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MONTHLY REPORTS
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Money and Credit

Short-term Bank Credit and Bank
Deposits

On 22 March 1949, the restriction of the credit volume of financial institutions (so-called rationing of credits), in force since 16 November 1948, was rescinded by direction of the Board of Directors. As explained in the last monthly report, this action was not meant to pave the way for renewed expansion of bank credit but, on the contrary, to regulate bank credit again by normal banking policy, i.e. particularly by the interest rate and by private credit selection. The Board of Directors expects that financial institutions, on account of

their experience, will, when granting short-term credits, automatically apply the caution which is required in the interest of the currency and a sound banking policy. This expectation has so far, come true. According to the results of the weekly banking statistics - while this report was being printed, data were available until 23 April 1949 - the increase in bank credit during the first five weeks following the abandonment of the restriction has continued but hardly accelerated.

Increase in short-term credits to non-banking institutions granted by 112 financial institutions included in the weekly banking statistics in million DM

weekly average from 1 November to 15 March 1949	+ 34
weekly average from 15 March to 23 April 1949	+ 36

In the above table, the third week of March has been added to the period following the abandonment of the rationing although the respective decision was not passed until 22 March 1949. The reason for this is that in statistical terms there was recorded a decrease in credits (-15 million DM) during the third week but a considerable increase (+64 million DM) during the fourth week, a process which in the main was due to some belated renewals of bills of exchange and which has to be reviewed in the statistics as a whole since the developments in the third and in the fourth week belong together. The total increase in credits during the five weeks following 15 March was only slightly larger than that during the previous 18 weeks.

From 1 April through 23 April, a 100 million DM increase in credits of the 112 weekly reporting financial institutions alone was recorded. The Hanse City of Hamburg was mainly responsible for this increase (+ 14 million DM). In this case, however, 79 per cent of the total credit volume is covered by the weekly statistics. Furthermore, the 22 million DM increase in Northrhine-Westphalia is worth mentioning although when compared with the total credit volume, it is only 20 per cent.

When taking as a basis the relation between the weekly statistics of the individual Lander and the figures of the corresponding monthly statistics, total increase in bank credits during the first three weeks in April would have to be estimated at about 260 million DM. Thus total increase in March which amounted according to the monthly statistics to 286 million DM was almost equaled. The increase in the total credit volume in April will probably have amounted to roughly 6 per cent. Although the financing of foreign trade - the financing of imports in particular - as indicated by the Hamburg statistics, had a sizeable share in this increase, working credits and credits for the interim financing of certain investment projects under way are probably also participating in the credit expansion. The increase in short-term bank credits of the 112 institutions in April - just as the total increase in March of which public authorities accounted for only 3 million DM - nearly exclusively benefited business and individuals. The frequent complaints that bank credit was not available or at least not to a satisfactory extent are not at all supported by the figures on hand. In fact, the complaints would not appear understandable had the shortage of medium- and long-term credit not forced the economy to raise short-term bank credits to a greater extent than could be accepted from the viewpoint of sound banking policy thus creating the impression of a relative shortage.

As far as the composition of credits is concerned, the increase in March is - contrary to the previous months - distributed equally among bills of exchange, current account and acceptance credits with a share of five per cent each. During April, mainly current account and acceptance credits increased, at least at the weekly reporting banks, whereas bills of exchange credits rose only slightly.

According to the monthly statistics, the total volume of short-term credits of business banks amounted to 5 551 million DM at the end of March. According to the above statements, it would have to be estimated at over 5 800 million DM as of 23 April and probably at 5 900 million DM as of the end of April.

Neither in March nor in April did the central bank system have to give substantial direct assistance to the expansion of bank credits. By mid-April, central bank credits granted to financial institutions amounted to 1 611 million DM and were thus only 52 million DM higher than at the end of February. Indirect aid from the central bank system, however, was substantial. Through the settlement of the DM-side of foreign transactions and other payments within this group of accounts alone 222 million DM of new central bank money accrued during the period from the end of February until mid-April. About 90 million DM of this amount, however, had not been withdrawn while this report was being printed. In addition, credits granted through the central bank system to public authorities increased during the same period by 117 million DM among which the financial requirements of the Railway Administration played a substantial role.

During March, deposits of non-bank customers with financial institutions increased by 433 million DM which is almost the same amount as bank credits of business banks and the central bank system to non-banks (including the balance from foreign transactions). Notes in circulation (excluding Berlin) as well as deposits of non-bank customers with the central bank system were at the end of March nearly the same as at the end of February⁽¹⁾. The steady increase in credits and deposits justifies the conclusion that the conversion of old Reichsmark-deposits into DM-deposits and the dissolution of the blocked account were no longer of any importance during March. It may be assumed that the Reichsmark-accounts still kept in the books of financial institutions mainly concern such cases as are either subject to wearisome examination by the tax office or eventually prove not to be eligible for conversion.

(1) Notes in circulation (excluding Berlin) - 29 million DM.
Deposits of non-bank customers with the central bank system
+ 7 million DM.

At the end of March, the total money volume freely available in the specified area amounted to 18.4 billion DM. In addition, there existed 545 million DM blocked accounts the major part of which fell on the investment account. Compared with the previous month, the freely available part of the money volume increased by 420 million DM whereas the blocked part - through the progressive dissolution of the blocked account - decreased by roughly 60 million DM. By 23 April, the money volume had probably increased considerably due to the creation of credits. Up to this day, the increase in deposits with 112 weekly reporting financial institutions amounted to 280 million DM (excluding deposits from financial institutions) and with the central bank system to 370 million DM (including, however, the credit-balance of the "Kreditanstalt für Wiederaufbau" (Reconstruction Loan Bank) which resulted from the release of counterpart-funds and which has not been with-drawn as yet. Since the credit-balances of public authorities account for the largest part of the increase in deposits, a fact which is connected with the quarterly date of tax payments on 10 April there is reason to assume that the creation of credit - directly or indirectly - has satisfied the demand of liquidity for the payment of taxes.

L i q u i d i t y o f B a n k s

The expansion of credits having taken place so far did not affect all banks equally. Apart from institutions which were very reluctant in granting credits, there were others which presumably had come close to the acceptable limit. At the end of March, short-term credits of the successor institutions of the large banks amounted, on the average, to 86 per cent of deposits on free account and short term credits of the regional and local banks to 79 per cent. Both groups, however, comprise noted institutions whose outstanding credits considerably exceed the amount of their customers deposits. This is necessarily always combined with a particularly high demand for borrowings from the central bank system. That beyond this credit as well as liabilities of nearly all banks are exceptionally high in proportion to the capital stock allowed through currency legis-

lation is quite natural in consideration of the small volume of the capital equipment. The extension of credits through the Land Central Banks to the commercial banks could thus in many cases not comply with the standards proved through long years of bank of issue practices.

The liquidity situation of the banks was, however, on the whole quite satisfactory. Therefore, considerations with regard to liquidity alone will probably be no obstacle for the vast majority of the financial institutions to grant further credits, this all the less since - ceteris paribus - the expansion of bank credit does not influence the circulation of notes for the time being because the latter depends chiefly upon the amount of wages and salaries and/or the retail turnovers and, accordingly, the liquidity of financial institutions need not deteriorate for the time being, provided credits are expanded equally at all institutions. The normal consequence of the increasing granting of credits is only a rise in deposits and in the minimum-reserves required. Since the supply of funds for the increasing minimum-reserves does, however, not constitute a problem for the time being the financial institutions will not meet with any difficulties in making the necessary credits available to the economy i.e. chiefly short-term credits including credits against bills of exchange.

The main indicator for the liquidity of banks are the still high surplus reserves - i.e. the amount of central bank credit balances which exceeds the legal minimum-reserve requirement. During February as well as March, the surplus reserves averaged about 22 per cent of the reserve required. When basing these calculations on 4 key dates in a month, the surplus reserves, corresponding to the temporary decrease in note-circulation, would have been - with 32 per cent at the end of the third week of March - still substantially higher. By mid-April, however, they dropped considerably again to 16 per cent mainly due to the fact that the April-payment for assessed income tax and corporation tax (contrary to the corresponding payment in January) in this year brought about an increase in public funds maintained at the

central bank system and had only little effect on an increase in public accounts with member banks⁽¹⁾. The distribution of surplus reserves, however, was quite uneven. According to the March-reports on reserves, not less than 50 per cent of all surplus reserves, i.e. 138 million DM, were maintained at the Girozentralen. Their distribution among the individual Girozentralen was also uneven. An additional 51 million DM surplus reserves were kept by the group "Regionalbanken" (regional banks) and the greater part thereof likewise by a few institutions. The average surplus reserves of the successor institutions of the large banks amounted to 12 per cent in March, those of private banks and savings banks to 5 and/or 8 per cent.

