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OUR INTEREST IN GERMAN FOREIGN TRADE

Recovery in Europe is lagging. Since V-E Day, this country has provided billions of dollars of assistance to Europe. Still we find the continent struggling with shortages of food, of fuel, of raw materials, of most of the essential ingredients for economic recovery and stability. Until Europe can export enough to pay its own way in the world, we shall find ourselves continually confronted with a hard choice: We must either provide further billions of assistance or see economic, social, and political disintegration in that vital area. We face exactly this problem in Germany; but, more importantly, our failure to handle it there on an adequate scale will seriously reduce the chances of our success in the rest of Europe. Other European countries are vitally dependent upon the renewed flow of supplies from Germany, first and foremost of coal. The reconstruction of the European economy is inseparable from the rehabilitation of Germany.

Before the war Germany, next to the United States and the United Kingdom, was the most important trading nation in the world. As late as 1937, despite efforts of the Nazi regime to make Germany independent of foreign supplies and markets, the country's foreign trade represented about 9 per cent of the world's entire international commerce. Its exports reached \$2.4 billion and its imports \$2.2 billion, equivalent at present prices to \$4 billion in each direction. More than half of these exports and imports came from or went into those areas of prewar Germany that today constitute the American and British zones of occupation. About two-thirds of the imports were raw materials and semi-finished goods needed for the operation of the German industrial system. Almost nine-tenths of the exports were finished industrial products. Germany provided a highly important market for many foreign countries, and its exports met essential needs in wide areas, especially in the rest of Continental Europe.

In 1946, imports from other countries into the American and British zones of Germany totaled about \$650 million. More than four-fifths of that amount represented foodstuffs needed to avert outright starvation among the German population. Only about one-tenth of the total consisted of raw materials for German industry, mainly American cotton and British wool. The importation of industrial materials thus was only a very small fraction of the quantity which the zones used to import before the war. Exports were equally small. They amounted to only some \$150 million and three-fourths of that sum was provided by coal exports from the Ruhr mines in the British zone. Most of the remainder was raw materials like lumber and hops. Exports of industrial goods were negligible.

As a result of this situation, the American and British occupation authorities had to finance an import surplus into their zones of occupation amounting to about \$500 million in 1946. Despite such a large outlay of money, the economic situation of the zones remained critical. Food imports were just sufficient to keep the ration of the average

consumer around 1,550 calories per day, an amount one-fourth below the minimum standard set up by the United Nations Food and Agricultural Organization, and two-fifths below the quantity needed for the maintenance of an efficient labor force. The scarcity of imported raw materials was an important factor restricting the revival of industrial activity. Stagnation in German industry has prevented an adequate flow of German exports to pay for imports and to contribute to the recovery of other European countries.

In December 1946, the United States and the United Kingdom agreed upon a new German foreign trade program based upon an economic merger of the American and British zones of occupation. The two occupying powers set the goal of making the combined zones self-supporting within a period of three years by stimulating both imports and exports, and in the meantime agreed to share equally in financing the necessary import surplus. They set up a Joint Export-Import Agency and implemented their agreement a few days ago by establishing a German Economic Council. This Council will be composed of representatives of the legislatures of the German states located in the combined zones. It will be assisted by an Executive Committee representing the governments of the German states, and by a number of executive directors, heading bizonal administrative departments. Through these organizations the population of the occupied zones will be mobilized for attaining the goals set by the Agency. It was hoped that France and the Soviet Union would join in the agreement and thus reestablish the economic unity of Germany, which is indispensable for the eventual rehabilitation of the German economy and to which all four powers had agreed at the Potsdam Conference of 1945. Unfortunately, the other occupying powers refused to join in the merger, and the American and British authorities had to proceed on their own, leaving the door open, however, for future adherence by the other two powers.

