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Contents:-	Page
The Economic Situation of the Specified Area (Western German D-Mark Area) during July and August 1949	1
Money and Credit	
Public Finance	15
Foreign Trade	29
Production, Sale, and Employment	43
Prices and Wages	51
Overall Situation and Credit Policy	58

The Economic Situation of the Specified Area
(Western German D-Mark Area) during July and August 1949 ¹⁾

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

Since spring, the Central Banking System, within the limits of the existing possibilities, has aimed at relaxing the money and capital markets in order to facilitate borrowing and reduce costs. Apart from the abolition of the restrictive measures taken during November 1948, in particular the reduction of the Central bank discount - carried out twice - by 1/2 per cent each time to 4 per cent at present, the reduction of the minimum reserves, a number of rediscount facilities and individual measures of credit expansion, i.e., the release of investment accounts for the purpose of subscribing to loans, served this purpose. This policy was supported by a strong increase in the creation of money and credit through the Central Banking System for purposes other than refinancing, i.e., the increase in credits granted to public authorities and the steady rise of the credit balance of the accounts for the settlement of foreign

¹⁾ Closed on 8 September.

transactions, although in view of its nature this rise was but partly due to the initiative of ^{the} Central Banking System. Under the influence of these factors, the money market at least was characterized by a constantly increasing liquidity until the end of June. The surplus reserves and bill-holdings of the financial institutions had increased while their indebtedness towards the Central Banking System had steadily decreased. In some cases, money rates had dropped as well. The burden for the money market caused by the simultaneous increase in money in circulation was greatly over-compensated by the above-mentioned tendencies towards liquidization.

At the end of June, however, this process was interrupted rather suddenly in that, due to the accumulation of certain specific influences, liquidity was withdrawn from the banks to a not inconsiderable extent, resulting in a noticeable stiffening of the money market as compared with early summer. It must be added, however, that this development did not have the least influence on the credits granted by business banks since due to their high liquidity reserves the financial institutions primarily affected were well prepared against such a drain of liquidity. As outlined below, the expansion of bank credit even increased during the period under review, so that, in general, the economy was hardly affected by the tightening of the money market.

Among the causes which led to the new - obviously but temporary - monetary strain, three factors are particularly important. First, at the end of June there occurred a rather drastic change in the development of money transactions via the foreign accounts of the Bank deutscher Länder. By the end of June, more money had been channelled into circulation via these accounts - practically from week to week - than was withdrawn from it. The rising credit balance of these accounts gave full particulars on this trend. After having temporarily decreased since the beginning of January, this credit balance amounted to 153 million DM on 28 February 1949.

rose to 211 million DM by the end of March, and again increased during April and May by another 282 million DM - chiefly due to the release of counterpart funds to the Reconstruction Loan Corporation. On 30 June 1949, it amounted to 591 million DM, i.e., the peak reached so far. From then on, it started to drop rapidly to 303 million DM on 31 August. The reason for this development is partly to be found in the re-organization of the settlement of payments for B-imports (according to Bulletin No. 141 of the Foreign Department of the Bank deutscher Länder) by which the foreign trade banks were obliged, beginning 15 July, to remit the full DM counterparts to the Bank deutscher Länder already when dispatching the order for the opening of letters of credit. Through this procedure, approximately 181 million DM credit balances of foreign trade banks had accrued on loro accounts maintained with the Bank deutscher Länder by 31 August. This new handling represents a standardization of foreign-exchange payment transactions which had been rendered possible by JEIA Instruction No. 29 (New Import Procedure) which provides for direct contracting, without any exception, by German importers. The withdrawal of liquidity resulting from the re-organization of the settlement of payments was probably more to the disadvantage of the foreign trade banks than of the economy, as already in the past the latter predominantly had to remit the proceeds for requested letters of credit when filing the application. Apart from this increase in the loro accounts, which only concern the technique of payments, this decrease in the credit balance is also due to increased B imports which are reflected in the decrease in credit balances with foreign banks by 213 million DM during the period 30 June to 31 August.

The decrease in credits granted to public authorities by the Central Banking System was a further essential reason for the tightness of the money market. During the months of liquidization, i.e., May and June, 68 million DM new central bank credits, by balance had been granted to public

authorities and channelled into circulation as central bank money; these credits decreased by an aggregate of 113 million DM during the two subsequent months. The cash advances granted by the Central Banking System declined strongly, viz., by 212 million DM, due chiefly to the repayment of the credit raised by the Department for Finance for the purpose of purchasing the grain stock-pile. Treasury bills and short-term treasury bonds in the portfolio of the Central Banking System, however, increased by 48 million DM, mainly in connection with the financial requirement of the Railway. The item "claims against public authorities", as shown in the statements, which mainly comprises equalization claims of the Central Banking System and, in addition, bonds of the Combined Economic Area which originated from the Berlin currency reform, likewise increased on account of this continuing conversion, viz., by 51 million DM (the decrease as shown in the books and recorded in the consolidated statement of the Bank deutscher Länder and the Landeszentralbanken is to be explained merely by the temporary transfer of equalization claims to public authorities for investments pursuant to the Landeszentralbank legislation).

Important Tightening and Liquidizing Factors in the
Money Market from April to August 1949
in million DM

Factors, balance, and effect	30 April through 30 June		30 June through 31 August	
	Change	the factor has a tightening (+) or a liqui- dizing(-) effect on the money market	Change	the factor has a tightening (+) or liqui- dizing(-) effect on the money market
I. The most important individual factors				
1. Currency in circulation	+ 182	+ 182	+ 248	+ 248
2. Deposits with the central banking system				
a) public deposits (incl. sold equalization claims)	- 119	- 119	+ 186	+ 186
b) credit balances of other giro customers	- 27	- 27	- 122	- 122
c) pending transfers	+ 62	+ 62	- 31	- 31
3. Creation of money and credit by the central banking system outside the re-financing business				
a) credits to public agencies (incl. item "bonds")	+ 68	+ 68	+ 113	+ 113
b) credit balance on accounts for settlement of foreign transactions	+ 315	- 315	- 288	+ 288
c) credit balance on postal cheque account	- 74	+ 74	+ 2	- 2
II. Excess of liquidizing(-) or tightening(+) factors (increased liquidity(-) or liquidity withdrawn(+) of financial institutions 1)		- 211		+ 680
III. Change in deposits and indebtedness of financial institutions with the central banking system (by balance) 1)		- 170		+ 688

1) II and III do not completely agree, because I does not include all factors. In the period April-June particularly, the financial institutions have still received central bank money in the course of the exact accounting with regard to the currency reform.

In addition to the two stiffening tendencies, described above, which manifested themselves rather suddenly, a third tightening factor developed which had already been effective for quite some time, viz., the continuously strong increase in the amount of money in circulation. As early as by the end of June, the money in circulation was 183 million DM above the level as of the end of April. From the end of June to the end of July, it increased by an additional 133 million DM, and by the end of August it rose again by another 115 million DM. Based on the average of the four key days, the July increase amounted to 151 million DM and that of August to 113 million DM. All these figures comprise the currency issued for Berlin. This amount, however, hardly changed during the period concerned so that the currency issued in the specified area accounts for practically the total increase in the amount of money in circulation. Unfortunately, it is impossible to obtain full information as to the reason for this marked increase. Seasonal influences, such as the rather high tourist traffic during July and the beginning harvest, may have played a certain part. The cyclical requirement of currency has possibly further increased, since aggregate wages and turnovers have increased rather than decreased. The resumption of a rather active trade with the Eastern Zone - which is predominantly effected on a cash basis, since a clearing agreement has not yet been concluded - has probably had a great influence on this development, although these more or less illegal transactions involve considerable risks. Whatever the reasons for the expansion of the circulation of notes ^{may} be, this expansion withdrew central bank money from the financial institutions and thus contributed towards a diminishing of the liquidity of banks.

In general, (cf. table on page 5) it thus results that alone by the three factors explained, around 835 million DM central bank money were withdrawn from the financial institutions within the two months period from 30 June to 31 August, whereas only 155 million DM central bank money, chiefly resulting from the decrease in the giro deposits

with the Central Banking System, accrued to them anew. During the two preceding months - the corresponding transactions during this period are analyzed in the above table for comparison -, the trend was reverse in that only 318 million DM central bank money were withdrawn from the banks, while 329 million DM were newly channelled to them. The banks covered the major part of the liquidity withdrawn by 31 August 1949 through increased refinancing through the Central Banking System (mainly by selling bills of exchange), approximately 100 million DM, however, through reducing their own giro accounts. For this reason, from 30 June to 31 August the refinancing credit granted by the Central Banking System to financial institutions increased by 585 million to 1,803 million DM. At the same time, surplus reserves, despite the reduction of the reserve rates effective as of 1 June, dropped to about 50 per cent on the monthly average of July, viz., to 140 million DM (= 12.8 per cent) as compared with 281 million DM (= 25.9 per cent) in June. Calculated by key dates, they continued to considerably decrease in August. At the end of August, giro deposits of financial institutions exceeded the average reserve required of July by only 100 million DM, or about 9 per cent. The tightness in the financial situation of banks is also noticeably reflected by the decrease in interbank credit balances during July (-60 million DM) as well as by the increase in interbank liabilities (+ 122 million DM), viz., by a considerable growing of interbank indebtedness. It is true that at the end of July the bill of exchange holdings were again above the previous month's level (as regards the reasons therefor, cf. below). According to the weekly banking statistics as of 31 August, interbank credit balances of the 112 weekly reporting institutions did not continue to decrease during August, whereas interbank liabilities increased considerably, viz., by over 100 million DM to 459 million DM. Bill of exchange holdings dropped by 84 million DM to 1,080 million DM.

The change in the money market has, as already mentioned, had no influence on the development of the credit granted by business banks to "nonbank customers", i.e., mainly to the economy. On the contrary, short-term credits of the monthly reporting financial institutions considerably increased during July, to an even greater extent than in June; by the end of July, they amounted to 6,997 million DM as compared with 6,536 million DM by the end of June and 6,124 million DM by the end of May. It must be remembered, however, that the June increase of 412 million DM, as shown in the statistics, does not quite correspond to the actual increase which was only about 300 million DM, the difference being due to the more comprehensive collection of data.¹⁾ In July, however, no statistical adjustment need be made with regard to the 461 million DM increase in the credit volume.

During August, which so far can be judged on the basis of the weekly banking statistics only, the increase in short-term bank credits to nonbanks again was apparently much higher than during the previous month; at least, the 112 weekly reporting institutions show an increase of 212 million DM during the period 1 to 31 August (exclusive of increased foreign exchange claims resulting from the RM period) which, based on the multiplier calculated on the grounds of the July results of the monthly statistics, would mean a total increase in credits amounting to 570 million DM during August.

During July as well as during the preceding months, advances by overdraft on current accounts accounted for the major part of the increase in short-term credits of the monthly reporting banks. They rose by 274 million DM, or 9.6 per cent, whereas credits on bills of exchange (customers' liabilities on account of bills of exchange) increased only about half as much, viz., by 114 million DM, or 4.6 per cent. Acceptance credits, which probably often served the financing of imports and which in June for the first time were reported separately, increased by the same

¹⁾ Cf. "Monthly Reports of the Bank deutscher Länder" July 1949, page 3

percentage rate as advances by overdraft on current accounts; they rose by 103 million DM to 1,185 million DM. During July, while short-term credits increased by 462 million DM, the financial institutions thus obtained bills eligible for rediscount only to an amount of about fifty percent of these credits, viz., about 261 million DM. Nevertheless, it sufficed to permit the financial institutions during July not only to raise from the Central Banking System a credit ^{on} bills of exchange increased by 171 million DM to 1,197 million DM, but at the same time to increase their own bill of exchange holdings by 50 million DM to 1,918 million DM. Thus, by the end of July the withdrawal of liquidity analyzed for the two months period under review had not yet reached the amount which would have been necessary to urge the banks to decrease their secondary liquidity even with credits being shifted, to a large extent, to advances by overdraft on current accounts, a statement noteworthy for judging the average volume of credit of the banking system would be able to grant. It is hard to state just by the weekly statistics how the credit expansion occurred during August, since there are often differences between the weekly and the monthly statistics with regard to the development of the various types of credit. In the case of the 112 weekly reporting financial institutions, credits on bills of exchange (customers' liability on account of bills of exchange) of nonbanks for the first time for months increased, ^{to a large extent} viz., by 5 per cent, treasury bonds, however, accounting for fifty per cent of this increase. Acceptance credits of the financial institutions included in the sample statistics also showed a stronger increase, whereas advances by overdraft of current accounts had only a smaller share in the general credit expansion during August.