Financial institutions which did not comply with the reserve required by law were chiefly to be found among private banks as well as urban and rural credit cooperatives. These deficits were, however, only in the case of urban credit cooperatives so great that thereby the reserves of the entire group fell slightly (by 2 per cent) below the minimum level. It cannot be judged as to what extent these deficits are resulting from a difficult liquidity situation or are due to faulty money transactions or possibly to the desire to invest funds in the credit business. Great difficulties do not seem to exist, on the whole. Anyhow, credits granted by the central bank system to financial institutions decreased slightly during the period 7 to 23 April despite the transfer of large tax amounts to the accounts with the Land Central Banks.

After all, the development of the bill of exchange holdings by which financial institutions can, on principle, procure central bank money at any time is in many cases more decisive for the actual liquidity situation than the cash liquidity which, for reasons of profitableness is kept to the legal and monetary minimum. During March and April, the bill of exchange holdings

(1) During 7 to 23 April, credit balances of public corporations with the central bank system increased by 327 million DM, 240 million DM thereof on accounts of Staatskassen. The monetary situation was particularly strained around 20 April.

retained their high level. At the end of March, the stock of bill of exchange minus own acceptances at all financial institutions amounted to roughly 1 415 million DM = 12 per cent of deposits on free account (including deposits of financial institutions). At the same time, the successor institutions of the large banks showed 388 million DM-bills of exchange (excluding own acceptances) = 16 per cent of the deposits on free account, the regional and local banks 217 million DM = 15 per cent of the deposits on free account. Up to 23 April, i.e. the last key day when the weekly banking statistics were available for this report, the bill of exchange holdings continued to rise. At this date, they amounted to about 817 million DM at 112 financial institutions included in these statistics (excluding own acceptances) = 18 per cent of the deposits on free account.

It is probable that the liquidity of the banks will continue to grow in the near future. For, on the one hand the settlement of foreign transactions will probably put further new central bank money into circulation and on the other hand the partial release of counterpart-funds now under way will increase the liquidity of the banks. The extent of this process as well as the factors which possibly counterbalance this process cannot yet be foreseen at present.

F o r m a t i o n o f M o n e y C a p i t a l a n d l o n g - t e r m C r e d i t s

Since about the end of last year, the process of continuous use of money capital for consumption purposes which was particularly reflected in the excess of withdrawals over deposits on saving accounts came to a standstill and was replaced by a formation of new money capital going beyond the creation of credits. It is true that, due to incomplete statistical data, it is difficult to give exact figures on this new formation of money capital at present, but partial results are available permitting an estimate on the amounts concerned.

According to the monthly banking statistics, savings deposits at all financial institutions increased by 509 million DM to 2 108 million DM during the first quarter of 1949⁽¹⁾. Herein are included amounts resulting from the conversion of RII-savings deposits. According to the development of cash transactions on savings accounts (241 million DM deposits, 312 million DM withdrawals) it may be assumed that the actual increase in savings deposits inclusive of crediting of interest, after deducting the amounts resulting from conversion, reached approximately 100 million DM during the first quarter of 1949. As to this comparatively favourable development it must not be overlooked, however, that savings balances are still rather unstable since short-term ~~purpose-bonds~~ savings for procuring durable consumer goods are made on a comparatively large scale at the moment. Thus, savings deposits as a whole have to a greater extent become subject to fluctuations.

During the first quarter of 1949, 226 million DM of new issues of long-term fixed interest bearing bonds were brought out in the organized capital market of which only about 84 million DM were sold (with varying success of the individual issues). Around fifty per cent of these 84 million DM were mortgage bonds. Part of these issues, the amount of which is not known in detail, had not been placed with the public but with capital accumulating centres, i.e. mainly insurance companies. The possibilities to place these issues were very different for the individual types of securities. Whereas industrial bonds bearing 6 per cent interest could be placed comparatively smoothly for the time being, the sale of 5 per cent interest bearing mortgage bonds met with greater difficulties in some cases. On the one hand, this has presumably been caused by the fact that interest rates of 6 1/2 per cent and more are offered for mortgage money, so that large

(1) For comparison it may be mentioned that savings deposits in the total area of the former German Reich amounted to 2 400 million Reichsmarks as of the end of 1925.

scale investors who are not dependent upon the advantage of selling their loans in the stock exchanges lend out a considerable part of their capital directly to the borrower in view of the higher interest-rate. On the other hand, the continued decline in stock exchange prices for 4 per cent RM-mortgage bonds which dropped on the average to 7.7 per cent (= 77 per cent of the DM-amount) and thus produced a yield of 5.6 per cent impeded the sale of newly issued mortgage bonds which yielded only 5.1 to 5.2 per cent. Under these circumstances the question is being thoroughly discussed as to whether or not the present interest rate of only 5 per cent can be maintained for future mortgage bond issues. With regard to small investors, mortgage bonds will still be attractable even with the present interest rate since tax favourings are granted on the acquisition of mortgage bonds whereas industrial bonds are not tax favoured. One municipality with evidently good success, abandoned the hitherto usual interest rate and placed 3 million DM registered bonds at 7 per cent interest at an issue price of 99 1/4 per cent.

The stock-market continued dull with regard to new issues. This situation is resulting from the still unsettled valuation and profit conditions of industry. Only in special cases were issues brought out but they could, however, not be placed with the broad masses of the public. The newly established Industriebank in Düsseldorf offered 20 million DM shares for subscription. However, only 12 million DM of this amount could be placed; so for this reason, this institution was established on this capital basis.

Through private and public life assurance companies in the Western zones, about 75 million DM were invested during the period January to March after approximately the same amount had been invested during the second half of 1948. According to data received, these 150 million DM are sub-divided into the following investment groups:

mortgages for the erection of dwelling houses and erection of own dwelling-houses	42	per cent
industrial loans	36	per cent
municipal loans and restoration of municipal establishments	15.5	per cent
securities (mortgage bonds, industrial bonds)	6.5	per cent
	100.0	per cent

During the period 1 January to 31 March 1949, of the total invested capital of 75 million DM about 5 million DM were invested in securities. Therefore, there remained 70 million DM for the formation of money capital from 1 January to 31 March 1949, excluding investments in securities. To this amount must be added the formation of capital by other insurances (especially property insurances) of about 12 million DM and by private and public building and loan associations of about 13 million DM (both amounts accruing during the first quarter of 1949).

During the first quarter of 1949, public budgets yielded relatively high surpluses. The necessary result of present high tax rates is that part of the national rate of saving is not accumulated by private persons but by public authorities with which now rests the obligation to use it for urgent investments which are, however, often unprofitable for private enterprise. Local governments, i.e. Länder and Gemeinden, yielded budget surpluses of approximately 200 million DM during the first quarter 1949 but it has to be taken into account that the Gemeinden as a whole, according to data available, produced a deficit. This latent formation of capital (which does not include budgeted investments, i.e. is not identical with the formation of real capital by local governments) will so far have taken mainly the form of increasing bank deposits and will only gradually be channelled into investments.

The formation of capital through the unemployment fund (the remaining branches of social insurances are unable to yield surpluses) must also be added. It is true that this formation of capital has constantly decreased during the past three months

since with revenues declining, expenditures were steadily increasing and relatively large amounts were being spent for unemployment relief, a minor part of which has been refunded by individual Länder. The formation of capital in this field may, however, be estimated at about 40 million DM for the three months' period from January to March.

According to the above statements, the overall formation of money capital during the first quarter of 1949 would have to be estimated as follows:

Estimated formation of money capital during the first quarter of 1949 in million DM	
(1) Increase on savings accounts (without conversion)	100
(2) placed long-term fixed interest bearing bonds	84
therefrom not sold to the public, at least	<u>10</u> 74
(3) placed issues of shares	12
(4) long-term loans of life assurance companies and other insurance companies	87
(5) long-term loans of building and loan associations	13
(6) net budget surplus of local governments (Gebietskörperschaften)	200
(7) surplus of the unemployment fund	40
<hr/>	
total formation of money capital during January through March 1949 approximately	526

It would, however, be incorrect to conclude that this estimated amount of formation of money capital was balanced by an equally high supply of capital. Thus, savings banks are not all in a position to lend out the total amount of savings deposits on long terms, but on the contrary, ^{in addition} they have to see to it that the economy as well as the municipalities of their district are granted medium and short-term credits and that the prescribed liquidity reserves are maintained. It may be assumed that budgetary surpluses yielded by public authorities are practically sterilized nearly to their full extent for the time

being and are possibly contained in the cash reserves of individual Länder. Only recently, a more marked inclination of public authorities for investing their funds has become apparent. However, the carrying out of these programmes will probably require a longer period of time. The surpluses of the unemployment fund have, for the time being, also been invested in the money market. On the whole it is, therefore, probable that considerably less than 50 per cent of the formation of money capital estimated for the first quarter of 1949 has actually been offered for investment purposes.

The declining propensity to spend could in itself have permitted a much greater formation of savings capital. However, the public's marked need of liquidity causes "savings" amounts to be kept disposable for the time being whenever possible, i.e. that they are often not even subject to the legal terms of disbursement applicable to savings books. On the other hand, the declining propensity to spend represents in itself a latent formation of money capital even if at present this is only manifested as a decrease in the velocity of money circulation. Insofar it is quite justified to add to the "money capital", in addition to the savings accounts part of the time deposits, the exact amount of which cannot be ascertained precisely. This is practically taken into account in that a certain part of long-term investments is usually being pre-financed through bank credits.