In meeting our share of the cost of supporting Germany during this interim period, we rely upon appropriations by the Congress to cover food requirements. Raw materials and equipment for industrial rehabilitation, on the other hand, are financed through credits from U. S. Government agencies. The Commodity Credit Corporation shipped \$30 million worth of surplus cotton into the American zone to be processed by German firms. The finished materials are exported to an extent sufficient to pay for the imported cotton and the remainder is either exported in order to pay for the importation of additional raw materials or is made available to the domestic German economy. The U. S. Commercial Company agreed to finance similar shipments of raw materials for the ceramics, glass, chemical, toy and other industries. At present, a second cotton credit of \$20 million is being negotiated with the Export-Import Bank of Washington and American cotton exporters.

The two occupying powers also have established a joint revolving fund of foreign exchange that can be used for importing other goods needed by German industries. The fund consists of the proceeds of exports from the combined zones in 1945 and 1946, insofar as they have not been used already for import payments, and of German external assets transferred to the two occupying powers by neutral countries. This provides the Joint Export-Import Agency with a necessary working balance for priming the pump of German export industries.

The actual start of the foreign trade drive has been somewhat delayed. For many months the unprecedented hardships of last winter disrupted transportation and production in Europe. The new export-import organizations had to be set up and proper rules of procedure established. The exact specifications for the export-import programs, which had to be submitted to the Agency by the German authorities, often were found unworkable. Already, however, the Agency is approving export and import contracts at an accelerating rate. Moreover, the Agency has issued regulations facilitating the renewal of contacts between German and foreign businessmen. American and other businessmen now may visit Germany in substantial numbers, and after June 15 German exporters and foreign importers will be permitted to conclude contract negotiations by mail. The Agency, however, has to approve all import and export contracts, either at its headquarters or through one of its branches, and it is designated to receive all foreign exchange proceeds from export shipments. These precautions are necessary in order to make sure that all export proceeds are mobilized for the payment of essential imports.

Imports in 1947 will have to include at least as much food as those of 1946. The deficiency of fertilizer and agricultural machinery, and the scarcity of able workers in Germany makes it unlikely that this year's crop will be much in excess of last year's. Even if some progress in German production is made, however, it could not be sufficient to bridge the gap between present supplies and the minimum needed for the preservation of public health in the long run. In addition to food imports, the combined zones will need imports of raw materials in substantially larger volume than now contracted for. While for some time to come it will not be feasible to restore the proportion between imports of foodstuffs and of industrial materials to the prewar ratio of one to two, the value of material imports will have to approximate that of foodstuffs to enable German industry to reach a satisfactory level of operations.

Exports in 1947 are expected to consist of coal, textiles, and other raw materials and industrial products, each of these three main categories to be of about equal value. In each case, however, reaching the goal will mean a hard struggle. The authorities will have to decide whether the overall European economy is better served by exporting Ruhr coal or by letting German industries use that coal for the production of exportable finished goods. If coal is to be used domestically, a given quantity could yield far higher export proceeds than if it were exported as a raw material. On the other hand, such a solution would be opposed bitterly by the industrial groups in those countries that depend upon German coal exports. This dependence is far greater than before the war: Only limited quantities of British and Silesian coal are available for export to Western and Central Europe, and the shipment of American coal to Europe is very expensive because of transport costs and cannot be easily expanded because of transportation difficulties. The present allotment of Ruhr coal, agreed upon between the bizonal authorities and the French Government, attempts to satisfy both domestic and foreign demand at least to a somewhat higher extent than in 1946, but the fulfillment of the program depends upon a substantial improvement in coal output. Coal production increased materially during the first three months of this year. The advance, however, stopped in April and May, mainly because of labor unrest caused by the tightening of the food situation. Satisfactory coal exports from Germany thus will be possible only if increased domestic

production aided by increased imports makes available more food and other consumer goods to the Ruhr miners.