The development of medium and long-term credits to nonbanks including mortgages and municipal loans - which are all compiled for the monthly banking statistics only - shows an increase by 79 million DM to 1,097 million DM

during July. Of this increase 46 million DM mortgages, land charges and annuity encumbrances as well as 12 million DM municipal loans, aggregating 52 million DM, may be considered actual new credits granted during July. It cannot be ascertained which proportion, in addition to the above, of the medium- and long-term claims, for which old and new transactions are not shown separately in the statistics, accounted for new credits granted during July; analogous to the situation of the above-mentioned mortgages and municipal loans, this amount may be estimated at 30 million DM. Thus, during July the banks had granted approximately 80 million DM of - also formally - longer-term credits. On the liability side, there was an increase in the item "loans raised" by approximately the same amount, viz., 76 million DM, of which, however, only 27 million DM were raised against bonds. During July, about 36 million DM were transferred by the Reconstruction Loan Corporation to the designated recipients, i.e., particularly to the coal mining and electrical industries, under the investment programs to be financed from counterpart funds. On 31 August 1949, approximately 49 million DM of the total 299 million DM so far made available to the Reconstruction Loan Corporation had not yet been distributed. Of this remainder, about 20 million DM from the 110 million DM released in April were still available to the electrical industry, whereas another 20 million DM had been provided for the Occupying Power's building project in Munich. Coal mining had practically spent its 135 million DM released in May.

Due to the increase in money in circulation and the other compensating factors, the creation of credits by business banks during July, and very likely during August too, was only partly reflected by increasing bank deposits. Bank deposits of nonbanks, including giro deposits with the Central Banking System - which also comprise, according to their nature, the equalization claims conveyed to public authorities for temporary investment - increased by 322 million DM during July. 134 million DM of this increase were freely available deposits with business banks, whose customers'

deposits on investment and blocked accounts had, moreover, declined by 43 million DM during July, as was to be expected according to the loan subscriptions. Due to the probably increased creation of credits - which is, however, partly compensated by the aforementioned tightening factors particularly effective in this month (cf. above table) - , bank deposits can hardly be expected to have risen by more than 200 million DM in August. According to the results of the weekly statistics, this estimate appears to be even too high, since deposits of nonbanks on free account are reported to have increased by only 18 million DM during the period 1 to 31 August; during the preceding month, however, they even had somewhat decreased. During July, the total money volume grew by 414 million DM to 20.9 billion DM whereas according to data so far available, a further 300 million DM increase is to be expected for August.

It is noteworthy that the composition of bank deposits during July, and apparently during August likewise, underwent a further shifting in favour of time deposits, particularly of savings deposits. Whereas the total increase in deposits on free account with business banks, as previously mentioned, amounted to only 134 million DM in July, savings deposits alone rose by 105 million DM during this month; the excess of deposits accounted for 87 million DM of this increase. This trend in savings transactions may be considered gratifying. As may be concluded from the weekly banking statistics, this trend seems to have continued during August. The remaining time deposits (fixed deposits or deposits subject to notice), as far as maintained by nonbanks, likewise increased considerably again during July, viz., by 127 million DM to 1,902 million DM. Time deposits of public authorities (enterprises and regional public authorities) again account for 109 million DM of this increase; and public authorities now maintain about half their deposits (2,587 million DM) with business banks as time deposits. By the end of July, around 39 per cent of all nonbank deposits on free account were kept with the business banks as time deposits including savings deposits, against 37 per cent at the end of the preceding month.

During July, the same as during the preceding months, the conversion of liquid means into securities of the capital market has likewise shown some - not particularly large but steady - progress. Apart from subscriptions to the Reichsbahn loan which were also effected during this month (subscriptions by the public accounted for 90.2 million DM of this amount, about four fifth therefrom originated from investment accounts), around 35 million DM fixed interest bearing securities were placed during July. Of this amount, about 18 million were 5 per cent mortgage bonds and municipal bonds, and 17 million DM were 6 1/2 per cent industrial bonds. Actually, considerably larger amounts had been offered for subscription by the mortgage banks, viz., about 65 million DM mortgage bonds and 22 million DM municipal bonds. Three electricity enterprises, however, which during July issued 78.5 million DM 6 1/2 per cent bonds for the purpose of repaying the credits granted by the Reconstruction Loan Corporation from counterpart funds, offered, and probably sold, in the market only 6.5 million DM in total. In addition, a further power supply enterprise offered a 10 million DM bond which is intended to be placed in the market in full. The sale of most of the fixed interest bearing bonds, in particular mortgage bonds and municipal bonds, probably was stimulated to some extent recently due to the fact that since 30 July subscription may be effected from investment accounts. During July, only 3.8 million DM new shares were issued by four newly established banks.

After as early as in June a limited but fully successful prefinancing attempt had been made by prefinancing investments of coal mining - coal mines had issued single-name bills amounting to 21 million DM which had been indorsed by the Reconstruction Loan Corporation as guarantor for payment - a new way of prefinancing was initiated during August in that the Administration of the Combined Economic Area issued 150 million DM treasury bills. These treasury bills, having a three months term and a 4 per cent discount rate, could be sold without difficulty since considerable public means have been used for the subscription. By promising

their rediscounting, the Central Banking System considerably furthered the sale. However, the treasury bills sold shall be chargeable to the cash advance ceiling granted to the Combined Economic Area by the Bank deutscher Länder. As regards the scheduled utilization of the means, the section "Public Finance" of this report will give further details.

Although the stiffening in the money market which has been observed since the end of June did not affect the readiness of the banks to grant credits, - on the contrary, the credit volume of the business banks increased to a stronger extent during July as well as during August -, the Board of Directors decided to reduce the minimum reserve rates. According to this decision, effective 1 September the minimum reserves of business banks for time deposits and savings deposits were reduced to 4 per cent, for sight deposits with financial institutions at nonbank places to 8 per cent - i.e., in both cases to the legal minimum -, and for sight deposits with financial institutions at bank places to 10 per cent. The differentiation between the rates at bank places and those at nonbank places was adhered to in order to give due consideration to the necessity to maintain higher cash holdings at nonbank places. As known, charging the cash holdings to the minimum reserve is prohibited under the Second Law for Monetary Reform (Issue Law), since here minimum reserves are unmistakably defined as "credit balances with the Landeszentralbank". Due to the reduction of the minimum reserve decided upon at the end of August, the reserve required of all business banks will, according to the present level of deposits, by approximately 180 million DM, viz., by well over 50 million DM in the case of time deposits (including savings deposits) and by about 130 million DM in the case of sight deposits.

Minimum Reserve Rates of Business Banks

since the Currency Reform

effective as of	Reserve Rates in per cent		
	of sight deposits		of time deposits and savings deposits
	at banking places	at non-banking places	at banking and non-banking places
1 July 1948	10		5
1 December 1948	15	10	5
1 June 1949	12	9	5
1 September 1949	10	8	4
Legal maximum	20		10
Legal minimum	8		4

At the same time, the Board of Directors again discussed the problem as to whether and how the Central Banking System could initiate action to ease the export and investment financing within the limits set by law and currency policy. The decisions passed at this discussion are characterized in the last section of this report.

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

In spite of a continuous increase in expenditure, the tendency towards an excess of expenditure over revenue, as observed in public finance since April of this year, has not continued on the whole. Development in the various fields was very different, however. While in all probability the surplus obtained by social insurance has continued to diminish, at least in the Länder budgets there was an increased surplus of revenue again. This is connected first with the fact that for reasons of payment technique tax revenue again was particularly high in July, but certainly is also due to the circumstance that the concentrated investments promised by the Länder have not yet been fully effected. This diagnosis is confirmed, to a certain extent, by

Public Deposits and Indebtedness of Public Authorities with the Banking System in million DM

	Public deposits 1)	Short-term indebtedness of public authorities with banking system
1949 31 March	3 969.2	469.0
30 April	4 188.3	629.7
31 May	4 175.3	647.2
30 June	4 027.0	906.4
Change in June as compared with April	- 161.3	+ 276.7
31 July 1949	4 281.4	854.4
Change in July as compared with June	+ 254.4	- 52.0

1) These figures differ from the lower statements published so far in that the public deposits with the BdL and the Landeszentralbanken (Bremen, Hamburg, Northrhine-Westphalia), which are invested in equalization claims, were added to the public deposits shown.

the fact that public deposits, following a slight decline between April and June, have again increased in July, and that at the same time the new indebtedness of public authorities with the banking system - which in the preceding months had risen not inconsiderably - was reduced in July and in the first weeks of August. Certainly, too far-reaching conclusions must not be drawn from these figures alone, as it is impossible to ascertain exactly to which extent such money movements affect the actual circulation of money, and to which extent they only represent transactions shown by the books.

Above all, however, it would be absolutely wrong to see in the development of the past few weeks a renewed reversion in the trend of the money circulation connected with public finance. Fundamentally, the development doubtlessly continues to be characterized by a not inconsiderable increase in expenditure, with revenue increasing but slightly or even stagnating for the time being, and by a corresponding utilization of reserves and an increasing tendency towards borrowing. Partly as a measure of deliberate anti-cyclical policy, and partly under the pressure of increasing social and political demands, public finance thus develops more and more to become an expansive factor with regard to monetary policy, to which careful attention has to be given when judging the overall situation of currency policy.

As to L ä n d e r f i n a n c e, the development in July was characterized in the first place by a marked increase in tax revenue as compared with the previous month. With 1,335 million the total tax revenue reached a new peak, though exceeding the revenue of April (the last month with comparable dates of payment) by approximately 50 million DM only. It is noteworthy in this connection that the revenue from excise duties and customs, which had continuously increased during the past few months, still exceeded the April revenue by approx. 17 million DM, but fell considerably short of the level reached in May and June. The increase in taxes on income, property and turnover was about 34 million DM. It is partly due to seasonal reasons - in previous years also, the revenue from assessed taxes was always higher in July than in April -; partly it is explained only by a change in the dates of payment, as in the past quarter

another Land dropped the monthly instalments in May and June, so that payments in July increased accordingly.

Tax Revenue in the Specified Area

January, April, and July = months with comparable dates of payment

	January	April	May	June	July	April = 100
	IN MILLION DM					
1. Total of Taxes on Income, Property and Turnover	1184.5	992.0	884.3	836.9	1026.4	103.5
thereof:						
Wages Tax	178.9	159.2	169.1	171.9	173.7	109.1
Assessed Income Tax	364.5	303.0	226.6	166.9	285.3	94.2
Corporation Tax	164.1	167.9	121.2	98.7	177.8	105.9
Turnover Tax	343.9	300.9	314.9	313.6	317.6	105.6
2. Excise and Customs Duties	246.0	292.1	342.1	362.6	309.0	105.8
3. Total Tax Revenue	1430.5	1284.1	1226.4	1199.5	1335.4	104.0

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

However, tax revenue probably did hardly increase as a consequence of the business trend, but - which is remarkable - it did not decrease either. As compared with April and January, the revenue from the assessed income tax was considerably lower in July, it is true; but this is entirely, or at least to the major part, due to seasonal influences, and above all to the amendments to the Income Tax Law which were effected in the meantime. The revenue from the corporation tax, however, has distinctly risen, which permits the conclusion that corporation profits still are high. Turnover tax revenue also has slightly increased in the past few months, although prices declined; unless this is due to subsequent payments or to a more rigid tax collection, the volume of turnover on which taxes are paid must consequently have increased.