Apart from budgeted ^{investments} of public authorities, a decisive part in the financing of investments since currency reform was played by the self-financing of the economy which was mainly possible through considerable price increases during the first months and de-hoarding. Through the reversal of the price curve with partly rising costs, the self-financing of the economy will, of necessity, decrease and through the contemplated equalization of burdens it will probably experience an additional reduction. On the other hand, the supply of capital will now be increased by Military Governments releasing portions of the counterpart funds for long-term loans to be used for investment purposes. The release applied so far to the equivalent-

values for GARIOA-deliveries and STEG-proceeds whereas the equivalent-values for ERP-deliveries have not been released by the ERP-administration.

The amounts to be expected amount to several hundreds of million DM. As far as is known, the following credits have so far been promised:

220 million DM for the energy program in quarterly instalments of 55 million DM available at once

397 million DM for an energy program covering a considerably longer term

135 million DM for immediate spending for mining investments

several 100 million DM for the railway administration the major part thereof ^{from} for financing investment goods ordered abroad

and finally several amounts for the building of dwelling houses for air lift personnel.

By 12 April, only extensive respites in payment liabilities of the Railway Administration toward the Bank deutscher Länder for locomotives and freight cars ordered abroad had been accorded. On 12 April, the first actual release of counterpart-funds, in a stricter sense of the word, had been made in the form of a 110 million DM credit granted to the Reconstruction Loan Bank. For the time being, this amount has been credited to a special account at the Bank deutscher Länder on behalf of the Reconstruction Loan Bank but so far, only a part of this amount has been withdrawn.

Contrary to the general opinion, these releases do not represent a compensation for sterilized money which would be made in order to eliminate a deflationary pressure which is supposedly resulting from the import surpluses. In fact, a surplus of ~~deposits~~ on the accounts for the settlement of foreign transactions kept with the Bank deutscher Länder has not been recorded so far. The development was as follows:

Balance of accounts for the settlement of
foreign transactions maintained with the
Bank deutscher Länder,
in million DM

31 October	1948	. . . . .	+ 60	
30 November	1948	. . . . .	+ 157	
31 December	1948	. . . . .	+ 168	
31 January	1949	. . . . .	+ 156	
28 February	1949	. . . . .	+ 153	
31 March	1949	. . . . .	+ 211	
7 April	1949	. . . . .	+ 240	
15 April	1949	. . . . .	+ 375	} after transferring 110 million DM to the Reconstruction Loan Bank
24 April	1949	. . . . .	+ 440	

The existence of a credit balance means that the transactions which are connected with foreign business or are entered on these accounts so far did not show an excess of deposits at the Bank deutscher Länder but, on the contrary, an excess of withdrawals. This result which at first may be surprising is to be explained from a number of reasons, i.e. mainly the considerable increase in the holdings of foreign exchange since 1 August 1948 (when the Gemeinsame Aussenhandelskasse was taken over by the Bank deutscher Länder) to 1 341 million DM on 23 April and, in addition, the ^{compensation} on the 30 cents exchange rate for certain imports and exports as well as the deduction of incidental costs by importers and finally payments by order of Military Governments (particularly monthly payments for the supply of the Western Sectors of Berlin with food and other vital commodities which have amounted so far to 53 million DM monthly). Furthermore, the recent strong increases in imports which are often arriving irregularly and in great masses brought about a certain financial strain on importers and thereby a slower receipt of payments.

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

Since pertinent data are still relatively scarce and usually not available before some weeks after the reporting period the trend of public finances can, even for March, only be given in rough estimates.

According to single data on the increase in the indebtedness and the trend of cash holdings, the Länder budgets evidently again showed slight deficits. It may be assumed, however, that their total amount hardly exceeded 50 million DM. This result is comparatively favourable since in March, the last month of the fiscal year, always relatively high expenditures are experienced. This time, the increase in expenditures obviously remained in comparatively narrow limits. It is, however, impossible, to pass a final judgment at the moment since it is to be expected that, during the coming month, as long as the books for the current fiscal year have not yet been closed, certain expenditures will have to be booked retroactively for the 1948/49 budget year.

The fact that deficits in March have not been greater may also be explained by the continued comparatively high level of tax revenues. March, as such, is a "bad" tax month since there are no main dates for the payment of the assessed income tax and the corporation tax. The most important taxes, however, which have to be paid in full every month, i.e. the wages tax and the turnover tax, slightly increased at least in the Länder of the Combined Economic Area as compared with the previous month although they are lower than in January. Such an upward trend could not be ascertained for the Länder of the French Zone. However, the level attained in February would practically be equalled.

The Development of Revenues from
Wages Tax and Turnover Tax

Area and Period	Wages Tax million DM	Turnover Tax million DM
Combined Economic Area average Oct - Dec 1948	150,0	254,9
January 1949	163,4	309,6
February 1949	149,3 ¹⁾	251,2 ¹⁾
March 1949	160,0 ²⁾	266,0 ²⁾
French Zone		
January 1949	15,5	34,1
February 1949	13,4 ¹⁾	25,3 ¹⁾
March 1949	13,2 ²⁾	25,0 ²⁾
1) Corrected figures.		
2) Preliminary figures.		

All taxes on property and traffic, however, have probably been lower than during the previous month. Payments on assessed income tax considerably decreased due to the payment technique although they were above the level of the last month with the same dates of payment (December 1948). Since in excises for which complete information is not yet available a certain compensation for the decrease in taxes on property and traffic has obviously taken place, the total tax revenues in March amounting to approximately 1.1 billion DM have probably been somewhat lower than in February (1 127 million DM).

There are still very great differences in the financial situation of the individual Länder. When summarizing the Länder budgets by Zones, the situation of the Länder in the French Zone has constantly been far more precarious than that of the Länder in the Bizonal Area. The Länder in the French Zone accounted for the major part of the deficit of the eleven Western German Länder estimated at 50 million DM in March although their budgetary expenditures amounted to only 10 per

cent of the total budgetary expenditures in the specified area. The indebtedness of the three Länder Rhine-Palatinate, Baden, and Württemberg-Hohenzollern at the Land Central Banks alone increased by 23.5 million DM during March. However, since the Land Central Banks underlie restrictions in granting credits to the Länder, the latter had, to a certain extent, also to draw upon other creditors.

As compared with this situation, the Länder in the Combined Economic Area, as a whole, still possess sizeable credit balances. The following figures on these credit balances as of the end of February have for the first time ^{been} published by the Department for Finance:

Cash Holdings of the eight Länder of the
Combined Economic Area as of 28 February 1949

Total	840 million DM
therefrom	
trust funds	170 million DM
earmarks for special purposes	72 million DM
funds available	598 million DM

This is quite a considerable sum and it is not to be expected that it decreased by more than 40 to 50 million DM during March. Furthermore, it is still not clarified as to whether or not the cash holdings reported also contain reserves which may have been formed by the Länder after currency reform. In former years, the Länder usually did not include their reserves in their cash holdings even when maintained in the form of bank credit balance and it may be assumed that this practice has not changed and that individual Länder whose budget situation has been quite favourable during the past months have again commenced ^{with} building up their reserves. This can be concluded from the fact that considerable non-recurring increases in the expenditures of individual Länder could be observed which cannot be explained by normal expenditure practices.

However, the liquidity situation of individual Länder in the Combined ^{Economic} Area is very different. In Schleswig-Holstein - a Land with chronic deficits - as well as in the Länder of the French Zone, the indebtedness is higher than the cash holdings and in Lower Saxony and Hesse, the cash holdings are relatively low as compared with the monthly tax revenue.

In other Länder, however, cash holdings almost equal monthly tax revenues and in one case they even amount to three times the tax revenue. There is no doubt that several Länder have a liquidity reserve by far exceeding the amount with which other Länder had to manage and which, so far, they partly succeeded in achieving.

In order to remove these differences in the financial situation of the individual Länder, Finance Ministers decided to undertake an equalization between the Länder - effective 1 April 1949 - for the period of one budget year and to distribute 500 million DM raised by the financially strong Länder among Schleswig-Holstein, Lower Saxony and Bavaria during the current year. Thereby the major differences which result from the high revenues of individual Länder derived from excises - merely due to collection at the place of production - and further from the excessively high burden arising as a consequence of the war, could have been, at least to a certain extent levelled. As is known, however, this equalization could not be put into practice since one Land refused to agree to the proposed regulation on account of the absence of a constitutional basis and the forthcoming equalization of burdens. In the meantime, however, the Economic Council took up the equalization plan and asked Military Governments for an appropriate extension of its responsibilities since, according to the legal status, the financial equalization between the individual Länder does not belong to its functions.

