after the conclusion of bilateral liberalising agreements, the position was different. In that month the Clearing for payments with O.E.E.C. countries which is conducted by the Bank for International Settlements showed a deficit of \$11.3 million. In view of the development in the granting of import licenses and in the opening of credits which has been described above, it can be assumed that this deficit has in the meantime increased and is perhaps still rising further.

Thus it would seem that, in promoting the cause of liberalising European trade, Germany has undoubtedly exposed itself to serious consequences. It is already known that in many lines of business, including some which by their nature ought to be given a certain amount of protection because they are still in

the stage of initial development, difficulties have been caused by the influx of foreign goods, which are often sold at a lower price. But quite apart from such consequences the liberalising policy, in a country which is financially so weak as Germany is, brings with it serious risks from the foreign exchange point of view. As will be seen from the table on page 57, the Intra-European Payments Scheme for 1949/50 has already been rendered to a great extent out of date by the recent developments in Western Germany's balance of payments with the other participating countries. This is because Germany, which according to the Scheme ought to have been a "creditor" country, has been to some extent converted into a "debtor" country. Even vis-à-vis the six countries to which Germany, according to the Payments Scheme for 1949/50, ought to have granted Drawing Rights, the German credit balance in October appreciably declined; vis-à-vis certain individual countries there was even an import surplus. The result of this has been that only some of the debtor countries have been able to make use of the Drawing Rights which Germany had to grant according to the Payments Scheme. In one case indeed a West German debtor balance towards a country which, according to the Intra European Payments Scheme, had Drawing Rights in Germany, was settled by an automatic compensation against a German balance which existed in another country. This failure to use Drawing Rights accorded by Western Germany might have as a consequence that Western Germany would lose a part of the help it could otherwise receive under the Marshall Plan, namely the so-called Conditional Aid. This is because Conditional Aid is only granted to the extent to which the Drawing Rights accorded by Western Germany are in fact used by the other participating countries. Should the change in the position of Western Germany's balance of payments vis-à-vis the O.E.E.C. countries prove to be a lasting one, it may be necessary to look for some way of making good this loss for Western Germany. It might be that the only way to do this would be by making use of the revision clause which was inserted in the Intra-European Payments Agreement of 7th September, 1949 with express reference to the possible effects of liberalisation. It might be done by reducing the amount of the Drawing Rights to be

accorded by Western Germany, whereby conditional Marshall Plan Aid might be converted into unconditional aid.

The worsening of Western Germany's balance of payments with certain individual countries may entail yet another danger. This is that Western Germany might thereby incur obligations to make payments in hard currencies. This could happen in so far as the existing Payment Agreements provide that, when the balance passes a certain limit, the amount in excess of that limit must be settled in gold or dollars. It is true that in this respect the bilateral agreements which have been recently concluded have brought appreciable relief. In some cases settlement in cash of the "Spitze" of the trade balance has been entirely renounced, or postponed for a certain period. In other cases the upper limit of the balance, the so called "swing", has been raised. As will be seen, this represents no solution of the problem, but merely puts it off. Once the new, increased balance is used up, the question of cash payments, that is to say the use of "hard" currencies, is likely to become acute. The only way to get over this danger without departing from the principle of liberalisation will be if Western Germany's trading partners can by degrees be got to free their trade to a greater extent, so that their imports from Germany may increase sufficiently to counter-balance at least a part of their surplus of exports to Germany. If this should happen, then Western Germany in the long run would have no choice except to make use of the escape clause contained in the Paris Agreements. According to this clause every country is at liberty to confine its liberalisation of trade within such limits as it can bear vis-à-vis each of the other participating countries: i.e. from the point of view of payments, without incurring a loss of dollars. When the unilateral free list was brought into force a reserve was expressly made in this connection. It was then stated that the granting of import permits, which became automatic under the free list, would be suspended, in case there were a threat of losses of dollars, in respect of any country if negotiations with that country or a discussion of the matter at the O.E.E.C. should have led to no positive result. Such a step however would amount to a partial

cancellation of the measures which have been taken in the interests of the economic integration of Europe, and Germany would therefore only consider taking any such step in a case of extreme need.

We must hope that German exports to the remaining O.E.E.C. countries will by degrees rise to an extent comparable with the increase in German imports from these countries. This would reduce the danger of losses of dollars through having to settle the "Spitzen" of trade balances in cash. At the same time everything would have to be done to ensure that the liberalisation did not lead to a worsening of Germany's dollar balance of payments in other directions. A danger of such worsening might for instance arise inasmuch as German exports to the O.E.E.C. countries in part consist precisely of goods which could equally well be sold in the dollar area or in the East of Europe. It might well be that our exporters, through finding sales easier in Western Europe, would neglect their exports to the dollar area. This danger is the greater, since the remaining O.E.E.C. countries are naturally most ready to lift their restrictions on imports from Germany precisely in the case of those goods which are in strong demand, and which consequently are among the easiest to sell in overseas countries. Germany on the other hand can only to a very limited extent get from the O.E.E.C. countries the goods which are essential to its existence, such as, in particular, raw materials and basic foodstuffs like grain. There will have to be stronger inducements to export, and indeed probably also a general increase in export production and in opportunities for exports, if Western Germany's dollar balance of payments is to escape such undesirable consequences of the liberalisation of European trade. At the same time it is obvious that sales in the inland market must not be made too easy through too much money being available.