Finally, the revenue from the wages tax has fully maintained its level. As compared with April, the wages-tax revenue even increased by 9 per cent; but this may be due chiefly to the fact that the April revenue was relatively low for reasons of payment technique (reimbursement of overpaid wages tax).

Although tax receipts in July were only by approximately 95 million DM below the peak level attained so far after the currency reform, i.e. the yield of January, the Länder evidently were not able in July to obtain as large a surplus as they had partly attained in the winter months. Expenditure figures are not at hand yet, but from the development of the available cash holdings - statement of which in many respects needs explanation, it is true - it may be concluded that the revenue surplus hardly amounted to more than 100 million DM, while in January there had been a surplus of 335 million DM.

Available Cash Holdings and Status of
New Indebtedness in the Länder of the Specified Area.

	Available Cash Holdings			State of New Indebtedness 1)		
	30 June	31 July	Increase (+) Decrease (-)	30 June 2)	31 July	Increase (+) Decrease (-)
	in million DM					
Länder of the Combined Economic Area	145.2	243.3	+ 98.3	85.5	89.9	+ 4.4
Länder of the French Zone	-61.0 ³⁾	-47.9 ³⁾	+ 13.1	77.1	70.6	- 6.5
All Länder of the Specified Area	84.2	195.4	+111.2	162.6	160.5	- 2.1

1) Partly excluding cash advances and excluding liabilities towards the Unemployment Insurance Fund.

2) Figures adjusted partly.

3) Figures represent liabilities originating from borrowed money.

The cash situation of the Länder of the ~~Combined Economic Area~~ still is better than that of the Länder of the French zone, where at the end of July the liabilities for repayment of cash advances exceeded the cash holdings available. However, here also this excess, as well as other new indebtedness (treasury bills, or loans from funds of public agencies) declined in the period under review. The fact that in the Länder of the Bizone the improvement of the cash situation was accompanied by an - although but slight - increase in indebtedness is connected with the still greatly differing financial situation in the various Länder. True, in this respect certain changes have developed as compared with former months. Evidently in connection with the regulation of financial equalization as effective since April, the situation in Schleswig-Holstein has slightly improved, while it seems to deteriorate in Hesse, Bavaria, and Lower Saxony, although the two Länder mentioned last participate in the financial equalization. Besides, the development of cash holdings clearly reveals the increasing strain to which the Länder of the Bizone quite generally are subject since the beginning of the current financial year. On the revenue side, in spite of the high tax revenue their situation has deteriorated because pursuant to the Economic Council Ordinance concerning the Administration of the Customs Duties and the Turnover Adjustment Tax for Imports they have to pay over their receipts from these taxes to the Combined Economic Area as from 1 April 1949. In the quarter April-June, an amount in the order of magnitude of 60 million DM was concerned, in July approximately 25 million DM.

Above all, however, expenses are increasing not inconsiderably. As is known, the Länder of the Combined Economic Area have expressed their readiness to spend during the Marshall Plan year 1949/50 an amount of 1.55 billion DM for investment purposes; of this amount, 725 million DM (thereof, 650 million DM from own ordinary budget revenue) shall be made available in the current quarter alone. At present, it cannot yet be ascertained to which extent the Länder were able to meet this liability. Still, partial data show that the present investment expenditures of the Länder are not insignificantly higher than the budget estimate for the entire fiscal year when evenly distributed. A clear

distinction has to be made, however, between expenses as shown by the books, and actual expenses. In some cases, the expenses shown concern so far only a "disposal" of the funds in question, e.g. in favour of the Reconstruction Ministries, while they were not actually spent yet, because the projects concerned are either not yet mature for execution, or because there are various technical or red-tape impediments opposing their realization.

In addition to the increasing investment expenditures, possibly a considerable rise in the social burden is also to be expected. For the time being, however, the increase in social expenditure of the Länder is not yet so marked as was expected some time ago, as some ordinances which the Economic Council had passed in their last meeting - partly against the opposition of the Länderrat - were not approved by Military Government, but referred to Federal legislation. The ordinances in question are the Ordinance on the Adaption and Improvement of Benefits Pursuant to the Ordinance on Payments to Disabled Persons (annual additional burden estimated at 450 million DM), the Ordinance to Amend the Law to Protect Working Mothers (annual additional burden approximately 33 million DM) and the Ordinance to Abolish the Reduction in Service and Subsistence Emoluments under the 1st Order on Salary Reductions (annual additional burden approximately 120 - 130 million DM). In total, expenditures amounting to approximately 600 million DM have thus been deferred for the time being. The price adjustment for imported foodstuffs, which in the months March - June required 173 million DM¹⁾ (i.e. a monthly average of 43 million DM), will require only 77 million DM (monthly average: 26 million DM) from funds of the Länder in the current quarter, as the Combined Economic Area has undertaken to finance 85 million DM of the aggregate amount of 162 million DM. Larger expenditures developed, however, for the improvement of social benefits under the old-age insurance (invalid pensions, employees' pensions, and miners' pensions), which involve a burden to the Länder budgets of an estimated 250 million DM per annum, by way of increased payments to social insurance and increased social-insurance contributions for the employees of public authorities. Furthermore,

1) The original estimate of 195 million DM was reduced by 22 million DM.

not inconsiderable burdens will arise through the prefinancing of Immediate Aid payments (see below) which, as far as they are not covered from own funds, shall be financed by the Länder through the issuance of treasury bills.

In July, and at first also in August, the financial activities of the Combined Economic Area moved within the range scheduled. The cash advances taken up with the Bank deutscher Länder in April and in June, which at the end of June amounted to 194 million DM, were repaid by mid-August but for 103 million DM, and were completely paid back by 23 August. Until mid-August, repayment was based chiefly on the gradual sale of the bizonal grain stockpile, which had been purchased by means of the cash advance of 168.6 million DM granted in April. The short-term repayment of the remaining sum in the third week of August, however, was effected by utilizing to a great extent the proceeds of an issue of treasury bills which in itself is intended for other purposes (see below) and which was used but temporarily for the aforementioned repayment of debts.

In its basic tendency, however, finance of the Combined Economic Area is also subject to an increasing strain. This development is partly reflected already in the two supplementary estimates for the budget 1949/50 passed in August, by which the original estimate of 892 million DM is increased to 1,305 million DM in revenue and expenditure. A considerable part of this increase, it is true, is explained only by the fact that, pursuant to the Ordinance concerning the Paying-over of Funds of the "Zentralbüro Mineralöl G.m.b.H." (Central Office for Mineral Oil GmbH), earnings and expenses of this official control association for imported power fuels - as far as they originate from the customs duties not levied and are connected with the price equalization carried through by this agency - are now budgeted within the framework of the bizonal estimate. In addition to that, however, the supplementary estimate also requires a number of genuine new expenses of the Combined Economic Area, viz., 200 million DM (instead of originally 87 million DM) for the reduction of the prices of various imported foodstuffs to the inland price level, an additional 15 million DM for subsidies to unprofitable coal

mines, and 30 million DM for refugees' settlements - the latter amount, however, is to be paid back by the Immediate Aid Office, in the course of the financial year, from revenue of the special tax on stock property. Cover for these expenses shall be provided in the first place from customs revenue, for which the estimate was considerably raised; further, from the aforementioned receipts of the "Mineralöl G.m.B.H." and from the amounts resulting from raising the prices of some imported foodstuffs to the higher inland price level. Another additional burden will probably arise for the budget of the Combined Economic Area by new requirements for the Berlin Aid. In July, the payments for Berlin amounted to 30 million DM, i.e. the average of the months April - June. It is to be expected, however, that these payments will rise in the next few months on account of the discontinuance of the financing of the supplies for Berlin from counterpart funds, as ordered by the Military Governments. In financial discussions concerning the preliminary financing of the Federal expenditure by the bizonal budget - which is to be expanded -, an amount of 50 million DM per month has already been stated for the second half of the current fiscal year (October 1949 - March 1950). Above all, however, the Combined Economic Area has recently to a remarkable extent taken an active part in the prefinancing of Immediate Aid and of investment financing. To this end, in August the Department for Finance issued treasury bills amounting to 150 million DM, 50 million DM of which are to prefinance a loan of the Industriekreditbank to be floated in September or October, 20 million DM are destined for the Wiederaufbaukasse of Schleswig-Holstein, and 80 million DM for financing the first pension payments under the Immediate Aid. In fact, it is the responsibility of the Länder to prefinance the last-mentioned payments. As the financial power of the Länder is partly exhausted, however, the Combined Economic Area has declared its readiness to take over at least the liabilities of the financially weak Länder Bavaria, Hesse, Schleswig-Holstein, and Lower Saxony, in the aggregate amount of 80 million DM. Moreover, the Combined Economic Area intends to make available to the Main Equalization Office (Hauptausgleichsamt) 60 million DM for the purpose of financing

the already started housing program for refugees, and 10 million DM for the educational grants. These funds, too, shall be raised by treasury bills, the issuance of which is still under discussion at the time this report is closed.

On the whole, in the next few months the so-called "Immediate Aid" will play an important part in the financial development of the Länder and of the Combined Economic Area. The Ordinance to Alleviate Social Hardship (Immediate Aid Ordinance)¹⁾, passed by the Economic Council in its present version on 25 May of this year, has been approved by the Military Governments on 8 August, with the sole proviso that the provisions of Article 6 (Taxation of United Nations Nationals) be not applied for the time being. The delayed decision on the Ordinance, which is effective for the current fiscal year, has resulted in a repeated postponement of the first dates of payment. While pursuant to the version decided upon in May the payments were to be effected within a period of 7 months (20 August 1949 - 20 March 1950), by the order - which became effective on 8 August - of the Director for Finance concerning the postponement of terms under the Immediate Aid Ordinance they were compressed into a period of 5 months (20 October 1949 - 20 March 1950), and are distributed as follows:

Dates of Payment for the Immediate Aid Taxes

Dates	Kind of Tax
20 October 1949	First third of Immediate Aid General Tax on real property and business property
20 November 1949	First half of Immediate Aid General Tax on agricultural and forestry property First third of Immediate Aid Special Tax
20 December 1949	Second third of Immediate Aid General Tax on real property and business property

1) See also "Monthly Reports of the Bank deutscher Länder", May 1949.

20 January 1950	Second third of Immediate Aid Special Tax
20 February 1950	Third third of Immediate Aid General Tax on real property and business property Second half of Immediate Aid General Tax on agricultural and forestry property
20 March 1950	Third third of Immediate Aid Special Tax

This accumulation of dates of payment, which are all fixed 10 days after the dates for payment of the current taxes, is expected to affect, in general, very unfavourably the amount of payments.

Even in May, when the ^{new} decision on the ordinance had been adopted, it had been assumed that the receipts (about 2.75 million DM, of which about 0.5 million DM from the special tax on business stock property) estimated when the Ordinance was first passed in December 1948, i.e. at a time characterized by relative abundance of money and inflationary rise in prices, would not be paid even approximately to the full extent; today, the agencies concerned are rather more sceptical. More recent total estimates have not been published so far, it is true. However, the President of the Main Equalization Office (Hauptausgleichsamt) recently figured the revenue to be expected from the special tax on stock property (for which predictions are particularly problematic, it is true, because of the taxation basis which is very uncertain and rather variable as to its value) at 200 million DM only as against the originally expected amount of 500 million DM. But the general tax also will probably yield much less than was calculated originally - although in this case the values taxed are constant (standard values) and the tax due consequently can be accurately fixed -, because a large part of the persons liable to the tax probably are considerably more illiquid than during the winter. In any case, the Department for Finance expects numerous requests for respite.