The Combined Economic Area, after its cash holdings at the Bank deutscher Länder amounting to 28,5 million DM at the end of February were exhausted, has requested the Bank deutscher Länder to grant a new credit. The amounts actually used have been insignificant so far. This credit should primarily serve the payment of interest on equalization claims by the Combined Economic Area. For April and March, however, considerable revenues are to be expected to finance the 1948/49 supplementary budget. In addition, surpluses seem to have arisen in the 1948/49 ordinary budget. The 1949/50 budget of 951,6 million DM of the Combined Economic Area submitted to the Economic Council on the revenue and expenditures sides exceeds the original budget of the past fiscal year by 543,4 million DM. However, when taking into account the supplementary budget 1948/49 of roughly 290 million DM the most important item of which, the Berlin aid, covered the last five months of the budget year only, the increase is not very high as compared with the previous year. The Berlin aid budgeted at 480 million DM is again the most important expenditure item of the new budget and other large items are: 98,5 million DM for the payment of interest on equalization claims and 22 million DM for subsidies to margin coal mines being at a disadvantage regarding production costs, Contributions of the Railway and Postal Administrations/274.5 million DM and taxes and customs duties as well as other levies 628 million DM (including 288 million DM from the "emergency-aid Berlin", 240 million DM from the coffee tax and 79 million DM from a gasoline tax to be newly introduced). At the time of submission of the budget, the balancing of revenues and expenditures was, however, only on paper. The 15 million DM export levy on coal which was budgeted on the revenue side in addition to the items already mentioned was frustrated shortly before its submission to the Economic Council by the opposition of Military Governments. whereas at the same time, for the expenditure side new payment obligations not yet being provided in the budget, had to be announced including 50 million DM for storing of the 1948

are to
yield

grain crop, 20 million DM for the bizonal building program and 100 million DM for the establishment of a central customs office (Zolleitstelle) and a frontier customs service (Zollgrenzdienst). These additional expenditures shall be covered by using part of the customs revenues. Should the extension of the responsibilities which had been requested by the Economic Council in connection with the recent development of the financial equalization (see above) be approved, the expenditures, that is, payments to the Länder being in an unfavourable financial situation, will, however, increase considerably and will probably be covered only by transferring to the bizonal administration the major part of the excise revenues which the Länder are at present entitled to.

There are no data available on the situation of Gemeinden during March and April. Since Gemeinde budgets, in general, developed less favourably than Länder budgets and, on account of annual balance, March expenditures have probably been relatively high, deficits, rather than surpluses will have occurred.

The relatively high surpluses yielded by the unemployment fund up to the end of 1948 seem to have recently dropped considerably. This decrease is to be explained by smaller contributions received and higher expenditures for the unemployment benefit. In February, the surplus, according to estimates, amounted to only 20 million DM as compared with 50 million DM during December and 25 million DM during January. When deducting the outstanding contributions of some Länder in the British Zone to the unemployment benefit which had been advanced by the unemployment fund, the surplus was only about 9 million DM. As yet no figures are available for March. Since the number of unemployed increased by roughly 100 000 and that of beneficiaries (including unemployment welfare beneficiaries) by 77 000, a further decrease in the surplus is to be expected.

Considering the matter as a whole, it can be assumed that the continuous sterilization of money by way of public budgets

since December 1948 had been interrupted in March for the first time. This is to some extent confirmed by the fact that on one hand, the indebtedness of public budgets increased during the reporting month and, on the other hand, public deposits with the bank system did not continue to increase.

During March, credits granted by the central bank system to public authorities increased by 103,8 million DM to 152.7 million DM. Excluding credits granted to the Railway Administration (50 million DM cash advances of the Bank deutscher Länder and 35 million DM treasury bills placed with the Land Central Bank of Bremen), the indebtedness of public authorities concerned towards the central bank system increased by 18.8 million DM. In the case of business banks (excluding the Verkehrskreditbank) the increase in short-term credits granted to public authorities amounted to 19.3 million DM. As against this deposits of public authorities at business banks, however, remained practically unchanged (2 380 million DM at the end of March as compared with 2 378 million DM at the end of February) whereas they increased by 14.7 million DM at the central bank system. When excluding the deposits of the Generalpostkasse and the Aussenhandelsstelle Frankfurt(Main) at the Bank deutscher Länder, a decrease by 52 million DM results.

This trend, however, does not mean a principle change of the influences which brought about a marked concentration of money with public authorities during the past months. The fact that public authorities did not yield any surpluses in March, like in December 1948, only results from the rhythm of budget revenues and expenditures which is largely independent of the business trend. This rhythm results from budgetary and tax provisions. At the beginning of a quarter, revenues are usually higher than during the following two months, whereas at the beginning of a budget year, expenditures are, in general, relatively low and accumulate in December and March. In case the business activity sustains its present level, the ordinary budgets will yield further surpluses which could be made available for investment purposes. In fact, budgets seem to have developed

favourably during the first three weeks in April. Due to the quarterly date of payment for assessed income tax and corporation tax, public deposits again increased strongly. In the case of 112 weekly reporting institutions the increase during the first three weeks of April amounted to 208.8 million DM as compared with 31 March and in the case of the central bank system (excluding deposits of the Generalpostkasse and the Aussenhandelsstelle Frankfurt/Main) 236.7 million DM¹⁾. It cannot yet be seen whether and to what extent a decrease in the revenues is to be expected from the Second Law on the Preliminary Tax Reform which was approved in April and was to become effective retroactively as of 1 January 1949. The finance administrations hold that losses in revenue resulting from the provisions of this law will be offset by greater tax honesty to be expected from the reform, so that decreasing tax revenue would not have to be reckoned with as a consequence of this law, even if the offered opportunities of tax advantages on increased savings should be largely made use of. It is, therefore, to be welcomed that a rising willingness for investments is to be found on the part of the Länder which will presumably lead to greatly increased public investments and a corresponding decrease in current surpluses.

- 1) The differences between the data given under the annotation on page 7 of this report and the data above result from the exclusion of deposits of the Generalpostkasse and the Aussenhandelskasse Frankfurt/Main.

Foreign Trade

Exports of the Combined Economic Area reached their peak since the war in March²⁾. They amounted to about 300 million DM and were thus about 20 million DM higher than the previous peak of December 1948. Thus, the decrease of January has been

- 2) Data for the French Zone are only available up to February. It is intended to deal especially with the foreign trade situation of the French Zone in one of the next monthly reports.

more than offset. Comparing March exports with those of February, the three large groups of commodities - raw materials, semi-finished and finished goods - had about equal shares in the increase. When comparing longer periods, exports of processed goods are coming more and more to the fore. Exports of finished goods, on the monthly average of the first quarter 1949, were 22 per cent higher, those of semi-finished goods 42 per cent higher than on the monthly average of the second half of 1948, whereas raw material exports increased only by 4 per cent.

March imports, however, were somewhat lower than in February. Imports for the food sector which dropped by 44 million DM fully account for this decrease, whereas industrial imports were about 24 million DM higher. The increase in imports of finished goods was particularly high whereas that of raw materials did not quite equal the February level although these imports of about 147 million DM were still well over fifty per cent of total industrial imports. As compared with the second half of 1948, industrial import average for the first quarter of 1949 was more than fifty per cent higher.

Although imports of the Combined Economic Area actually show a strong upward trend, difficulties have recently arisen in the utilization of all import possibilities offered to Germany, particularly through the Marshall-Plan. Supplies for which JBIA in some cases has effected the purchases abroad months ago do not find always easy sale upon arrival and the propensity of German importers to make new contracts is lower than was generally expected. This has often been interpreted abroad to the effect that Germany is no longer in need of the Marshall-Plan aid to the extent offered and could possibly manage with less.

Such an interpretation, however, is erroneous. Germany's

situation still calls for support and the aid which is granted by foreign countries within annual aid-plans is actually needed by her to the very last Dollar. Industrial production of the Combined Economic Area is still 10 per cent below the 1936 level although the population of this area has increased by over 20 per cent since then. The level of industrial imports reached during the past months per head of population is only about 75 per cent of corresponding 1936 imports. Food imports per head of population, during the first quarter of 1949, are by one third higher than the corresponding 1936 import volume, however, the total volume of agricultural products per head of population available for the current year from domestic production and imports is still about one third lower than during the pre-war period. Since the decrease in domestic agricultural production is mainly due to the fact that only 26 hectares cultivated area are available per 100 inhabitants as compared with 41 hectares in 1936, the possibilities to compensate this deficit otherwise than by imports are very limited for a longer period. This fact has been taken into consideration by ECA in that agricultural imports shall account for approximately two fifths of the imports provided under the Marshall-Plan.

