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OUR STAKE IN GERMAN ECONOMIC RECOVERY

Two world wars and their aftermath have made it clear that the problem of Germany is one of the keys to world peace and prosperity. For two years, your representatives in military government have sought a basis for the solution of this problem. They can only succeed if the American people are aware of both their achievements and their difficulties, and if in turn the military government officials in Germany understand the attitude of the public at home. To contribute to a mutual exchange of such information is the main purpose of this paper.

Principles of American Economic Policy in Germany

We all know that the German economy operated in the past as one integrated unit. Each part made its contribution to, and received its support from, the rest of the country. This integration alone made possible the industrial development of Germany. None of the areas that constitute the nation was ever self-sufficient in the past or can be made self-sufficient in the future. None of the German industries draws its tools and raw materials from one single area or one single zone of occupation. Steel and coal of the British zone are vital to the metal-working industries of the American zone, but the coal mines in the British zone cannot operate without pit props from the American and Russian zones. The light industries of the American zone need optical glass from the Russian, and glue from the French zone. On the other hand, they supply the French and Russian zones with electrical equipment, anti-friction bearings, and dyestuffs.

For purposes of occupation Germany west of the Oder-Neisse line has been divided into four zones: American, British, French, and Russian. Moreover, the area of prewar Germany lying east of that line has been put under Polish (or Russian) administration. The Potsdam Agreement provided that the four zones should be treated as one economic unit. It has not worked out that way, however. Therefore, I shall not speak so much of global German problems such as economic unification, the levels to be established for German industry, and the reparations program. Instead I shall concentrate on discussing the economic problems of the American zone and as far as necessary of the combined American and British zones.

All of us are aware of the importance of early high-level decisions on the basic economic questions which were recently discussed at Moscow. The issues were pointed out some time ago by Secretary Marshall and we all know their substance and the urgent need for their solution.

In view of the history of German aggression and the part played therein by German industry, it may be difficult to understand that one of the major tasks of military government is the provision of assistance in rebuilding at least part of the German industrial system. Such a reconstruction, however, is necessary for two reasons: to prevent Germany from remaining a source of perpetual unrest in Europe, and to aid in the recovery of our allies.

In the crop year 1946-47, German farmers in the combined American and British zones of occupation are producing foodstuffs sufficient to provide an average diet of only about 1,000 calories daily for that part of the population that does not live on self-sufficient farms. Such a diet is less than half of the minimum standard endorsed by the United Nations Food and Agricultural Organization. Unless we are prepared to forego payment for the large supplies of food that must be sent to Germany for an indefinite period just to prevent wholesale starvation, we must permit Germany to redevelop its manufacturing industries which alone can produce the exports necessary to pay for food imports.

Moreover, the products of German industry are indispensable for the reconstruction of continental Europe. In 1936--the last year in which the bulk of the German economy was operated on a peacetime level--Germany was the largest exporter to, and the largest importer from, Austria, Bulgaria, Czechoslovakia, Greece, Hungary, Italy, Rumania, Switzerland, Turkey, and Yugoslavia. It was first as a supplier and second as a market for the Netherlands, Poland, and Sweden. 1/ Almost the entire manufacturing industry of continental Europe was dependent upon German machinery, precision instruments, electrical appliances, optical goods, transportation equipment, and chemicals.

1/ The importance of Germany for continental Europe is indicated by the following table, showing Germany's trade with some of the leading European countries.

<u>Country</u>	<u>Imports from Germany</u>	<u>Per cent of total imports</u>	<u>Exports to Germany</u>	<u>Per cent of total exports</u>
	(Millions of dollars)		(Millions of dollars)	
Netherlands	151	23.3	74	15.7
Italy	116	26.4	77	19.5
France	106	7.0	40	4.3
Sweden	99	23.9	61	15.8
Switzerland	92	24.8	51	19.4
Denmark	83	25.3	62	20.3
Belgium	82	11.5	69	10.4
Soviet Union	62	22.8	23	8.5
Czechoslovakia	55	17.5	45	14.3
Norway	41	17.6	23	13.2
Austria	40	16.9	29	16.1
Turkey	34	45.1	48	51.0
Rumania	33	39.0	30	21.1
Hungary	33	25.8	35	23.1

The fact that Germany today cannot even supply spare parts is hampering economic reconstruction in such different countries as Austria, the Netherlands, and Poland. The general shortage of coal, which is the greatest single factor in retarding European recovery, is due largely to low production in the Ruhr mines. Lack of German potash is delaying the rehabilitation of agriculture all over Europe. An increase in the output of coal and potash mines, however, depends upon the availability of mining equipment and upon larger supplies of consumer goods for miners. A German miner can earn in two days all he needs to buy his meager weekly rations and thereafter has little incentive to work. A relatively small increase in consumer goods offered to miners was an important element in raising production in the Ruhr mines by about one-fifth between the fall of 1946 and the spring of 1947. A large-scale revival of German consumer goods industries would have proportionately greater results.