If on the basis of rough estimates it is assumed that the loss to be expected in the Immediate Aid General Tax will amount to approximately one third, the revenue would certainly not exceed 1.5 million DM. In this case, almost all the receipts would have to be spent for the "consumption" purposes, viz., approximately

1.2 billion DM (computed on the basis of approximately 1 million pensions/^{each} amounting, on the average, to DM 100 monthly) for the subsistence allowance, approximately 200 million DM for the grants for household effects, and approximately 100 million for the educational grants. Although certain amounts will be economized due to the fact that the payments for the past 5 months April - August are reduced by the amounts of the relief payments already granted, it cannot be expected that for the productive projects, above all for the Reconstruction Aid, considerable amounts will be available, with the exception of the receipts from the special tax (which, as stated before, are very uncertain) already earmarked for specific purposes. The major part of the prospective receipts will therefore probably flow to the consumption via pension payments and grants for household effects, and as they will be raised, to a large extent, at the expense of investment expenditure, the Immediate Aid might entail a not inconsiderable shifting in the use of income from investment expenses to consumption expenses. It is difficult to estimate the order of magnitude of these probable transactions, as neither the aggregate amount of the payments under the subsistence allowance is known nor the extent to which these payments are actually effected, i.e. exceed the former relief payments. In any case, it may be assumed that the additional payments which probably flow into consumption completely (subsistence allowance and grants for household effects) will amount to between 0.5 and 1 million DM, being nearer to the upper than to the lower limit.

As outpayments under the subsistence allowance and the grant for household goods shall start as early as in the first days of September, retroactively as per 1 April 1949, while the first receipts are not to be expected prior to the end of October, not inconsiderable means will be needed to bridge this gap; these means have to be provided, pursuant to Article 81 of the ordinance, by the Länder. As mentioned before, the Combined Economic Area has taken over payment of 80 million DM for the subsistence allowance and already raised the necessary funds by an issuance of treasury bills. By another issue of treasury bills it intends to cover the advance payment of 10 million DM for the educational grants, and moreover also provide 60 million DM

for prefinancing the productive projects of the Immediate Aid Ordinance (building of dwelling houses for refugees), although this is no obligation under the Ordinance. The Länder also will provide the remaining amount needed for bridging over the gap existing with regard to subsistence allowance falling to their share, and the total requirement for the grant for household effects, by issuing treasury bills, as far as their cash holdings do not suffice. Thus the implementation of the Immediate Aid Program starts with rather considerable credit transactions - chiefly in favour of consumption - , the effect of which on the volume of money and on the market situation must not be disregarded when considering the future credit policy.

In contrast to the large regional public authorities, the financial situation of the *Gemeinden* probably did hardly change to any extent worth mentioning during the past few weeks, as the Gemeinde revenue and expenditure, as a rule, are scarcely subject to marked short-term fluctuations. The short-term indebtedness of the *Gemeinden* with the banking system has increased but little (in July, by 4.7 million DM to 26.1 million DM). In connection with an increased investment activity, however, an increase in long-term indebtedness is to be observed of late. In July alone, medium and long-term loans of banks to the communities increased by approximately 12 million DM to 35 million DM, while placing of the municipal bonds issued since the currency reform in the aggregate amount of 81 million DM continues to meet with difficulties, it is true.

No data are available as yet on the development of social insurance in the past two months. It is certain, however, that the financial effects of the Ordinance to Revise Social Insurance Benefits, which came into force on 1 June, became manifest in July for the first time because of the time lag between deduction of the contributions and their paying over to social insurance. This means that old-age insurances had an increased revenue from contributions, while at the same time the revenue from contributions to unemployment insurance has decreased correspondingly. Due to this, the financial status of the unemployment insurance probably has deteriorated even more than is due to the development of the labour market. The extent to which the Unemployment Insurance Fund was called upon

already in the months April - June by the increasing payments under the unemployment benefit, the unemployment relief and the productive unemployment welfare, is shown by the following table:

Revenue and Expenditure of Unemployment Insurance in the Combined Economic Area

in million DM

	'total 'revenue	'thereof 'revenue from 'contri- 'butions	'total 'expen- 'diture	'thereof 'benefits	'surplus
Monthly Average					
July 1948 -					
March 1949	103.7	97.6	70.0	38.8	33.7
April 1949 1)	102.7	95.0	77.5	54.8	25.2
May 1949	135.5	115.4	108.9	84.3	26.6
June 1949	138.3	112.2	116.6	93.3	21.7
Monthly Average					
April-June	125.5	107.8	101.0	77.5	24.5

1) - The April figures are relatively high for reasons of booking technique (Closing balance of budget)

Source: Administration for Labour

This development has certainly continued in July and August, the more so as the number of recipients of ordinary unemployment benefit, expressed in per cent, has increased much more than the number of unemployed. If the reduction of the contributions to the Unemployment Insurance Fund by more than 20 per cent of their former share - which results from the new

regulation of contributions to the social insurance - is also taken into account, it becomes evident that a level will be reached soon - if it has not been reached already - at which the unemployment insurance does no longer obtain surpluses. The Unemployment Insurance Fund which - with surpluses totalling approximately 380 million DM - was^a particularly important source of the formation of capital in the first year after the currency reform, thus will hardly be able any longer to grant further loans, unless the situation on the labour market should improve decisively.

The old-age insurances, which were given a safe financial basis by the re-introduced basic contributions of the Länder - to each pension and by the increased contribution payments, will hardly be able to occupy the position held so far by the Unemployment Insurance Fund. If at the time of the introduction of the Ordinance to Revise Social Insurance Benefits partly an annual formation of capital by the old-age insurances amounting to 250 - 300 million DM was deemed possible, now considerably smaller surpluses are generally expected. Thus, in the field of social insurances, too, the period of formation of reserves probably has come to an end.

Foreign Trade

Exports of the Combined Economic Area amounted to 309.1 million DM in July, thus slightly exceeding the June level, though still falling short of their peak level of 331.5 million DM reached so far in May. The same volume of exports as in July had been attained in March already. The average level of exports thus has changed but little for months.

It is natural to connect this relative constancy - to avoid the term stagnation - with the stagnation symptoms in the world market, particularly as some exporters complain of a decline in new contracts. As a great number of the export figures shown concern contracts which were effected some months ago, it might even be inferred from such complaints that there is a downward tendency in exports. However, there are no exact data available justifying such a conclusion, so that at present there is no wellfounded reason to take a pessimistic view of the export situation, even though sale in the world market may become more and more difficult as the symptoms of scarcity are gradually overcome.

When judging the export figures of the past few months, it must, moreover, be taken into consideration that the composition of exports has become more favourable. The large exports of raw materials and primary materials are gradually decreasing, while exports of processed goods again come to the front. In detail, it is true, the development is greatly differing: In the first place, exports of timber and scrape have decreased. Export of coke - which in itself still is more important - is declining as well because, due to diminishing demand, part of the original export quotas were reduced or are no longer fully utilized by the export countries. Thus, in particular coke deliveries to Belgium, France and Luxembourg have declined, as these countries show a decreasing activity in the iron industry. Exports of hard coal, however, have continued to increase; on the whole, a remarkable decline in the Western German hard-coal exports is improbable as long as Europe has to import coal from the United States. If the staple goods coal, coke, timber,

Foreign Trade of the Combined
Economic Area
in million RM, or DM respectively

	I m p o r t					
	monthly average					
	1st half 1948	2nd half 1948	Jan/ March 1949	April/ June 1949	June 1949	July 1949
Food Industry	124.5	179.6	180.3	270.7	310.3	220.7
Industrial Commodities	70.6	152.6	231.9	333.9	346.3	320.7
raw-materials	39.2	82.7	125.6	174.7	177.7	152.5
semi-finish- ed goods	24.3	51.2	66.6	86.9	94.6	93.4
finished goods	7.1	18.7	39.7	72.3	74.0	74.8
pre-manufact- ured products	4.4	10.9	21.8	28.2	30.3	36.3
end products	2.7	7.8	17.9	44.1	43.7	38.5
Total	195.1	332.2	412.2	604.6	656.6	541.4

	E x p o r t					
	monthly average					
	1st half 1948	2nd half 1948	Jan/ March 1949	April/ June 1949	June 1949	July 1949
Food Industry	4.6	3.5	9.8	3.7	2.0	2.3
Industrial Commodities	76.2	218.5	270.1	301.9	294.9	306.8
raw-materials	21.9	54.4	56.6	60.6	61.2	69.2
semi-finish- ed goods	23.6	66.8	94.6	96.9	90.3	84.4
finished goods	30.7	97.3	118.9	144.4	143.4	153.2
pre-manufact- ured products	16.7	51.1	60.5	64.4	61.6	70.4
end products	14.0	46.2	58.4	80.0	81.8	82.8
Total	80.8	222.0	279.9	305.6	296.9	309.1

and scrap are eliminated from the total export figures, there results for the remaining goods a continued increase also in the past few months, and a new peak level of exports in July. Excluding the staple goods, the monthly average of exports amounted to 41.5 million dollars in January - March 1949, to 47.8 million dollars in April - June, and to 53.1 million dollars in July. This means that normalization of Western German exports is making progress. In 1936, the share of staple goods in the total exports had been 8 per cent; in 1948, 56 per cent; in the first 7 months of 1949, however, 45 per cent only. Among those industries which formerly had essentially decided German export efficiency, only the textile industry was not able to increase its share in total exports during the first 7 months of the current calendar year as compared with 1948. The relative importance of this industry in total exports has even decreased as against the preceding year. In this connection, however, emphasis must be placed on the comparatively small initial basis which easily results in over-estimating the increase in export figures. If the price increases are left out of consideration - as is done in the computation of the volume of foreign trade by the Statistical Office of the Combined Economic Area -, for the first 7 months of the year 1949 an export per capita is calculated amounting to 35.2 per cent only of that achieved in 1936 in the Reich area of that time. The export of raw materials amounts to 60.5 per cent of its 1936 level, the export of semi-finished goods to 106.2 per cent, and the export of finished goods to 23.5 per cent only.

For the French Zone, export figures are now on hand for the first six months of the year. Thus the development of exports (including the so-called invisible exports) since the beginning of the first Marshall-Plan year shows the following picture (in million dollars; according to figures supplied by Military Governments):

Period of Time	Combined Economic Area	French Zone	Total
April-June 1948	139.2	21.7	160.9
July-September 1948	167.0	37.8	204.8
October-December 1948	202.1	29.5	231.6
January-March 1949	265.8	22.2	288.0
April-June 1949	298.8	23.7	322.5

It is not known whether, and to which extent, the decline in the share of the French Zone is due to the fact that products of the French Zone are exported via the Combined Economic Area.

Imports of the Combined Economic Area have declined in July by 115.2 million DM, or 17.5 per cent, as compared with June. However, this decline is of even less fundamental importance than are the minor fluctuations of exports, as imports are effected in bulk to a much greater extent than exports, and consequently changes in a few items suffice to decisively alter the overall picture of imports from one month to another. For example, in July the decline in grain imports was 28.2 million dollars as against June; imports of oil seeds and vegetable fat declined by 43.6 million DM (group food industry), wool and cotton by 31.3 million DM (group raw materials), and "other vehicles" (group finished goods) by 5.0 million DM, so that with a total decline in imports amounting to 115.2 million DM the decline in the aforementioned 4 groups of goods alone was 108.1 million DM. In the case of "Other Vehicles", in the first place imports of carriages are concerned which since the beginning of this year accounted for more than half of all imports of finished goods (end products), or 2.7 per cent of the total goods imports.

A breakdown of imports according to the way in which they are financed reveals that an important change has occurred during the past few months in that commercial imports increased more and more, while the share of deferred imports declined. This is due, to a not inconsiderable

extent, to the fact that in the past few months also imports under the Marshall Plan were effected rather slowly. According to BICO records, the total Marshall Plan deliveries to the Combined Economic Area amounted to 318.4 million dollars by the end of July as compared with 291 million dollars by the end of June, and 266.7 million dollars by the end of May. At mid-August they amounted to 331.5 million dollars. Thus, a considerable part of the deliveries for the first Marshall Plan year are still outstanding. Up to 31 July, 491 million dollars were definitely allocated by the ECA; the scheduled delivery programs include import dispositions amounting to 498.9 million dollars. As is shown by the table on the status of Marshall Plan deliveries, by 31 July the deliveries scheduled for the first Marshall Plan year had been essentially effected as far as the agricultural sector is concerned, while more than one half of the scheduled imports of industrial goods were not yet delivered, and more than one fourth had not even been purchased yet.