Foreign Trade
Combined Economic Area
in million DM

	I m p o r t					
	monthly average		Jan	Febr	March	monthly average
	first half 1948	sec. half 1948	1949	1949	1949	Jan/March 1949
Food	124,5	179,6	147,0	219,0	174,8	180,2
Industrial commodities	70,6	152,6	168,3	257,4	271,0	232,3
raw materials	39,2	82,7	75,6	154,6	146,6	125,6
semi-finished goods	24,3	51,2	65,3	67,2	68,3	67,0
finished goods	7,1	18,7	27,4	35,6	56,1	39,7
pre-manufactured products	4,4	10,9	11,9	19,0	34,5	21,8
end products	2,7	7,8	15,5	16,6	21,6	17,9
Total	195,1	332,2	315,3	476,4	445,8	412,5

	E x p o r t					
	monthly average		Jan	Febr.	March	monthl
	first half 1948	sec. half 1948	1949	1949	1949	average Jan/ March 1949
Food	4,6	3,5	12,4	8,8	8,2	9,8
Industrial commodities	76,2	218,5	241,5	267,7	301,0	270,1
raw materials	21,9	54,4	55,5	51,4	62,9	56,6
semi-finished goods	23,6	66,8	81,2	96,1	106,2	94,6
finished goods	30,7	97,3	104,8	120,2	131,9	118,9
pre-manufactured products	16,7	51,1	57,2	59,4	64,9	60,5
end products	14,0	46,2	47,6	60,8	67,0	58,4
Total	80,8	222,0	253,8	276,5	309,2	279,5

Nevertheless the fact that certain difficulties have arisen in the carrying through of the import program is due to a number of special circumstances which of necessity, led to certain bottlenecks even if, presumably, they were only of a temporary character. Western German foreign trade is not carried out by control measures by which the volume of imports and exports may be arbitrarily increased or reduced but it is largely based on private business initiative and cooperation at least as far as domestic planning is concerned. Due to several factors, importers are now faced with tasks which could hardly be handled by any economy operating on the principle of free enterprise.

A particularly remarkable fact is that the German economy at present is forced to accept import goods within a comparatively short time to an extent which, in some cases, by far exceeds the processing possibilities of this period. This is to be explained by the fact that during the first months following in currency reform when imports were urgently needed on account of the rapidly increasing production and purchasing power, only a very limited amount of foreign exchange had been made available, so that a large part of imports which should have arrived some time ago is now to be effected within few weeks. This applies to commercial imports as well as to imports under the Marshall-Plan. In the sector of commercial foreign

trade, the Combined Economic Area for months showed a credit balance, i.e. foreign exchange available from exports have only been partly used for imports despite urgent demand prevailing particularly during the past fall. This was due to the very wearisome import procedure of that time. The fixing of imports required and of individual plans for the necessary licenses, the specification of orders including the activity of the JEIA-buyer and the lapse of the terms of delivery normally took several months. The result was that at the beginning of October 1948 only 41 per cent of the available holdings of foreign exchange had been utilized for contracted payment liabilities on current letters of credit despite the fact that stocks of goods were then already exhausted to a large extent. At the time of currency reform, the utilization rate was 80 per cent. According to JEIA-statistics, foreign exchange surpluses of about 175 million Dollars accrued in commercial foreign trade during the period July 1948 through February 1949 due to this diverging development of exports and B-imports (later figures are as yet not available). Only lately, letters of credit were adjusted to a greater extent to foreign exchange holdings, so that rising imports in commercial foreign trade are to be expected in the near future.

In the case of Marshall-Plan imports, arrears in deliveries are even greater. During the period April 1948 through March 1949, the Marshall-Plan aid to the Combined Economic Area originally should have amounted to 414 million Dollars. Due to several increases and cancellations this figure was reduced to 408.3 million Dollars as of 31 March 1949. For the months April to June 1949, the so called "fifth quarter of the first Marshall-Plan period" an additional 102.9 million Dollars have been provided for the time being. After deducting drawing-rights of 82.6 million Dollars possibly to be granted or "conditional-aid" allotted for them, the direct Marshall-Plan aid for the total period April 1948 through June 1949 is to amount to 428.6 million Dollars. In addition, the Combined Economic Area is entitled, in case of corresponding import surpluses, to demand drawing-rights from European countries of 98.6 million Dollars which have to be added to the direct aid since they represent foreign exchange re -

ceipts/ their economic nature. Thus, the Marshall-Plan aid to the Combined Economic Area totals 527.2 million Dollars for the period April 1948 through 30 June 1949.

Since imports under this aid, however, were not distributed equally, deliveries were considerably delayed. The reason for this delay is again to be found in the very wearisome procedure. Due to red-tape in the import procedure and the uncertainty in making final contracts, until the end of the preceding year, it was often quite difficult to find suppliers for ECA-orders particularly with regard to goods internationally in short supply. Due to this and other delays for which the Combined Economic Area could not be held responsible, it has actually received so far only a relatively small portion of the aid provided. The ECA-supplies received by 31 March 1949 amounted to 193.8 million Dollars whereas supplies of 334.8 million Dollars had been provided for this period according to the terms of the program. Thus, a deficit of 141.0 million Dollars occurred as compared with actual deliveries. Pursuant to an ECA provision published on 12 April 1949 this amount will have to be received by 30 June 1949, otherwise this sum will be cancelled. A transfer of the amounts not having been spent into the new U.S. budget year cannot be expected unless these amounts result from import delays as a consequence of drawing-rights not yet used. In addition, a remainder of 73.5 million Dollars is to be charged to the current budget year of the United States which likewise will have to be taken over by the Combined Economic Area, with the exception of 11.6 million Dollars, by the middle of this year, according to the preliminary program. Ultimately, deliveries of 53.6 million Dollars are provided for the second quarter of 1949 chargeable to the coming US budget year and for which ECA-licenses had not been issued by 31 March 1949. Had the Combined Economic Area to take over all these deliveries by 30 June 1949 in order to prevent their cancellation, imports of about 255 million Dollars would have to be effected alone within the Marshall-Plan, i.e. about 50 per cent of the imports which according to the actual figures of the program should be taken over during the entire period from April 1948 to June 1949.

Import offers in such quantities necessarily confront the importers with very difficult tasks. The situation is especially complicated since world market prices as well as domestic prices have shown a downward trend lately and it, therefore, means a considerable risk for importers to take over large quantities of goods which, presumably, can only be sold within a longer period. Due to the fact that the supply of goods has partly been determined ⁱⁿ its structure some time ago through trade agreements and that, in the meantime, the habits of consumption have considerably changed and are still changing in Germany, it is at present extremely difficult to sell large import allotments smoothly. The task would undoubtedly be much easier if the Combined Economic Area could make use of the offered import possibilities within a longer period.

All efforts are being made, of course, not to let unused any import possibilities insofar as the commodities which Western Germany can obtain in this way are in any way essential. The competent authorities are considering the question as to how price and sale risks can be distributed in an appropriate manner through guarantees and how credits can be made available adequate to such comprehensive imports. These considerations are based on the correct conception that provided the gratifying increase in production since currency reform will continue, the comprehensive storages of goods which now might have to be set up will meet with easy sale and might even be indispensable. A certain raw material reserve may even be desirable for the German economy since in view of the sharp competition which the German foreign trade is faced with in the world market, it cannot be guaranteed that foreign exchange receipts of the Economic Area will continue to rise in the same manner as previously. The level of export reached in March has equaled an annual rate of about 1 billion Dollars but it is still 2 billion Dollars below the target provided under the long-term plan for 1952/53. Considerable investments will be required which Germany cannot carry through within the necessary time and to the necessary extent without foreign aid in order to rationalize export industries as much as possible to enable them to fulfil their tasks.

As far as money movements in foreign transactions are concerned, rising March imports led to a considerable further increase in

deposits of importers at the Bank deutscher Länder. The share accounting for commercial imports increased to 42 per cent during the first quarter 1949 as compared with 37 per cent during the fourth quarter 1948 and 23 per cent during the third quarter of 1948.

In connection with these constantly increasing exports, disbursements to exporters likewise continued to rise. Other disbursements made upon instructions of Military Governments to the debit of the counter-values of deferred imports also reached (during March) their monthly peak since the establishment of the Bank. During March, the same as during the preceding months, total disbursements through the accounts for the settlement of foreign transactions maintained at the Bank deutscher Länder exceeded deposits. The excess of disbursements, i.e. the credit extension through the foreign accounts, increased by about 60 million DM.

Deposits of Importers
in million DM

monthly average and/or month 1948/49	GARIOA- ERP- and STEG-im- ports	B- im- ports	total of im- ports
July - September	171,5	52,3	223,8
Oct - December	182,3	109,2	291,5
January-March	229,1	167,9	397,0
January	184,3	132,4	316,7
February	224,7	152,8	377,5
March	278,3	218,5	496,8

The participation of the Combined Economic Area in the European clearing was still marked by the fact that available drawing-rights were not used to a great extent and that insofar there was no possibility to import without paying foreign exchange. According to the compensation effected about the middle of March on the basis of the figures of 28 February 1949, drawing-rights granted had only been realized up to 15 million Dollars, i.e. by that date, the

Combined Economic Area could only utilize 15.2 per cent of the drawing-rights which it was entitled to by 30 June 1949. The corresponding proportion of all other partner-countries together, however, amounted to 47.4 per cent.