Our own economy would benefit from the resumption of German industrial exports because the availability of German goods would help meet the foreign demand for many American goods which are still in scarce supply relative to our own domestic demand. Furthermore, some European countries can pay for imports from the United States only with the aid of dollar credits because they lack dollar resources and lack exportable commodities adapted to the American market. If they could import goods from Germany, however, they could pay for them by exporting products urgently needed in that country. In that way, they would lighten the burden which the American economy has had to bear both in respect to the reconstruction of their own economy and to the rehabilitation of Germany. For instance, before the war the Netherlands exported substantial quantities of vegetables to Germany while Germany paid for these imports in steel and machinery. If that commerce could be restored today, it would make it unnecessary for the American economy to extend credits to the Netherlands in order to enable that country to buy American machinery and it would make it also unnecessary to divert scarce American foodstuffs to Germany.

Obstacles

While the principle of assistance to German recovery has been generally accepted in this country, it has been very difficult to carry out the program on an adequate scale. For obvious reasons of justice and policy, the countries invaded by Germany have been given a prior claim to our aid. Our financial and material resources are limited and foodstuffs and raw materials continue to fall short of total demand. The allocation of wheat and non-ferrous metals, for instance, is a task that simply cannot be fulfilled to the satisfaction of all. Similarly, coal, of which Germany is a major producer, is in generally short supply. In order to promote reconstruction in the rest of Europe, we have had to undertake substantial exports of German coal even though the revival of German manufacturing industry would have been considerably accelerated if it had been possible to retain German production for German domestic use.

It may be hoped that these scarcities will disappear within a few years, but other obstacles may take their place. Concern has frequently been expressed that the reconstruction of German industry may go too far and restore Germany's war potential. The occupying powers have tried to differentiate between industries that could be used for aggressive purposes and therefore should be restricted, and others that might be

considered peaceful and therefore should be encouraged. The most innocuous industries, however, could conceivably be used for war purposes, and dangerous ones frequently are indispensable for peacetime uses. For this reason, some of the United Nations are critical of any move to improve the level of German industry even though they concede that such an improvement would benefit them from the economic point of view.

Finally some countries see in Germany less a source of supplies or a market for exports than a dreaded competitor. At present, such fears seem premature since production the world over has not caught up with demand, and German production remains a negligible part of the total. As soon, however, as world market conditions become less favorable to the sellers, any increase in German industrial production and especially in German industrial exports, may injure the interest of some industrial group in other countries. Although such exports will in turn make possible imports into Germany and thus benefit the economies of Germany's trade partners as well as its own, the groups benefiting from access to the German market frequently will be different from those affected by German competition.

Achievements of Military Government

Despite the conflict of objectives and the limited financial and material means at the disposal of the occupation authorities, there has been a degree of rehabilitation in Germany.

a) Food and Agriculture

The food situation continues to be the central German problem. It is far from satisfactory, but we have been able to avoid not only outright starvation but also any serious deterioration of public health. Since last fall the official ration has been maintained in the American and British zones until recently at 1,550 calories daily for the so-called normal consumer. This ration still is more than one-fourth below the minimum necessary to insure health in the long run and more than two-fifths below the German prewar standard of nutrition. Moreover, the diet is far poorer in quality than would be advisable from the point of view of nutrition, a larger proportion consisting of grain products and a smaller proportion of so-called protective foodstuffs. Even so, the ration has been maintained only by importing into the combined American and British zones foodstuffs equal to about 60 per cent of their domestic production. These imports, including monthly shipments of 200,000 tons of bread grains and flour, and substantial quantities of potatoes, sugar, fish, and milk, require an expenditure of \$360 million in the current crop year.