The ECA was not able so far to make definite allocations for the second Marshall Plan year which began on 1 July 1949, because agreement has not yet been arrived at concerning the final amount of the Marshall Plan aid. In order to interrupt as little as possible the supply with Marshall Plan goods - in spite of lacking final allocations -, a considerable fund has already been appropriated for the new Marshall Plan year. For the Combined Economic Area, 85 million dollars have been provided so far, which are distributed about evenly to agriculture and industry and which, as far as they are intended for the purchase of agricultural products, have already been disposed of by the conclusion of definite contracts. In the first half of August, the first deliveries under these contracts - i.e., the first actual imports for account of the second Marshall Plan year -, amounting to 1.9 million dollars, arrived in the Combined Economic Area. The French Zone had received under the Marshall Plan, by the end of July, deliveries amounting to 90.7 million dollars; while purchase licenses had been granted for an aggregate amount of 116.2 million dollars.

The development of foreign aid for Western Germany from funds of the U.S. and British army budgets (GARIOA) and from Marshall Plan funds since the beginning of the first Marshall Plan year is shown by the following table:

Actual Extent of Foreign Aid
(GARIOA and ERP)¹⁾
in million dollars

Period	Western Germany		Combined Economic Area	French Zone
	Total	Thereof for food industry		
1948				
2nd quarter	292.9	279.4	292.9	-
3rd quarter	327.7	308.1	306.3	21.4
4th quarter	232.6	191.9	215.9	16.7
1949				
1st quarter	259.9	193.6	245.5	14.4
2nd quarter	248.8	186.0	223.6	25.2
Total	1361.9	1159.0	1284.2	77.7

1) Deliveries, not figures scheduled.

In the second Marshall Plan year, which began on 1 July, foreign aid will diminish substantially. In the "first Marshall Plan year", which, however, consisted of five quarters, covering the period from 3 April 1948, the day on which the Foreign Assistance Act of 1948 became effective, to 30 June 1949, GARIOA and ERP deliveries to Western Germany (Combined Economic Area and French Zone) were scheduled in the amount of 1.65 billion dollars. The actual deliveries amounted to less, it is true, viz., to approximately 1.36 billion dollars, but the "hang-over" of approximately 290 million dollars will be delivered subsequently in the current Marshall Plan year. Certainly, it has to be taken into account in this connection that up to 30 June 1949 Western Germany placed at the disposal of her European trade partners approximately 50 million dollars

more, in the form of drawing rights, than she received from them. It is not known as yet to which extent Germany will further be able to assert the old drawing rights not utilized so far, so that the net assistance will probably fall somewhat short of the total amount of 1.65 billion dollars. At least, however, it will amount to approximately 1.6 billion dollars.

For the second Marshall Plan year, however, according to the present status of negotiations only 847 million dollars of total aid are provided for Western Germany. But even this amount is subject to a reduction, as from the total amount of ERP funds, which after final approval by the American Congress will be placed at the disposal of Europe, an amount of 150 million dollars shall be set apart for general purposes. Apart from this, 164 million dollars of the total aid promised are scheduled only as conditional aid, i.e. against granting of drawing rights, while Western Germany, on her part, does not obtain any drawing rights. Thus the net aid for the second Marshall Plan year, including the GARIOA funds, is to be estimated at approximately 683 million dollars (or 57 million dollars per month) only, as against approximately 1.6 billion dollars (or approximately 100 million dollars in the monthly average) in the first Marshall Plan year (which comprised 5 quarters).

This strong decline in foreign aid doubtlessly renders it necessary for the Western German economic area to increase its own efforts. In the first instance, in order to maintain or even expand the volume of its exports, it will have to provide a considerably higher amount of foreign exchange by its own efforts, i.e. by means of its exports.

In the year 1948/49, the exports of the three Western zones amounted to approximately 1,050 million dollars. Together with the foreign aid granted in the amount of approximately 1,230 million dollars, from July 1948 through June 1949 about 2,280 million dollars were thus available for imports. As the foreign assistance (net) in the current Marshall Plan year will hardly amount to more than 680 million dollars, as far as the facts can be ascertained at the time being, the exports of the year 1948/49 would have to increase by approximately 550 million

Scheduled Foreign Assistance
for Western Germany
in million dollars

Figures as of the beginning of September 1949

Type of Assistance	First Marshall Plan Year		Second
	April-June 1948	July 1948- June 1949	Marshall Plan Year ⁴⁾ July 1949- June 1950
I. GARIOA and British Assistance for the Combined Economic Area			
GARIOA	292.9 ³⁾	637.0	426.0
British Assistance		70.0	73.0
Total	292.9	707.0	499.0
II. ERP¹⁾ Combined Economic Area			
French Zone	109.0	410.6	261.7
	20.0	99.2	86.5
Total²⁾	129.0	509.8	348.2
Less:			
Drawing rights to be granted	-	97.4	163.9
Plus:			
Drawing rights to be received	-	112.2	-
Net Assistance	129.0	524.6	184.3
III. GARIOA and ERP net assistance	421.9	1231.6	683.3

- 1) As contrasted to the survey on page 35, these are not actual deliveries, but - as mentioned in the heading - the scheduled assistance.
- 2) Incl. conditional aid for drawing rights to be granted.
- 3) Actual volume of deliveries April - June 1948.
- 4) Scheduled figures OEEG. Approval by the competent agencies has not yet been received; the final figures may, therefore, differ from the above figures.

dollars in order to secure to Western Germany for the second Marshall Plan year the same amount of foreign exchange as was at her disposal in the first year of Marshall Plan Aid. It is evident that, in view of the difficult sale conditions on the world market, it will be difficult, if not impossible, to achieve this aim. In the second quarter, export only corresponded to an annual rate of 1,290 million dollars. In comparison to this level also, it would thus have to rise by 310 million dollars; if the amount of foreign exchange resulting from it and from the expected foreign aid shall not decline as against the preceding year. Furthermore, however, it has to be taken into account that the import potential attained so far was by no means high as compared with former conditions.

The quantity of raw materials and semi-finished goods imported in the first 7 months of this year, calculated per capita, amounted to almost two thirds only of the corresponding imports of 1936, so that, in the case of a considerable increase in production, difficulties in the supply of raw materials would have to be anticipated unless exports should expand similarly to the first three quarters following the currency reform.

Another - by no means unimportant - consequence of the reduction of foreign assistance is the fact that it will be accompanied by a decrease in the formation of the so-called DM counterparts, i.e. the accumulation of funds with the bank of issue for the purpose of investment financing. As since 1 May of this year all imports have to be accounted at the 30 cents rate, the foreign aid - if received in the full amount - should still yield a DM counterpart of approximately 2.2 billion DM. In the period from the currency reform to 30 June 1949, however, in spite of considerable deviations from the 30 cents rate and of the fact that imports scheduled for this period were received in part only, counterpart funds accumulated in the amount of approximately 2.5 billion DM.

As to the general money movements on the foreign accounts of the Bank deutscher Länder in July and August of this year, they were characterized

by a strong increase in inpayments, while outpayments were declining simultaneously.

At the present time, it cannot be ascertained yet to which extent the decline in inpayments for deferred imports is connected with an actual decrease in imports. Certainly, however, it is important in this connection that part of the GARIOA and ERP deliveries, most of which so far were procured centrally, are "in distress", i.e., do not meet with a ready sale because of the changed market conditions. Moreover, it is significant that the adjustment of import prices of foodstuffs etc. (former category A imports) to the world-market price, as ordered by Military Governments, did not result ^{so far} in completely corresponding inpayments with the Bank deutscher Länder. As is well

Inpayments and Outpayments via the Accounts
for Settlement of Foreign Transactions
with the Bank deutscher Länder
in million DM

Month	Inpayments		Outpayments
	Total	thereof deferred imports	
June 1949	494.6	186.5	584.7
July 1949	564.3	158.7	501.5
August 1949	702.1	213.8	454.1

known, the public authorities had assumed the responsibility to provide the difference amounts, so as to avoid raising of domestic prices. Public authorities are granted a respite of 60 days in each case, however, so that inpayments have lagged behind actual imports. Moreover, on 31 August due payments amounting to more than 100 million DM were still outstanding. The remarkable increase in payments for commercial imports is explained in part by the increase in these imports which had been expected for some time and which now has resulted

in a noticeable deficit in the balance of commercial foreign trade, and consequently also in a decline of the foreign exchange holdings with the Bank deutscher Länder. In part, however, the increased inpayments are also due to the new import procedure which became effective on 15 July 1949. Since this time, the Bank deutscher Länder does no longer advance foreign currency as hitherto, but the DM amounts required for the purchase of foreign currency must be made available already prior to the opening of the import letters of credit. This, of course, entailed a temporary concentration of inpayments. By the end of July 44 million DM, and by the end of August 231 million DM had been paid in on the loro accounts established with the Bank deutscher Länder for the new procedure. In other cases, too, efforts are observed to keep liabilities in foreign transactions as low as possible.

The decline in o u t p a y m e n t s was, in the main, a decrease in outpayments from the counterpart funds which was due to the fact that the available GARIOA funds have been exhausted and that so far no funds from ERP accounts were released in favour of the Combined Economic Area for investment purposes. Only for the French zone a first release of ERP funds has recently been approved on principle. This release would be debited to the ERP counterparts accrued with the Landeszentralbank of Baden, which so far have not been included in the accounts kept with the Bank deutscher Länder, but has not been effected yet. In the average of July and August, outpayments to exporters have about maintained the level of the preceding months.

With the compensation carried through towards mid-July for the end level of the month of June, the granting of drawing rights pursuant to the Paris Payments and Compensation Agreement of 16 October 1948 was terminated. After lengthy negotiations, a new agreement concerning the second Marshall Plan year is expected, at the time this report is closed, to be signed shortly. In the case of the

final compensations for the first Marshall Plan year which were carried through in July - as in the case of most of the previous accountings -, the amount of drawing rights granted by the Western German Economic Area (Combined Economic Area and French Zone) considerably outweighed the amount it received on its part. Including this compensation, in the first Marshall Plan year all drawing rights which the Combined Economic Area had promised to its European partner countries were utilized, with the exception of approximately 1 million dollars which were subject to a special regulation. With regard to the granting of drawing rights, the scheduled and the actual development of Western German trade turnovers thus practically agreed with each other completely, which was not surprising, it is true, in that the receiving countries in the first place financed their imports of Ruhr coal by means of drawing rights. Utilization of the drawing rights granted to Western Germany, however, by no means reached the extent scheduled. Only in the case of two countries the specified area was able to fully utilize the drawing rights granted (totalling 33.7 million dollars), while in the case of two other countries 84 per cent of the drawing rights (totalling 65.5 million dollars) were left unused, and in the case of another two countries (total amount of drawing rights = 13 million dollars) even 100 per cent were not used. As a result, the Western German economic area only received 39 per cent of the drawing rights due to it under the Paris Payments Agreement, while the corresponding utilization quota for the total of the other countries participating in the European Payments Agreement was 92 per cent. According to the scheduled figures, Western Germany was to receive 14.8 million dollars of drawing rights more than she had to grant, while in fact she has granted 52.2 million dollars drawing rights more than she received. The overall picture for the status of the drawing rights of Western Germany at the end of the first Marshall Plan year therefore is as follows:

in million dollars

	Drawing rights given	Drawing rights received	Balance
Allocated	97.4	112.2	+ 14.8
Utilized	96.4	44.2	- 52.2
Not utilized	1.0	68.0	

This development, which is extremely unfavourable for Western Germany, is caused by the fact that the additional imports scheduled when the drawing rights were made out could not be realized with regard to the market economy. The demand taken as a basis when the schedules were drawn up last autumn proved a wrong estimate with regard to the selection of import markets as well as in respect of the anticipated formation of prices. However, there was no possibility of adjusting this estimate. In the Inter-European Payments Agreement for the second Marshall Plan year, a revision of the drawing rights is provided for the case that "there are gross errors in the computation of the deliveries on which the drawing rights are based". The non-utilization of drawing rights to a large extent was also due to the fact that the Western German economic area was called upon, to a comparatively large extent, for first-category compensations, i.e. that in certain cases, according to the principle "Europe first", debit and credit balances were compensated when drawing rights might have been used for the clearing of debts.