This unfavorable situation of the Combined Economic Area - the conditions in the French Zone are only slightly better - is mainly due to the fact that Western German imports according to extent and country of origin developed considerable differences from what was planned upon conclusion of the Paris payment agreement and stipulated in bilateral trade agreements. In addition, even in those cases when drawing-rights were available to the required extent for existing import surpluses, they could not be utilized since the resulting debit balances were offset by way of first category compensations against claims towards other partnercountries. According to the principle: first compensation, then drawing-rights, which is stipulated in the "Directive to the Agent", the Bank for International Settlements in Basel, being the agent for the Inter-European clearing, compensated 15.2 million Dollars by the end of February 1949, which otherwise would have benefited the Combined Economic Area in the form of drawing-rights.

With regard to drawing-rights which the Combined Economic Area had to place at the disposal of other countries, the trend was quite different. The aggregate amount of drawing-rights which could be utilized by the partner-countries during the period October 1948 through February 1949 amounted to 42 million Dollars. Thus, over fifty per cent of the drawing-rights which have been allotted to the five European countries as a claim against the Combined Economic Area by 30 June 1949 has been utilized. By decision of the Organization for European Economic Cooperation (OEEC) at the end of March 1949, this aggregate amount was reduced from an original 109.8 million to 82.6 million Dollars. This decision had in view to include retroactively in the European Clearing specific deliveries which had already been made prior to the conclusion of the Paris Payment and Compensation Agreement of 16 October 1948 and which due to their urgency for the reconstruction first

had to be financed through ECA. For the Combined Economic Area this regulation means that 26.2 million Dollars will actually remain in lieu of the same amount of ECA-aid which otherwise would have become effective by utilization of the drawings-right.

Employment, Production and Sale

The trend of the unemployment increase which is still watched with particular concern has decreased in March and as far as can be seen in April also. In the entire specified area, the number of unemployed has only increased by 96 000 during March as compared with 111 000 during February and 203 000 during January. In the Combined Economic Area alone, the increase amounted to only 90 000 against 104 000 during February and 195 000 during January. By mid-April, an additional 45 000 unemployed is to be added for all three Zones. This increase is comparatively small since during a period of rising unemployment, dismissals are generally more frequent towards the end of a calendar quarter. In Bavaria where the increase during last winter was particularly high, the number of unemployed dropped by about 4 000 during the first half of April and in the case of male unemployed, the decrease was particularly strong. It must be borne in mind, however, that in view of the season, unemployment should have normally dropped since March. That this is not true shows that the spring stimulants have so far hardly counter-acted the factors which work towards a diminishing of employment.

Although this serious development should by no means be underestimated, it represents, on the contrary, a clear indication of the unstableness of the situation and not all factors which at present are burdening the labour market can be considered depressive. The rise of unemployment is only partly connected with a corresponding decrease in employment. In the Combined Economic Area, the number of employees only dropped

by about 255 000 between December 1948 and March 1949 whereas the number of unemployed increased by about 390 000. In the French Zone, the number of workers, employees and officials even increased by 3 600 during the period December through March, although unemployment increased by over 20 000 during the same period. Apart from a possible slight increase in unemployed from the sector of independent salary earners, the renewed increase in unemployment may largely be explained by the fact that numerous persons which so far did not belong to the group of salary earners were forced during the past months to seek work. This had been the case to an even higher degree during the total period following currency reform: As compared with the figures of currency reform, the number of employees dropped by only 13 600 in the specified area by the end of March, whereas the number of unemployed increased by 718 200. The lack of housing in those areas where labour may be wanted greatly hampers the inclusion of all newly registered labour, particularly from the sector of refugees. This is one of the reasons that despite unemployment there is still want of labour in some cases. The number of vacancies registered at the labour offices still exceeds 170 000, i.e. about 28 000 below the December 1948 figure. In addition, it has to be borne in mind that unemployment is also partly due to the increasing obligation to rationalize, i.e. to use labour more economically. If the persons becoming surplus through this measure in the long run could not be included in the labour process, it would certainly not be a full success of rationalization since this would not only lead to a reduction of costs in private business but to an increase in production also. This re-distribution, however, undoubtedly requires some time, so that a certain fluctuation of unemployment can hardly be avoided.

Unemployment in the Western German Specified Area

Area	1948		
	May	August	December
	in 1000		
Bavaria	148,0	270,0	227,1
Württemberg-Baden	28,1	31,7	25,0
Hesse	40,6	65,1	61,1
Bremen	8,7	10,4	11,5
Northrhine/W.	125,3	157,1	106,2
Lower Saxony	57,7	123,4	171,0
Schleswig-Holst.	18,6	81,7	114,8
Hamburg	12,1	28,8	26,2
Combined Economic Area	439,1	768,2	742,9
Baden	3,0	4,3	4,3
Württemb.-Hohenz.	1,1	2,3	2,0
Rhine/Palatinate	5,0	9,5	10,4
French Zone	9,1	16,1	16,7
3 Western Zones	448,2	784,3	759,6

Area	1949				
	Jan	Febr.	March	April (mid-April)	mid-April percentage of workers, employees and officials
	in 1000				
Bavaria	300,8	340,5	364,7	360,9	13,1
Württbg.-Baden	33,7	39,5	44,5	46,9	3,0
Hesse	79,4	89,0	98,9	99,4	7,6
Bremen	13,5	14,7	15,5	16,7	7,2
Northrhine/W.	124,6	127,4	139,7	159,5	3,8
Lower Saxony	213,2	236,9	259,9	271,6	13,0
Schleswig-Holst.	140,6	155,4	170,4	179,3	21,5
Hamburg	32,0	34,8	38,5	42,2	6,8
Combined Economic Area	937,8	1038,2	1132,1	1176,5	8,8
Baden	4,9	5,0	5,8	6,0 ⁺	1,7
Württbg.-Hohenz.	2,2	2,9	4,3	4,5	1,4
Rhine/Palatinate	18,0	22,8	27,0	27,2	3,7
French Zone	25,1	30,7	37,1	37,7	2,7
3 Western Zones	962,9	1068,9	1169,2	1214,2	8,3

+) Estimated.

With regard to this development, especially the fact that industrial production in March maintained, in general, the February level has a certain quieting effect. The index of production for March (1936 = 100) calculated by the Department for Economics amounts to 89 as compared with 80 in February; this increase however, is merely due to three more working days in March. Expressed in working days, the production only maintained the level reached in February. This time, the development of the consumers' goods industries was particularly favourable which revealed a slight increase in production not only with regard to the monthly result but also working days, a fact which was probably due to a great extent to the considerably improved supply of raw materials. The investment goods industries, in general, showed good results although in this case the difficulties in the financing of investments makes the situation particularly critical. On the other hand and when considering the trend of industrial production as well as that of unemployment it is to be borne in mind that a seasonal stimulation should have been observed during March and that this stimulation obviously failed to come about in most sectors.

The reasons for this relative stagnation of industrial production are still very different. First, a few bottlenecks in the supply continue to play a certain role. Owing to the high imports, the raw material supply recently improved considerably in general, and the power supply in March was also much better than in previous months. However, reports are received from numerous branches of industry that the coal supply does ^{not} keep pace with production and that higher production could have been possible with a more plentiful coal supply. The increase in coal production which expressed in working days had hardly changed since the beginning of this year is, therefore, undoubtedly one of the most urgent tasks of the present production and investment policy.

It can hardly be foreseen to what extent the sales difficulties have hampered production during the past weeks. The Department for Economics reports that so far little has been done, in general, to replenish stocks and that incoming orders are far below the current level of production. A large part of industry is still existing on the comparatively high stock of orders which had accumulated during the boom. Favoured by the spring weather and the in general satisfactory Easter business, a certain stimulation of turnovers seems to have broken through recently in the consumers' goods markets which will undoubtedly have an effect on industry. On the other hand, it should not be overlooked that certain consumers' goods industries are faced with serious difficulties to sell which are particularly due to the fact that the more plentiful supply of goods - which was chiefly possible through the improved supply of raw materials caused the consumer to demand better quality. This trend justifies that certain products which during the period of general shortage found easy sale are now no longer saleable under the previous conditions. The complaints about difficulties to sell are probably based to a great extent on this distressed condition of the industries. The tendency involved, however, is an unavoidable adaptation process which may not be delayed

through credits but could be brought to an end soon by drastic price reductions for the purpose of clearing stocks and, also, naturally, by shiftings in production. The reluctance of buyers which some industries are complaining about will disappear sooner - since this reluctance is based only on expectations for more favourable possibilities to purchase - the ~~more the~~ shifting in production and price structure ^{is} adapted to the demand, the quality desired and the income situation of buyers. By this process it will certainly be unavoidable that a considerable portion of the previous "production of luxuries", since these had been destined for the domestic market, will be deleted. The consumption of luxuries which maintained rather a great importance even after currency reform due to the profits accrued from the price boom ^{has} for quite some time been on a declining stage, especially since the shrinkage of the black market and possibly also a stricter collection of taxes ~~which~~ reduces incomes of the higher income brackets and thus brings about a more equal distribution on incomes.