The food situation is constantly being threatened by the fact that stocks of supplies are dangerously low. Food is needed in many parts of the world. For the sake of food importing countries a further rise in world market prices must be avoided as far as possible and priorities must be established by the exporting nations. Every ton of food allotted to Germany causes hardship in other parts of the world. Difficulties in ocean transportation frequently delay shipments urgently needed for maintaining stocks in Germany at the minimum level needed for the planning of equitable distribution. German farmers frequently fail to deliver

their quotas. Trains must be rerouted to alleviate a crisis in some part of Germany, thus creating a shortage in another part. Losses from pilferage increase in proportion to the deterioration of food conditions. An unfortunate accumulation of such factors was the cause of the difficulties currently experienced in the Ruhr district. Delays in delivering the full rations invariably lead to unrest, diminish the efficiency of labor and the output of industrial goods, and thus add to the difficulties of rehabilitation.

In future, we expect domestic production, collection, and distribution to yield substantially larger quantities than this year. Such an improvement will depend upon the availability of fertilizer and upon a supply of industrial consumer goods which will induce farmers to raise more crops for sale. It also will depend upon the enforcement of a strict program of collection and distribution which must be efficiently performed by German officials. We can have the utmost confidence in the ability of military government under General Clay to meet this situation if they are given fair means to carry out their program.

In the long run, however, the efficiency of industrial labor can not be maintained on a diet representing less than 2,600 calories daily for the so-called normal consumer. The American and British zones cannot expect to produce more food than sufficient for an average of 1,600 calories daily. Import requirements in the long run therefore will be the equivalent of at least 1,000 calories daily, or about two-thirds more than actual imports in the current year.

b) Industrial Production

In 1945, most manufacturing industries in the Western zones of Germany were at a standstill. By November 1946, industrial production in the American zone had reached 44 per cent of 1936--a year of virtually full employment in Germany. 1/With the exception of lumber, the production of all commodities is below the 1936 figure, but by 1948 prewar output is expected to be reached in a number of important industries. In the British zone, industrial production had recovered last fall to only 38 per cent of 1936. The British zone includes mainly heavy industries, most of which are under severe restrictions as possible war industries, while the American zone contains mainly light industries, manufacturing consumer goods.

1/ The rise in industrial production in the American zone is indicated by the following table, comparing production of some important commodities in the first and the last quarter of 1946.

<u>Commodity</u>	<u>First quarter 1946</u>	<u>Last quarter 1946</u>
Trucks (units)	400	1,434
Electric motors (thousands of horsepower)	28	131
Lumber (thousands of cubic meters)	549	1,015
Potash (metric tons)	36,849	311,098
Textile yarns, including rayon (metric tons)	5,737	10,200

Unfortunately, the exceptional severity of the last winter has undone some of the progress experienced during the preceding year. Industrial production in the American zone fell in December to 39 per cent, in January to 31 per cent, and in February to 29 per cent of 1936. In March it recovered to 35 per cent, but this level still is about one-fifth below the peak of November 1946.

In spite of the low level of production there is little unemployment. Even in February 1947, unemployment in the American zone was less than 450,000 out of a labor force of more than 7 million. Only in the white-collar classes is the number of job openings constantly smaller than that of job seekers. This is the result of three facts. The labor force has been greatly reduced by war losses and by the Allied retention of a large number of prisoners of war in some countries. Secondly, much labor is needed for work, such as removal of rubble and plant repair, which does not show in production statistics but nevertheless is vital for resumption of economic activity. Thirdly, for physical and psychological reasons, the productivity of labor has fallen considerably, in some cases by as much as two-thirds. The gradual revival of economic activity, more food, housing facilities, and improved availability of industrial consumer goods will do much to remove the causes of low efficiency.

c) Housing

Next to food, housing accommodations are the most pressing requirements of the German people. Despite all war losses, the population of the American and British zones has risen by around 20 per cent in comparison to prewar, mainly because of the inflow of Germans expelled from the area under Polish administration and from Czechoslovakia and other Eastern European countries. At the same time, urban housing suffered from terrific bomb damage during the war, especially in the industrial and commercial centers. In Bremen, for instance, 55 per cent of all homes were unusable in the summer of 1945. Reconstruction has been hampered by the scarcity of building materials, which in turn is due largely to the lack of coal: approximately 12.5 tons of coal are needed for producing the material necessary to build a small apartment. Allied legislation provides for the equitable distribution of available housing among the population, but this measure can bring only small relief since the complete equalization of all housing would only provide around 80 square feet per person in the American, and less than 70 square feet per person in the British zone.