The adverse consequences of the non-utilization of drawing rights are twofold. It may perhaps be expected, it is true, that the claims to "conditional aid" resulting for the creditor countries which have promised drawing rights will be maintained, but the net aid for those countries to which the drawing rights had been promised is reduced by the amount of the non-utilization, as far as the period of validity cannot be extended. Moreover, there results a diminution of counter-

parts, i.e. of the formation of capital for investment purposes. If in the past Marshall Plan year granting and receiving of drawing rights had been but balanced, 179.4 million DM more would be available for investment purposes from the ERP counterpart funds of the Combined Economic Area as is now the case.

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

According to information available so far, the domestic business trend has not undergone a decisive change during the past weeks. The assumption of a substantial change for the worse is just as unfounded as that of distinct symptoms indicating a new stimulation of the business trend. In the industrial sector, at least, the economic activity in general has maintained the level reached during the first months of 1949 which, expressed by the index of industrial production, is about 10 to 15 per cent below the 1936 level. After the almost impetuous rise of production during the first six or nine months following the currency reform, the recovery of Western Germany has not made any further substantial progress at least inasmuch as visible industrial production capacity is concerned, although the structure and functioning of the economy have in many respects become sounder. Italy and Austria, whose recovery had likewise lagged behind during the preceding year, have during the past few months, contrary to the development of Western Germany, reached the prewar level of industrial production or - in the case of Austria - even exceeded this level.

Production of important Investment Goods
in the Combined Economic Area
per working day

Monthly average or month resp.	Iron and steel production		production of building materials		cement	burnt lime	bricks	lumber	trucks	passenger cars
	pig iron	crude steel ingot	roll ing mill products							
	1 000 tons				ea in mill.			1000 cubic mtrs.		ea
1948:										
Oct-Dec	16.5	21.5	14.7	19.4	12.8	9.4	24.4	136.5	158.3	
1949:										
Jan-Mar	18.5	25.0	17.0	16.5	11.6	6.0	26.0	159.2	215.3	
Apr-June	19.6	27.2	18.7	23.3	13.7	11.1	26.5	167.4	297.7	
May	19.8	27.5	18.6	23.9	13.3	11.8	26.4	164.1	296.4	
June	19.9	27.7	19.3	24.4	13.9	13.3	25.6	172.7	333.3	
July ¹⁾	20.1	27.3	18.6	25.4	13.2	13.5	23.8	151.3	345.7	

1) preliminary figures

The index of industrial production in the Combined Economic Area, calculated by the Department for Economics, reveals an increase per calendar month by 2.3 per cent in July - figures for August were not available at the closing of this report -; expressed in working days, however, it shows a decrease by approximately 3 per cent, due to the larger number of working days in July. However, not too much importance should be attached to this change. On the one hand, the Department for Economics itself points out that the consumption of power, which predominantly depends on the industry, increased by 4 per cent per working day, the consumption of gas maintained its level per working day, and the consumption of coal was likewise higher than in the previous month - trends running contrarious to the development of the production index, and therefore difficult to explain. In July, the furnishing of freight cars by the Railway

was also higher, per working day, than in June. Moreover, furlough, closing of plants during the vacation period, and the shifting from the summer production to the fall and winter production which is necessary in many branches, evidently impaired the production performance during July. In previous years as well, industrial production often declined during July. Undoubtedly, however, just the efficacy of such seasonal influences shows that the dynamic impulses, which formerly caused the upward business trends, were still weak.

So far, it cannot be clearly analyzed how production has developed during August. Some symptoms permit hope for an improvement. First, the total number of unemployed in the three Western Zones increased by only about 5,700, whereas it had grown by 26,100 and 19,500, respectively, during the preceding two months. The number of unemployed males even dropped. Since the influx of new persons seeking employment was certainly greater, employment has probably increased.⁺ The production of pig iron as well as that of crude steel ingots was considerably above the previous peaks. Finally, it is remarkable that the current supplied by public utilities rather considerably rose from week to week during August and, amounting to almost 420 million kwh during the last full week in August, exceeded the level of the corresponding week of July by about 5 per cent. It must be borne in mind, however, that public electricity works furnish only about half the current consumed by the industry - the remaining half comes from the industry's own power plants --, and that the total industrial production need not necessarily have developed parallel to the above-mentioned figure of power supplied, since the consumption of current is largely directed by the requirement of individual industrial large-scale consumers.

At any rate, until several weeks ago at least, the situation was characterized by the fact that the investment activity still showed hardly any symptoms of a stronger stimulation of the business trend, but certainly no signs of shrinkage either. Employment in the building trade, which is not covered by the

⁺ Furthermore, there was an increase in iron and steel output.

production index of the Department for Economics, considerably improved during the summer months, it is true, - the increase in the production of important building materials and the decline of unemployment among building operatives clearly proves this upward trend -, but it is unlikely that the common seasonal level was surpassed. Besides, the increase in the building activity was hardly able to cause a substantial expansion of the investment volume. The production index of the investment goods industries, which comprises the production of building materials, dropped to about the same extent per working day during July as the general index, since several important industries, such as the electrotechnical industry, machine industry, vehicle construction, lumber mills, and timber industry, generally showed production results which had decreased, or were stagnating at best. Coal output as well, which occupies an important key position within the total industrial development, during the past months could barely maintain the level reached in May, although this result is quite noteworthy when considering the reverse seasonal trend. During August, the output per working day even dropped somewhat. The margin set to a higher increase in industrial production by the coal supply, therefore, is still not very large. In the allotment plan for coal for the fourth quarter, the amount of coal provided for distribution was increased from somewhat less than 19 million tons to 19.1 million tons only.

Due to the lack of reliable statistics, the situation regarding sales is hard to analyze. Practically all branches of the economy are doubtlessly still endeavouring to keep their stock piles as low as possible, or even to reduce them unless growing competition will force them to enlarge their assortments. Nevertheless, in general there is no reason to speak of a shrinkage of turnovers. On the contrary, as far as data are available, the revenue derived from turnover tax slightly increased, as stated in the section "Public Finance" (which rather points towards an increase in the volume of turnover), and the furnishing of freight cars by the Railway per working day had nearly maintained its level by July, which is also true of the parcel dispatch by the Postal Administration. The

rates of retail turnover, after a slight decline during May and June, in July even showed a marked increase due to the influence of summer clearance sales; in this connection, it is characteristic ^{that} with regard to the demand superior qualities were still given preference. Great scepticism is to be applied concerning reports on the alleged decline of incoming orders for the industry, which have been circulated for months. As a rule, such a decline is frequently of a temporary nature and may be due to sporadic dispositions by a few large-scale consumers such as the Railway, although it is evident that the number of unfilled orders has often greatly dropped as compared with the beginning of the year, due to the aforementioned reluctance in the policy of stock piling, particularly on the part of trade. As the development of important branches of heavy industry shows, a continuously increasing gap between deliveries and orders can, in general, hardly be assumed to exist: In the iron and steel industries, incoming orders, it is true, have rather considerably fallen behind the deliveries; however, the situation of the casting industry - where at the same time orders practically regained the level of deliveries after they had likewise shown a sharp decline below the current sale - proves how fast such a development can be readjusted. For months, orders for the production of pig iron, with the exception of slight fluctuations, practically maintained the level of deliveries which, in general, has hardly changed. Nevertheless, there was hardly any indication, at least by July, that the promised facilities of investment financing had already exercised a large influence on orders.

An undoubtedly gratifying impulse on the general business trend is effected by the gradual strengthening of the agricultural production capacity - an impulse which unjustly is often completely disregarded. As to the 1949 harvest yields, final estimates are as yet not available. Preliminary estimates reveal the following picture: Owing to the favourable weather conditions and the improved supply of agriculture with fertilizers, a good harvest is expected for grain; in the case of fodder grain particularly, in 1949

considerably higher yields were probably attained than in the previous year. With regard to green fodder, the first crop was very satisfactory; the second crop, however, in some cases, particularly in Southern Germany, was greatly affected by the drought. It may be assumed that oil seeds, exceeding the previous year's level of 117,000 tons by more than fifty per cent, have reached approximately 90 per cent of their pre-war level, especially since the acreage had been considerably enlarged for this type of seeds. As regards root vegetables, the harvest yields of sugar beets can as yet not be estimated; the potato crop, however, will be considerably below that of the previous year due to unfavourable weather conditions and the reduced acreage. In general, it is to be assumed, however, that the field crops will probably be better than in the previous year, thus enabling agriculture not only to maintain its 1948 proceeds from the sale of field crops, but also to utilize the crop ^{to an increased extent,} for fodder purposes with correspondingly higher profit chances.

Based on a more plentiful supply with fodder, the keeping of livestock will gradually increase again. As the June census shows - the results of the December census were published in the June report - during the first six months of the year livestock continued to reveal a gratifying trend; in this connection, it must be borne in mind, however, that the pre-war level of pig raising has not yet been equaled by far and the productivity of milk cows, in general, is still relatively low due to the reduced fodder supply. Until fall, the number of pigs will continue to increase, but from then on it will probably stagnate since the number of sows with young has not increased during the past few months. It is expected that in the near future a further increase will be limited also by the bad potato crop and the import possibilities for fodder grain. For the time being, however, the proceeds derived from the sale of agricultural produce will probably rise.

Livestock in the Combined Economic Area

	Number in 1000 in June			Percentage change in 1949 against 1948
	1935 1939 ¹⁾	1948	1949	
total number of pigs thereof	10021.4	4384.6	6612.2	+ 51
sucking pigs and young pigs (under 6 months)	7260.2	3165.1	4789.2	+ 51
total of sows for breeding thereof	995.0	635.0	838.1	+ 32
sows with young	667.2	357.5	465.7	+ 30
pigs for slaughter	1725.7	534.0	932.1	+ 75
total of cattle thereof	10708.6	8850.4	9316.8	+ 5
milk cows	5209.4	4370.6	4534.5	+ 4
total of sheep thereof	2176.9	2630.5	2670.4	+ 1.5
ewes (1 year and over)	1053.0	1444.8	1442.0	- 0.2

1) Comparison period for cattle = 1944

By the end of August, unemployment had continued to increase. As the following table shows, the upward curve has leveled off more and more during the past few months. In August, as already mentioned, the number of unemployed registered in the entire specified area rose by only 5,700 and in the Combined Economic Area by 2,500 only. In this connection it is, moreover, remarkable that, for the first time during a whole month, the number of unemployed males dropped, so that the increase in total unemployment can only result from a further rise of female unemployment. This is probably due to the fact that the influx of new labour force to the labour market, chiefly consisting of females, is still very high. Generally speaking, it can be assumed that, as a whole, the expansion of unemployment is based rather on the registration

of new labour and no longer on a decrease in employment. It may be taken for granted that these overall figures - as is generally the case - result only from diverging individual fluctuations, i.e., the probable increase in the total employment may very likely coincide with a decline of employment in individual industries.

In August, the further increase in the building activity has obviously had a great influence on the decrease in the number of unemployed males. This decline was due, to a great extent, to seasonal fluctuations; in general, according to the development experienced in the twenties and thirties, unemployment normally drops until late in September. It is true, however, that in these years the influx of new labour was probably not so great as today, which doubtlessly justifies the assumption that, generally speaking, the "contra-seasonal" increase in unemployment during the past few months was probably due exclusively to the repeatedly described specific influences to which the labour market of Western Germany is subject at the present time. In fact, the general employment situation would be more satisfactory today even under these influences, had the business trend not practically stagnated for months, but revealed a stronger upward tendency. Even then, however, hopes for a short-term automatic improvement of the labour market by reducing the number of unemployed by several hundred thousand would probably be out of place, since, as explained in the June report, at present a rationalization process is under way in practically all branches of employment, and at the same time the number of persons seeking employment shows a relatively high increase due to various reasons.