Increased exportation of textiles will depend upon additional imports of cotton and wool. Here again improvement of labor efficiency through greater availability of food and other consumer goods is an important factor. Exports of lumber and potash encounter difficulties similar to those faced by coal exports. Both these materials are needed urgently in the German economy. Lumber is vitally important for pit props in the mines and for housing--next to food, the most severe shortage hindering improvement in labor productivity. Potash for fertilizers is indispensable for raising the output of German agriculture. On the other hand, Germany's neighbors need those materials for exactly the same reasons.

Similar difficulties arise in the importation of industrial materials. Since German exports have to pay for necessary food imports, imported materials should be primarily such as to make possible the production of exports. On the other hand, the considerations of labor policy which I indicated earlier make it necessary also to import materials needed for the production of goods for German consumption. We continually encounter this problem of how much work individuals can and will do. As long as the wage of a German worker can be used virtually only for buying the meager official food rations and similar goods, the German worker has no inducement to increase his efforts in order to secure a higher income. Labor productivity cannot be restored unless higher earnings are accompanied by a greater supply of consumer goods. To achieve this end would require a sharp increase in the production of goods for domestic consumption. The occupation authorities must approve a program dividing available means between the importation of materials for export and for the domestic market. If a liberal allotment is made for consumer goods, however, the decision will be severely criticized by the uninformed public in the occupying countries, which have to advance the funds for imports into the merged zones not directly covered by German exports. If the allotment is not liberal, the Germans will be inclined to feel that they are working for the occupying powers rather than for themselves. Charges of exploitation of the combined zones by American and British capital sound incredible to those who know the burden that the American and British taxpayers have to bear in order to keep the zones alive. Such accusations are often made, however, in Soviet newspapers and propaganda broadcasts to Germany, and it would not be surprising if some German workers were led to believe them. This would impair the beneficial effects of our import policy upon the efficiency of German labor.

Another difficulty is presented by the state of the German currency. The occupation authorities have been able to maintain official prices and wages at only 20 to 25 per cent above the prewar level. Black market prices, however, are either a multiple of the official quotations, or are expressed in terms of cigarettes or foreign currency. Thus, the German currency does not fulfill its function as a generally accepted means of payment. The German price system was isolated from world market developments by the Nazi regime even before the war. This circumstance, aggravated by the disparity between legal and black market price levels makes it impossible to fix any given exchange rate as representing a reasonable relation between the German and the world market price systems. Official German prices would be completely out of line with world market prices

if they were converted into dollars at the exchange rate of 10 marks equal to 1 dollar, which was established at the time of occupation for purposes of military accounting. For this reason, the Joint Export-Import Agency has issued a list of so-called conversion factors, giving for each major type of commodities a specific relation between official German prices in reichsmarks and world prices in dollars. For instance, carbon brushes, which in Germany are selling for 100 marks, have a conversion factor of 30 cents per mark. This means that they are to be offered in the world market for \$30. On the other hand, certain pharmaceutical products have a conversion factor of 80 cents per mark, which means that such goods selling in Germany for 100 marks are to be offered in the world market for \$80. While this solution is not ideal, it is the best that could be found at present.

In the long run, however, currency reform will be indispensable for the rehabilitation of foreign trade with Germany. Such a reform should be carried out by all four occupying powers in order not to create further barriers among the four zones of occupation. An American project dealing with all aspects of the reform has for some time been under discussion among the occupying powers, and it is to be hoped that the relatively few unsolved problems can be settled in the near future.

Our efforts to reconstruct German foreign trade would be greatly facilitated if Germany's economic unity were restored in accordance with the Potsdam Agreement. Since the four zones are interdependent to a very high degree, full merger would make possible a much more efficient economic operation. If, however, the four powers cannot agree on the terms of unification, the American and British authorities will have to press forward in their efforts to put at least their area of occupation back on its own feet. This will require a reorientation of industrial production in the two zones, and an increase in industrial activity above the level set by the four occupying powers about a year ago. Within this framework the foreign trade program will make a decisive contribution to the restoration of economic stability in Germany and thus in all of Europe.