When considering the fact that recently the entire development and particularly the consumers' industries more and more tend towards "buyers' markets" it should not be overlooked that the exceptionally low purchasing power of the majority of buyers is the basis of this new market condition. The fact that the general level of supply is still very unsatisfactory despite the sporadic symptoms of an ostensible excessive flow of goods may be learned from the production of the Western German economic area which is still considerably below the pre-war level in spite of the progress made since currency reform. In this respect, Germany's condition differs greatly from that of probably all other European countries. It is to be borne in mind, however, that the population of the Combined Economic Area has increased by about 22 per cent due to the approximately 8 million expellees, so that per head of population, the industrial production is even 30 per cent lower than that of 1936 and more than 40 per cent lower than that of 1938. When including the French Zone in this calculation,

the difference would be even more noticeable since the increase in production there is less than in the British and U.S. Zones. The figures of an important special sector, i.e., textiles and garments, show the low level of supply which the population as a whole will have to expect for a long time. Before the war the consumption of textile raw materials per head of the population amounted to 14 to 15 Kilos annually. Garments accounted for about 50 per cent of this amount. For 1948/49 not quite 7 Kilos are provided per head and for 1949/50 about 10 Kilos. The share of garments shall be reduced to somewhat over one third. Even for 1952/53, the last ERP-year, only 5 Kilos textile raw material consumption are provided per head of the population for garments and similar purposes.

When from the view point of market economy, the period of typical "sellers' markets" (Knappheitsmärkte) seems to have been overcome, the reason for this development is not only to be found in the present reluctance of buyers but also in the fact that with prices the still very low level of incomes as compared with the high prices restricts the demand. In this conjuncture reference is to be made chiefly to the extraordinary broad class of the population whose income hardly suffices to satisfy the most vital requirements of mere subsistence. The following schedule will give an indication of the extent of this class in the Combined Economic Area alone :

pensioners of a social insurance (with dependents)	about 3 millions
welfare recipients (welfare relief paid in cash)	" 3 "
war invalids and dependents of war dead (with dependents)	" 2 "
recipients of unemployment relief	over 0.7 "

Thus, a total of nearly 9 millions, i.e., about one fifth of the population - this figure is even higher including dependents not calculated above -, have to depend upon public relief in one form or another. The amount of this relief which had been rather low has been prejudiced further in its real purchasing power by price increases during the last half of 1948. In addition, those persons who lost their property

or income and are not supported by public welfare but live on private allowances have ^{not} been taken into consideration. The future of all these "step children of recovery" undoubtedly represents a serious social problem in Western Germany and may not be disregarded when considering the gratifying ease in the markets during the past months.

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

The adjustment of prices to existing sales conditions has made further ^{progress} during the last few weeks. According to observations by the Statistical Office for the Combined Economic Area this is particularly true for the first half of March in which retail prices in the regular as well as in the black market declined far more than ever before since currency reform. Of nearly 1 000 prices, 32 per cent fell, 55 per cent remained unchanged, and only 13 per cent increased. The price increases are to be explained partly by seasonal reasons (e.g. in the case of vegetables, fruit), partly by price increases in initial stages of production. During the second half of March and during April, price abatements diminished partly perhaps under the influence of the seasonal revival of sales. The pressure on prices, however, is still continuing.

It may be, however, that the statistical price decline which always refers to the same range of goods is not the decisive thing at the present moment. For the living standard the extension of the assortment of goods, the appearance of novelties and lower market prices and certainly also the improvement of quality are of at least the same importance. Thus the development is the reverse of that before and during the war when a steady deterioration of the living standard without price increases took place in that the cheaper qualities disappeared to a growing extent from the market or were simply transferred to higher ^{price} brackets. In the field of clothing for instance, it means a considerable reduction of expenses for the consumer that instead of ready-made clothes he can

now buy material and have this made into clothes.

To this must be added that black market and rationing are more and more losing their significance for the supply of goods. Extra price charges for certain still rationed goods when sold without coupons are no longer demanded in view of the growing supply of goods and the dull sales business. Under the menace of losses arising from rotting etc. and under the pressure of a sometimes too great supply of goods all restrictions on sales are proving useless. There are clear signs to be noticed during the last weeks that the "split" markets are being united again in many fields. For example, the black market has disappeared for bread and cereals, to a large extent for stimulants, not yet, however, for fat, meat and sugar. Partly the black market is underbidding the regular market since it does not pay any taxes and is in some respects working with less expenses.

Under these circumstances the "everyman"-program (Jedermann-Programm) has lost its immediate importance for the fixing of consumer prices. Goods of equal quality are being offered more and more outside this program at the same or even at lower prices. The carrying out of the "everyman"-program for porcelain, bicycles, radio sets, sewing machines and agricultural machines is reported to have been given up altogether since production of these articles is rising rapidly and considerable price reductions have been made or firmly promised by the industry. Moreover it is intended to transform the "everyman"-program for textiles, shoes and the like altogether from a "price program" into a "quality program". A standardization of essential goods could be rendered very useful in this form in that it counteracts the splitting of production into too large a number of articles with a multitude of types, fosters large scale production, reduces costs, and thus helps combine requirements regarding quality with requirements regarding prices, and in a word, serves rationalization.

Rationalization is, however, one of the most urgent tasks for the immediate future because the cost situation of enterprises becomes more unsatisfactory. The pressure on prices of finished goods - be it retail, wholesale or factory prices - are confronted by rising prices of certain raw and basic materials. In the iron and steel industry imported ores have now to be paid for at a rate of 30 cts for 1 DM, prices of domestic ores have been raised (on account of increased wages in iron-ore mining), and scrap prices, too, have somewhat increased. A rise in production which might lead to a sizable degression of costs is hardly to be expected in these industrial branches. Furthermore, the growing cost difficulties in coal mining (increasing hauling costs owing to greater depths of shafts, still low working performance of miners¹⁾) is threatening to lead to a further rise of the coal price after it has been raised from 15 to 32.50 Mark during the past year. Also in other industrial branches the relationship between costs and prices causes concern. For instance, factory prices for woollen tissues of comparable quality are double those of 1939 whereas raw-wool prices are more than threetimes as high. In general, the situation is characterized by the fact that the index of wholesale prices for industrial raw materials and semi-manufactured goods was in March 1949 not much higher (by about 35 percent) than in December 1948 (highest level after currency reform). Most prices of basic materials remained practically unchanged. A drastic decline in hide prices is confronted by an increase in prices of zinc, cellulose and artificial silk.

The rise in wages setting in after the expiration of numerous tariff contracts despite increasing unemployment has recently gained in extension. Of more important wage increases applying

1) Average output per underground manshift in Ruhr coal mining amounted to 2.20 tons 1936, 1.20 tons 1946, and 1.37 tons at present.

to all regions only the increase of basic wages for skilled craft in the building trade by 11 per cent, according to the arbitration award of 15 April, has, however, so far become known. Thereby building costs rise by 3 - 4 per cent. In case wage increases are further extending this would, in view of the above described development of costs, in general, of course, strongly impair the prospects for further price reductions. As can be seen from the following table, the real weekly incomes of industrial workers, according to the index of living costs of the Statistical Office for the Combined Economic Area, are about 8 per cent, according to that of the Institute for Economic Research of the Trade Unions, even about 30 per cent below the level of 1938. However, this development largely expresses only the decline in productivity. Per head of employed industrial production is at present still 32 per cent below the level of 1936 (there are no data available for 1938), per working hour perhaps even more. However, in the individual industrial branches conditions are probably very different for such over-all calculations can hardly say anything about the justification of wage demands in the individual case. But, in general, they show the limits which are set to wage increases if they shall not lead to renewed price increases or adversely affect production and employment. If major general wage increases, in their effect on real incomes, shall not within a very short period, be annulled by price increases and if, above all, they shall not substantially impair the purchasing power of those classes who are not in a position to accomplish higher nominal incomes (pensioners and similar groups), they will have to be accompanied by a major increase of working performance. When in the building trade wages were raised, both parties agreed that partly by the introduction of the 48 hours week, partly by an extension of piece rates an increase in production had to be achieved. From whatever side one may tackle the actual problems of the Western German economy, the

urgency of the task of rationalization is always evident.

Income and working performance
as of end of 1948
percentage change as compared with
1938

weekly incomes of industrial workers (gross values, nominal) 1)	+ 33
living cost index	
of the Statistical Office for the Combined Economic Area	+ 44
of the Institute for Economic Research of the Trade Unions	over + 90
on the average	around + 70
real incomes	
according to the living cost index of the Statistical Office for the Combined Economic Area	- 8
of the Institute für Economic Research of the Trade Unions	- 30
on the average	around - 20

1936

productivity	
production per head of employed ²⁾	- 32
production per working hour ³⁾	- 33

- 1) Calculated for the British Zone by the Institute for Economic Research of the Trade Unions.
- 2) Calculated by the Bank deutscher Länder.
- 3) Calculated by the Statistical Office for the Combined Economic Area.