Development of Unemployment in the Specified Area

	Monthly Increase (+) or Decrease (-)								Level as of Aug 49 in 1000	
	Level as of end of Dec 48 in 1000	Jan.	Febr.	March	April	May	June	July		Aug.
Northrh- Westf.	106.2	+18.4	+ 2.8	+12.3	+27.6	+12.2	+3.2	+2.2	-0.8	184.1
Lower Saxony	171.0	+42.2	+23.7	+23.0	+13.4	+9.1	+4.4	+1.6	-0.7	287.7
Schl.- Holst.	114.8	+25.8	+14.8	+15.0	+13.3	+2.9	+2.5	+3.3	-4.3	188.1
Hamburg	26.2	+5.8	+ 2.8	+ 3.7	+ 5.6	+4.7	+3.1	+3.9	+1.6	57.4
Bremen	11.5	+2.0	+ 1.2	+ 0.8	+ 1.4	-0.6	+0.4	+0.6	+0.1	17.4
Bavaria	227.1	+73.7	+39.7	+24.2	- 4.5	-13.2	+1.3	+2.8	+7.6	358.7
Hesse	61.1	+18.3	+ 9.6	+ 9.9	+ 2.2	+0.1	+3.7	+0.8	-0.2	105.5
Württ.- Baden	25.0	+8.7	+ 5.8	+ 5.0	+ 3.6	+5.7	+3.5	+1.6	-0.8	58.1
Baden	4.3	+0.6	+ 0.1	+ 0.8	+ 0.2	+0.6	+0.5	+0.6	+0.1	7.8
Württ.- Hohenz.	2.0	+0.2	+ 0.7	+ 1.4	+ 0.3	+0.2	+0.0	+0.2	+1.3	6.3
Rhine- Palat.	10.4	+7.6	+ 4.8	+ 3.4	+ 0.9	+3.1	+3.5	+1.9	+1.8	37.4
Total thereof	759.6	+203.3	+106.0	+99.5	+64.0	+24.8	+26.1	+19.5	+5.7	1308.5
females	211.6	+27.8	+24.8	+30.2	+41.3	+12.2	+4.0	+12.9	+17.3	382.1
males	548.0	+175.5	+81.2	+69.3	+22.7	+12.6	+22.1	+6.6	-11.6	926.4

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

During the past few weeks, the development of prices continued to be rather uneven; in general, however, the price trend probably was still on the decline. A clear ascertainment is still rendered difficult since the assortment and quality of goods constantly change and the price reduction, therefore,

is quite often concealed. As to the causes of the price decline, only in exceptional cases was this decline due to a pressure on prices resulting from the business trend, i.e. a pressure brought about by shrinkage of the purchasing power. On the contrary, tendencies towards price reductions generally originate from the supply; the forces behind these tendencies are increased supply, declining costs and sharper competition, whereas decreases in demand, in general, play a part only in the case of goods which are more and more disqualified by the new assortments. With regard to the seasonal clearance sales, however, such price reductions gained considerable importance. The fact that the marked local and regional price differences still existing several months ago gradually disappear is a natural consequence of price adjustments caused by competition. For the same reason, the margin between producers' and consumers' prices will diminish step by step.

During the past weeks, a competition problem of a special kind arose through the lifting of the Eastern Zone blockade. Although an official exchange of goods has not yet been arrived at due to the difficulty of reaching an agreement on a fixed exchange rate and on certain other modalities in clearing transactions, a rather brisk irregular trade has started on a cash basis. Due to the low rate of exchange of the Eastern DM, the Economy of the Eastern Zone is in a position to offer at prices which are partly far below those of the specified area. As a consequence of these conditions, considerable difficulties arose in individual fields which are precarious also from the point of view of economics.

Considering these circumstances, it is difficult to state whether or not the price decline has decreased during the past weeks. Obviously, the development in the individual branches is quite different according to the situation of supply and cost. As reported from the industry, there is a more and more increasing tendency towards granting more favourable terms of delivery to the buyer rather than towards reducing prices. In certain industries, in particular in the primary materials industries whose prices are partly still under governmental

direction, the tendency towards enforcing higher prices is continuing. For instance, the iron and steel industries at present are making efforts to obtain a price increase for bar and shaped steel of about 7 per cent, pointing out inter alia that the price of foreign ores has increased. The tendency towards lowering the prices of building materials, however, seems to remain the same; in general, the building costs which are still very high in many cases now are gradually declining, due partly to the introduction of new building methods.

Development and Level of Building Costs
for House Building 1936 - 1949¹⁾
(in 8 big cities of the Combined Economic Area)

	January 1949	June 1949	Changes in June 1949 as compared with January 1949
	1936	= 100	
removal of earth	339.8	274.4	- 19.2
building materials free on building ground	237.1	205.8	- 13.2
thereof:			
bricks	260.6	238.6	- 8.4
lime	187.9	180.3	- 4.0
cement	152.0	143.9	- 5.3
lumber	287.8	235.5	- 18.2
construction iron	192.7	174.7	- 9.3
handicraft work	225.3	192.7	- 14.5
wages, charges and profits ²⁾	174.2	179.9	+ 3.3
thereof:			
standard wages and incidental wages ²⁾	170.1	177.5	+ 4.4
planning, and building management	215.3	195.3	- 9.3
fees of Board of Surveyors	208.1	188.7	- 9.3
interest on building funds of the owner	368.9	356.4	- 3.4
total	214.4	194.6	- 9.2

1) Based on calculations of the Statistical Office of the Combined Economic Area.

2) Taking into account deficiency in work.

Retail prices still developed very unevenly. According to the observations made by the Hessisches Statistisches Landesamt, however, at least the number of price reductions in retail trade has supposedly further decreased.

The margin between black market prices and legal prices for some rationed foodstuffs has diminished further. Due to the progressing discontinuance of the rationing system or the increase in rations and the improved supply, the splitting of the market into a "black" and a "white" market has, in some cases, ceased to exist, particularly in the production areas. In the case of specific stimulants subject to taxation, the prices of the "black market", which eludes taxes and customs duties, are even below the official prices. Supported by comprehensive smuggling, the turnover rates of the black market are partly very high in these branches as compared with legal trade.

Furthermore, special problems are raised by the price regulation for imported foodstuffs and fertilizers pursuant to the order by Military Governments concerning the application of the 30 cents rate to these imports as well as per 31 May of this year ¹⁾. As is well known, at that time an adjustment by reduction, or raising respectively, of the prices of foreign products to the German price level was decided upon as a matter of policy because an adjustment of the German prices to world-market prices would have resulted in a rather considerable additional burden for the consumer in all cases of raising prices (particularly in the case of bread) and in a decline of agricultural yields in all cases of price reduction (e.g., sugar beets and oil seeds). The technical execution of the reduction or raising, respectively, was to be assigned to an import adjustment agency whose establishment, however, was disapproved by Military Government. A committee of representatives of producers, importers, trade, co-operatives, consumers, and the food industry was

1) See "Monthly Reports of the BdL, June 1949, p. 46.

established instead as a makeshift solution until the end of 1949, for the purpose of advising the administrative agency charged with the price adjustment.

During the last months, the subsidies necessary for reducing the prices of imported foodstuffs to the domestic price level proved to be considerably higher than had originally been expected in view of certain favourable prerequisites. Thus, in particular the assumption had to be abandoned that Western Germany would be granted the maximum price of the International Wheat Agreement, viz., 180 cents per bushel, which would have corresponded to a price of 300 DM per ton free Hamburg. On the contrary, the - subsidized - domestic price of the United States has to be paid, which by mid-June corresponded to a DM price of 350 DM per ton of wheat free Hamburg and which still corresponds to a DM price of about 316 DM per ton free Hamburg, even after the price decline which occurred in the meantime in the stock exchanges of the United States. According to a statement of the U.S. Military Government, Western Germany will not be able to enjoy the maximum price laid down in the International Wheat Agreement prior to an eventual accession of the Federal Government to this Agreement, i.e., at the beginning of 1950 at the earliest. In the case of corn as well, too low an import price was first used as a basis. As compared with previous amounts, the subsidies for oil seeds and fertilizers also had to be increased, since raising the prices of fertilizers to the extent first scheduled is considered unbearable for agriculture. Fish imports, too, have to be subsidized of late by about 10 million DM, since import contracts had been concluded with Iceland and Great Britain at prices more than twice as high as the domestic market prices. Negotiations on a price reduction or curtailment of imports have so far been without success.

Due to these circumstances, the gross subsidy for the fiscal year 1949/50, which under different pre-requisites had been calculated at 340 million DM by the Agrarpolitische Kommission des Preisrates (agricultural commission of the price committee) will probably be increased by approximately 200 million DM.

It is true that the amount estimated, for the time being, at 131 million DM - resulting from the import of those foodstuffs prices of which are below the domestic price level will possibly be increased by nearly 30 million DM. But even in this case - according to the present estimates - an encumbrance of approximately 400 million DM net would result for public budgets from subsidizing prices of food and fertilizers. Of course, the actual development will likewise more or less deviate from this revised estimate. Apart from possible changes in the foreign exchange rate, the actual requirement of subsidies will particularly depend on the development of world market prices, on possible changes in the supplier areas, and on the actual quantities of imports. In view of these uncertainties, steps have been taken to the effect that ^{not} only the annual requirement of subsidies will be estimated in advance but, in addition, quarterly calculations will be made. The net subsidy to be raised from budget funds for the third quarter of 1949 has been estimated at approximately 163 million DM.

Despite declining prices and growing unemployment, the earnings of workers in the Combined Economic Area have further increased during the second half of 1949, according to statistical data available. As may be taken from the following table, this development is due partly to an increase in the working time (the reports on growing short-time work - which met with great interest - can thus hardly have been generally correct for the second quarter), and partly to an increase in earnings per hour. The average weekly earnings of workers during June were 10.4 per cent

higher than during September 1948; as compared with December 1948, the increase amounts to almost 6 per cent. According to the cost-of-living index newly computed by the Statistical Office of the Combined Economic Area, the real income of employed industrial workers is thus only 13 per cent below the 1938 level. During December 1948, the difference was 25 per cent, and in March 1949, 22 per cent; however, consideration has to be given to the fact that these calculations can reveal only approximate amounts due to the difficulty of comparing such long periods.

Development of Wages of Industrial Workers
in the Combined Economic Area 1)

		average weekly working hours	average weekly gross earnings DM	average hourly gross earnings D-Pfennig
1948	September	43.8	47.40	108.3
	December	44.2	50.70	113.2
1949	March	45.3	52.55	116.1
	June	46.3	55.31	119.6

1) Male and female workers

Overall Situation and Credit Policy.

If we finally try to realize the present overall situation of the economy, we obtain about the same impression as in the past few months: In spite of the slight further increase in the number of unemployed, there can be no question of a shrinkage process when the purely seasonal changes are left out of consideration; but - if the formulation used in a preceding section may be repeated - the impulses are lacking which might result in a stronger reactivation of the economy. With other words: the economy is stagnating, or at any rate it is not expanding to the extent necessary to give employment to all persons entering the labour market, much less to reduce the unemployment existing already. In the June Report the fact was already pointed out that it will hardly be possible to attain as strong an upward business trend as would be necessary in order to reduce unemployment - by strengthening the natural resorption capacity of the economy - to the unavoidable fluctuation level, because the sudden concentration of people in the Western German area has resulted in a disequilibrium between people seeking work and material production factors; this disequilibrium can be removed, without serious damage to the economic cycle, only by a gradual change of the economic structure. There is no doubt, however, that already now the available production reserves would permit a higher level of production and employment, with the market equilibrium being fully maintained. The fact that this margin is not utilized is the more to be regretted as in Western Germany the social product still is considerably below the pre-war level not only as calculated per capita, but also in the absolute amount.

As is well known, the absence of a greater activity in the business trend is in the first place due to the but slight increase in investments. Contrary to a widely spread conception, it has to be emphasized again and again that the volume of investment is by no means decreasing, but as a whole has increased probably also in the past few months, the more so as eventually there occurred a rather

strong seasonal stimulation of the building activity; but apart from such seasonal changes the expansion probably was but slight, as is shown, in particular, by the almost unchanged level of the production index for the investment goods industries, which in July even was somewhat lower per working day. Due to the relative stagnation of the investment activity, however, the pre-conditions for a stronger recovery of the consumers' goods industries were also lacking, as the production of consumers' goods had adjusted itself to the current income for consumption purposes as early as in the winter months, and the stagnating employment in the investment goods industries prevented a further increase in the income of the mass of the population.