Overall Situation and the Problem of Investment Financing

If we sum up the main tendencies of present business conditions and try to lay down the key problems of the future development we see a picture differing from that drawn in the last monthly report in some details but only little in its basic lines. First it has again been confirmed that the power of resistance of the economy against the various difficulties is substantial stronger than was expected by many people some time ago. Industrial production on the whole continues to be on the level of February which is about two thirds above that before currency reform. Investment goods industries, too, have maintained themselves well. It is, therefore, to be seen, that despite the much discussed crisis of investment financing considerable funds are still available for investment purposes. Self-financing, in particular, seems to yield higher results than was expected on account of price declines and partial pecuniary difficulties. Obviously also public authorities have extended their investments during the last months and thereby, in some fields, given a substantial support to the economy. It is true that unemployment figures moved further upwards but the increase was smaller than during the preceding months, and the latest employment figures show that the increase of unemployment since December is only for about one third caused by a decrease in employment. To a certain extent unemployment merely reflects the growing supply of manpowers. Finally it has to be regarded as a positive symptom that - also in March which is a bad month with respect to tax-payments - tax revenues remained on a high level and exports continued to rise until the last weeks despite the increasing sales difficulties in the world markets.

Against this it has, however, to be borne in mind that normally in March and April a more or less pronounced seasonal revival of the economy is due. In consequence of the mild winter and the remarkable increase in business activity until February despite all strains it had, however, to be expected that the purely seasonal revival this year would be smaller than usually. The fact, however, that it did not occur at all and industrial production could hardly maintain the level of

February and that unemployment even further increased needs to be regarded as a symptom that certain depressive influences must not be underestimated.

In the number of these depressive factors are often still included the allegedly too short supply of bank credit. The credit statistics, however, shows that this view is hardly valid. Short-term credits to nonbank customers at all banks increased in March by 286 million DM, and for the first three weeks of April, according to the weekly sample statistics of 112 financial institutions, a further increase of about 250 million DM may be estimated. This corresponds to a monthly rate of increase of about 6 per cent. Thus the extension of credit is doubtlessly not developing beyond a due proportion to the decreasing rise in the volume of goods turnover even if it is borne in mind that a substantial part of the extension of credit perhaps serves only the financing of rapidly increasing imports. Since the abandonment of credit restrictions on 22 March this year banks are no longer subject to any limitations when granting credits for financing the turnover of goods. If customers are able to provide bills of exchange they will, therefore, certainly find banks which are willing to discount them since the banks are always in a position to borrow from the Landeszentralbanken against bills of exchange. If in spite of this very often complaints about the short supply of working credits have been raised the main reason is that a number of firms by certain sales difficulties have come into a state of illiquidity which they try to overcome or at least to bridge by bank credits.

Therefore, these sales difficulties constitute one of the decisive causes of the present stagnation, a cause which has nothing or only little to do with monetary matters. As set forth in detail in the chapter on Production and Sales the signs of illiquidity emerging in some parts of consumer goods industries and in retail trade are connected much more with the necessity to remove certain inequalities between the structure of production and present sales conditions. This is a task which can only be fulfilled by adequate shiftings in production and by price adjustments and the accomplishment of which would only be delayed by a too liberal credit policy.

It cannot be avoided that therefrom temporary hold-ups and at least for the time being a certain unemployment will arise also. But if one would try - adhering to a purely dogmatic interpretation of the ideal of full employment - to avert the unemployment altogether it would have to be paid for with the continuance of the disproportionalities in the economic structure which ultimately only impair over-all productivity, lead to undesirable price increases, and constantly require certain control measures.

During the first months of this year the sales difficulties connected with such shifting tasks have, however, been aggravated by the fact that consumers expecting stronger price declines and a further improvement of the assortment of goods postponed part of their usual purchases in order to be in a position to buy at cheaper prices later. It appears, however, that this reluctance on the part of consumers has somewhat diminished during the last weeks. It may be assumed that this will gradually have some effect on the volume of orders on the books of consumer goods industries although merchants are still very cautious in their transactions. It has, however, to be regarded as a favorable symptom that the revival of an immoderate propensity to consume could so far not be noticed. There is, on the contrary, a confirmation to be found that despite the large catch-up demand in most households economizing and thriftiness are reappearing to a gratifying extent since the economic development during the last weeks has made it clear to everybody that it is again reasonable to save and that every receiver of an income with a sense of responsibility acts in his own interests if he lays by an adequate reserve out of his income.

Of course, these are still modest beginnings and the main thing is that only a small part of the funds being sterilized by the savings process now gradually setting in flows into the capital market. Those who have started saving want to remain liquid. Even the funds accruing from the "forced saving" by way of public budgets and social insurances are only in small part placed at the disposal of the capital market because everywhere the desire is prevailing to be at any time in a position to draw upon reserves. Investment

activity can, therefore, still only to a very small extent be supported by the capital market. Since, on the grounds already laid down in the last monthly report, only a very limited volume of bank credit can and may be granted for investment purposes and the opportunities of self-financing are steadily diminishing due to price declines, partial sales difficulties and the above-mentioned cost increases there exists, therefore, still the urgent problem of investment financing. Herein lies undoubtedly the decisive cause of the present financial difficulties of the economy as well as of a large part of the decline in orders during the last months and the restrictions in production therefrom arising.

But, nevertheless, the tendencies toward an improvement of the situation have become stronger. Through the so-called "preliminary" tax reform recently passed substantial incentives for an increased saving have been given from the side of tax-reliefs. In addition, expenditures of public authorities for investments seem to be on the upgrade. There are informations from various parts of public administration that major funds have been made available particularly for housing accommodation. Recently, public authorities also seem to participate to a larger extent in the expenditures for the extension of public utilities and the restoration of the transportation system. For the second Marshall Plan Year (July 1949 - June 1950) the 8 Länder of the Combined Economic Area have proposed investment expenditures amounting to 1.6 billion DM. In addition, considerable amounts will have to be expected from the Gemeinden and the Gemeindeverbänden. In view of the general money situation it could be only desirable if public authorities would restrict themselves to a minimum when setting up liquidity reserves since their future revenues can best be secured by averting a crisis in the investment field.

In recognition of what from the German side has been done so far in the field of investment financing the Occupying Powers now have also declared their readiness to make available major amounts from the DM-equivalent-values of

deferred imports for investment purposes. As laid down in detail in the chapter on "Money and Credit", after as yet only general promises were given and certain respites for the payment of imported investment goods were accorded, in April the first actual release of "counterpart funds" has taken place and part of the funds has already been spent. It may be assumed that shortly further considerable amounts will follow although the power of disposal of Military Government for the time being, is restricted to the funds from the Category A-imports, the so-called GARIOA-funds whereas the equivalent-values of the Marshall-Plan-imports which are subject to control by ECA can only be made available after thorough examination of the planned investments. Obviously this will delay the utilization of these funds. From the standpoint of monetary policy the financing of investments out of import-equivalent-values is, for the time being, of special importance because, as already mentioned, the accumulation of the funds concerned, contrary to widely spread views, has - with regard to the whole economy - not yet had the effect of sterilizing money since it has so far been more than offset by a high excess of out-payments in the commercial sector of foreign transaction. Under these circumstances the release of "counterpart funds" means in reality an expansion of central bank credit. For the time being, from the standpoint of currency policy, such an expansion is, however, justified since it merely compensates the latent formation of capital which not yet always benefits the capital market and which is connected with the declining propensity to spend on the part of the economy and particularly the consumers. Would this expansion not take place even a deficit of purchasing power would emerge in the markets leading to a more or less general shrinking of economic activity. It appears, however, suitable to reserve the released counterpart funds not only for the financing of certain large investment projects but to utilize an adequate portion thereof by appropriate means also for a number of smaller investment works. These are, as a rule, not always very manifest but, nevertheless, partly also of

greatest consequence for the economy as a whole .

Beside that, it will, of course, be an important task to promote the revival of the normal capital market with all vigour and under utilization of the experience of former years, for example of the period after the stabilization of the Mark in the twenties. This task is so urgent because the Occupying Powers have unequivocally declared that for the second Marshall Plan year there cannot be expected a release of more than 2 billion DM from import-equivalent-values. This amount is only about 2/7 of the 7.3 billion DM investments proposed for the Combined Economic Area within the program for 1949/50. The difference of 5.3 billion DM is to be raised for 1.95 billion DM by public authorities, for 1.2 billion DM by self financing of firms, and for 1.65 billion DM by private formation of capital (savings deposits, investments of insurance companies). The financing of the remaining 0.5 billion DM is still unsettled. It follows therefrom that Western Germany, also in the next future, will have to finance by far the largest part of ~~its~~ investments out of ~~its~~ own resources.. In material respect, for the time being, the aid from abroad remains, of course, for Western Germany the decisive basis of all efforts to get on ~~its~~ feet again because without food and certain raw material deliveries from abroad, ~~it~~ could hardly exist with ~~its~~ present density of population and much less evidence the power of regeneration which ~~it~~ showed during the last months.