As a rule, this unsatisfactory development of the investment activity is supposed to be due exclusively to the lack of sufficient financing possibilities. However, such a consideration of the facts means to simplify them in a very dangerous way. If one studies in detail the present impediments to investment, it becomes evident again and again that they are by no means to be found in a deficiency of capital and credit alone, but that frequently other causes also play a very important part. For housebuilding, e.g., it is of decisive importance that it has become "uninteresting" to a large extent for private capital because of the government control of housing, and the building of new dwellings thus predominantly is the responsibility of public investment policy, which of necessity is subject to so many budgetary and other directions that many a project cannot be effected, or is delayed for a long time, even if the funds required are available. In general, it is an inevitable consequence of the substitution of government planning for direction by the market - which just in the field of investments is so far-reaching - that in many cases capital dispositions, at least with regard to fixing of dates, do not coincide with the actual requirement of the investors. This results in stoppages of the capital circulation considerably impeding the utilization of the funds provided and thus causing symptoms of scarcity which might be considerably mitigated by a different distribution of the capital. In this connection, the fact is rather important that because of the too high tax rates a large

part of the capital formation is effected via public budgets to-day.

Although the stagnation of investment activity is thus by no means due exclusively to deficiency of capital, but to a certain extent to far-reaching disturbances in the process of formation and supply of capital, which can be removed only by an extensive revision of the general economic policy, in particular of the taxation policy, it is nevertheless evident that in many cases the problem of financing is the decisive impediment to investment. Paradoxically, this is due, not to the smallest extent, to the fact that at present the economy absorbs liquidity like a sponge. Since confidence in the currency has been secured and investments in kind are no longer in any case preferred to investments in money, many enterprises endeavour to replenish their monetary reserves - which, as an after-effect of the currency reform, are often considerably reduced -, instead of re-investing the operating surpluses obtained. As a rule, they are looking, however, for strictly liquid investments, i.e., they transfer but a small part of the funds concerned to the capital market, so that the banks suffer from lacking possibilities of refunding their prefinancing credits and therefore are relatively limited in granting new credits. Therefore, the growing of the credit volume is perhaps just sufficient to compensate the slowing down of the velocity of turnover of money and credit connected with the increased liquidity preference and the "freezing" of some credits; but it does no longer effect a general expansion of the economic cycle.

Some months ago, there was hope that it would be possible to break through this circle at least by a greater utilization for investment purposes of the liquid funds accumulated with public authorities. In the capital supply program for the third quarter of the current calendar year ¹⁾, drawn up by various administrations of the Combined Economic Area, the Länder - as is known -

1) Cf. "Monthly Reports of the BdL, June 1949, p.16 and p.21.

had declared their readiness to make available for investment purposes 800 million DM in the period concerned. Further considerable amounts were to be invested, or to be granted as credit to other investors, by the Combined Economic Area, the Gemeinden, and social insurance. As far as is ascertainable, most of these promises were kept also inasmuch as the funds promised were released by the finance administrations for spending. Full compliance with estimates, however, was not possible in all cases because due to new facts often the taking over of liabilities left out of the consideration so far had to be anticipated, which rendered it advisable to retain a stronger liquidity reserve. Above all, however, it has become evident that in many cases the means released for spending could not be utilized as quickly as expected originally, because some investment projects still were not mature, there were red-tape impediments, or the capital expected from other sources was not received while, e.g., the supply of part of the public funds scheduled for social housing depended on the supply of that capital. In part, these are the same impediments to an earlier stimulation of investment activity as referred to above. Another deficiency as compared with the originally expected supply of capital was due to the fact that the expected release of counterpart funds was not granted. As is well known, in June the Administrative Council had asked for release of 600 million DM from ERP funds. However, various circumstances, such as above all the fact that the decision on this application is vested in the ECA in Washington, have delayed the supply of subject funds to date, so that in the past few months the Reconstruction Loan Corporation was not even able any longer to promise, to any extent worth mentioning, investment credits, after it had actually channelled into circulation almost 200 million DM from mid-April to the end of June. The fact that the mobilization of the investment accounts by the Reichsbahn Loan issued in June/July of this year kept within relatively modest limits also diminished the amount of capital, supply of which had been expected for the third quarter. As explained

in detail in the section "Money and Credit", in contrast there-
to the capital supply from the regular private formation of
capital has made certain further progress; but due to the con-
stantly low level of real income and to the high tax rates, this
source is much too scanty as to be of great importance beside
the other sources of capital formation which in total did not
become considerably more productive. The actual supply of the
economy with capital thus remained comparatively scarce, and
the volume of investment did not increase in the measure that
would have been possible, without jeopardizing the market
equilibrium, on the basis of a gradual widening of certain
bottlenecks in production and of the far-reaching consolidation
of the economy.

This development was one of the facts which the Central Bank
System had to take into account, during the last weeks, in the
continuous checking of its credit policy.

A second factor which had to be taken into account was the
tightening of the money market observed since June of this
year, which also is dealt with in detail in the section "Money
and Credit" of this Report. As explained, this tightening was
due on the one hand to the continuing increase in the amount
of currency in circulation, - which increase, however, keeps
within narrow limits and is connected with influences not
giving any reason for objections from the viewpoint of
currency policy -, and on the other hand to a strong decline in
the commitments of the Central Banking System outside the range
of refinancing transactions. In the last-mentioned development,
the two motive factors were the repayment of the central bank
credits granted to public authorities during the months April
to June and the decrease - due chiefly to the new import
procedure, - but also to the considerable increase in commercial
imports - in the excess of outpayments in the money turnover
on the foreign accounts of the Bank deutscher Länder. It was
in the nature of things that the Central Banking System itself
could play but a passive part in this connection. Direct
recourse to it - not serving refinancing purposes - thus
declined, and according to the mechanism of the money market

there resulted a strong diminution of the banks' liquidity, with a slightly tightening effect on the open market rates. As described in the first chapter of this report, this development did not affect the granting of credits by business banks, it is true. On the contrary, in July and August the rate of expansion of the business banks' credit even increased, which may be explained, in part, by the fact that the circumstances resulting in a diminution of the aforementioned direct commitment of the Central Banking System compelled the economy to take up more credits from the banks. At the same time, however, the potential credit of the banks declined, and thus tendencies arose which were not consistent with the efforts of the Central Banking System aiming at an increasing relaxation of the credit markets.

In view of all these circumstances, the Central Banking System, consequently developing its policy pursued so far, decided upon a number of further measures facilitating borrowing. In detail, the first of these measures is a renewed reduction of the minimum reserves to the extent stated on page 13, which is intended primarily to counteract the tightening of the money market occurred since June. By this reduction, as of September the minimum reserve rates - with the exception of the rates for sight deposits at bank places, for which a certain differentiation from the rates for nonbank places seemed appropriate in consideration of the small requirement of cash holdings of the more centrally located financial institutions - have reached the minimum limit fixed in the second Law for Monetary Reform. By this measure, the financial institutions will be able to record, according to the deposits as of August, an increase in liquidity amounting to 180 million DM.

Above all, however, the Central Banking System has endeavoured to expand the possibilities of export and investment financing.

As to facilitating export financing, according to the resolutions taken by the Board of Directors of the Bank deutscher Länder care shall be taken that the exporters may obtain, for the execution of large export orders greatly straining the financial power of the enterprises, medium-term credits which they shall repay according to the receipt of the export proceeds. This measure grants a certain compensation for the fact that many enterprises were not yet able to recover the loss of working capital suffered by the sharp currency reform, and therefore frequently are not in a position to bridge, by their own means, the gap resulting from the production periods which often are rather long in the case of high-quality export goods. How important it is for Western Germany, however, to increase her exports at the best of her ability, is clearly shown by the sharp cut in foreign aid to be expected for the current Marshall Plan year, as reported on in a preceding chapter.

The resolutions of the Board of Directors concerning financing of investments shall enable the commercial banks to grant already now, up to a fixed aggregate amount, additional investment credits in a comparatively wide dispersion, i.e., not only in individual centers of gravity. Care has to be taken, however, by binding provisions concerning repayment of the aid which the Central Banking System is willing to grant in this connection, that the commitments of the Central Banking System only concern an anticipation - of comparatively short-term nature, in all probability - of the future regular formation of capital. Thus the resolution substantially differs from plans only providing for a "credit injection" by the Central Banking System, without at the same time establishing guaranties for a gradual repayment of the central bank credit granted. As the resolution of the Board of Directors gives a far-reaching guaranty just in this respect, it may certainly be designated to be "in conformity with the principles of a bank of issue", and so far it only continues the policy pursued by the Central Banking System up to now already, which, e.g., by the release of counterpart funds and certain promises of rediscount and collateral loans repeatedly permitted an

increase in the creation of central bank money in favour of investment financing, because there was guaranty that it would be a case of preliminary supply only.

When fixing the contemplated amounts, it has been endeavoured to take into account the requirements of the present business situation as well as the responsibility, with regard to currency policy, of the Central Banking System. Thus a deaf ear has not been turned to the fact that the capital requirement of the economy is very great and that the gradual widening of several bottlenecks, which as late as in winter considerably impeded the development of production, has created a certain margin for an additional demand not jeopardizing the stability of the currency. The strong decline which occurred since June in direct central bank credits not serving the refinancing of financial institutions also could be quoted in favour of the proposed expansive measures.

On the other hand, however, it had also to be taken into consideration that the margin within which demand may be extended without endangering a sound market equilibrium never is known a priori, but has to be found out very cautiously. In particular, the fact has to be considered that - as explained in detail in section "Foreign Trade" - the potential import of the Western German economy has considerably declined, in the first instance, by the substantial reduction of foreign aid for the second Marshall Plan year, and larger increases in production therefore depend, to a very large extent, on the development of exports, which of course would be greatly impaired by the reappearance of "sellers markets" at home.

Above all, however, it had to be taken into account that, in addition to the possible measures of the Central Banking System, a number of other developments are already acting in favour of an expansion of, and increase in, the velocity of circulation of the money volume. Thus, public authorities have taken an active part in the prefinancing of certain investments by granting credits; in this connection, emphasis has to be placed particularly on the issues of treasury bills

which the Combined Economic Area partly has placed already and partly has scheduled, in favour of the Industriekreditbank and the productive projects of the Immediate Aid, as reported on in the section "Public Finance". In the same section it has further been explained that to a certain extent also consumption expenses have already been prefinanced by credits under the Immediate Aid; in general, the development of public finance recently is characterized by the fact that the period of a formation of considerable surpluses, which so far were in part inactivated, has come to an end, in that a considerable increase in expenses is to be anticipated. The extensive shiftings in income due to the taxes on property under the Immediate Aid program, which doubtlessly will result in an increased credit requirement, must not be disregarded in this connection. In all these cases, developments are concerned which require a very careful harmonizing of credit policy and financial policy.

However, it would be completely absurd, also from the standpoint of the economy, to make available many hundreds of millions for investment purposes from the first, because such high amounts cannot be invested in an economical way for a short term. On the contrary, again and again it has become evident that investors who had been granted relatively high credits have spent those credits much more slowly than was to be expected according to their urgent applications. But the resolutions taken by the Board of Directors also aim at giving the commercial banks a clear view of the aid they may expect from the Central Banking System, thus enabling them to give binding promises to the investors; to keep the actual aid, however, strictly consistent with the development of the actual need of the investors.

The measures decided upon will certainly contribute essentially towards the creation of better financial pre-conditions for a larger increase in the investment activity. The word "pre-conditions" has to be emphasized, however, as the monetary situation always is but one of the many conditions of investment. The extent to which the economy actually utilizes a larger margin of credit is moreover dependent on its own

initiative and, before all, on the general economic policy which, as mentioned at the beginning, contains no less considerable impediments to investment as does the deficiency of capital. Measures of credit policy therefore will exercise their full effect only if the other obstacles impeding at present the expansion of the economy are removed at the same time.