Improvement in housing conditions is particularly needed in the Ruhr district since the inflow of additional miners from the Southern area of our combined zones, required to fulfill the program of output expansion, depends upon the availability of homes. A short range program has been and a long range is being prepared to provide additional housing, including temporary camps and billets and permanent reconstruction. In addition to building material, beds, bedding, and furniture must be produced. While military government plays an important role in drafting the program, its execution is entrusted to the German authorities. Military government has helped in that task by reducing to a minimum the requirements for military installations.

d) Domestic Trade and Transportation

Despite the interdependence of the four zones of occupation, interzonal trade has been slow to develop largely because of the lack of economic unification.^{1/} Since January of this year, trade between the American and British zones has been free, as the result of the economic merger of these zones, and trade between the merged zones and the rest of Germany will be increased under agreements concluded among the zonal authorities. Until and unless the over-all economic unity of Germany is achieved, however, German recovery will be hampered by obstacles to the free flow of goods within the country. Transportation has suffered particularly badly from war damage. Military government can be proud, however, of its record in repairing railroads, inland waterways, port facilities, and highways. Railroad tracks in operation represent 97 per cent of the prewar total. Almost as many sunken vessels have been raised in the American zone as in all other zones together and the proportion of port channels cleared is higher than in any other zone. The American zone also has a larger proportion of operating motor vehicles than any other zone.^{2/} Despite this progress, transportation is even now in need of repair and maintenance is a constant problem. Allocations of materials are being made for this purpose but must be revised as required to meet new priority demands from other sides of the battered economic structure.

e) International Trade

In 1946, the foreign trade of the American zone was almost entirely confined to the importation of foodstuffs and other essential goods by the occupation forces in order to prevent disease and unrest among the population. Such imports are financed by War Department appropriations. The only other substantial import transaction was the shipment of some surplus American cotton held by the Commodity Credit Corporation. This cotton was delivered to German processors; the finished goods are being exported in an amount sufficient to pay for the cost of the imports, and the rest is available for German consumption. In the fall of 1946, similar arrangements were made by American Military Government for the importation of raw materials required for the manufacture of ceramics, optical instruments, building materials, chemicals, and toys. The interim financing for these imports is handled by the U. S. Commercial Corporation

^{1/} In the nine-month period April through December 1946, the American zone shipped goods valued at 475 million marks (around \$190 million at the prewar exchange rate) into, and received goods valued at 471 million reichsmarks from, the other zones. Trade with the British zone accounted for 63 per cent, with the French zone for 28 per cent, and with the Russian zone for only 9 per cent of the total.

^{2/} The work done in this respect may be illustrated by some figures: More than 200 miles of railroad tracks, 78 bridges, and 18,000 miles of railroad telephone lines have been rebuilt; about 1,600 locomotives, 109,000 freight cars, and 8,600 passenger railroad cars have been repaired; about 800 miles of inland waterways have been cleared and 3,000 miles dredged; 978 river barges have been raised, and about 1,350 repaired; more than 900 miles of highways and 261 highway bridges have been rebuilt.

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a subsidiary of the R.F.C. Exports from the American zone in 1946 were confined mainly to lumber and hops and a few industrial goods, taken from existing inventories or produced from raw material stocks. The amounts shipped were very small, in the neighborhood of 3 per cent of the estimated prewar exports of the zone's area.

Imports into the British zone were similar to those of the American zone, but exports from the British zone were considerably larger, due almost entirely to Ruhr coal. Coal exports reached a weekly volume of 260,000 tons in the summer of 1946, or about 40 per cent of prewar, but this involved heavy drafts on existing stocks and inadequate allocations to the needs of the German economy. As a result, exports of coal had to be reduced by about 30 per cent in the fall of 1946. Even the peak figure in the summer of 1946 was far from sufficient to meet demand in the rest of Europe, and the reduction of coal exports was a heavy blow to the importing countries.

In the first months of 1947, exports had to be curtailed still further reaching a low of 103,000 tons per week in February. Meanwhile, however, the output of the Ruhr mines had risen and coal exports could be increased again. In April and May, the unsatisfactory food situation brought about some labor disturbances which kept coal output somewhat below the March peak.

As soon as these difficulties are overcome, a further rise in output is expected, and in that case exports will reach in summer a minimum of 265,000 tons per week, while at the same time allotments for the needs of the merged zones will be a minimum of 860,000 tons per week, or about 30 per cent above the peak allotment in 1946. The increase in domestic allotment will mainly benefit industrial enterprises, which in this way will be enabled to raise their output and thus to contribute more efficiently to the projected expansion of foreign trade.

Apart from coal exports, foreign trade of the merged zones in 1947 will be determined by the working of the bizonal merger agreement. This agreement provides for the cooperation of the American and British occupation authorities, and of the representatives of the German states, in formulating an import-export program for the rehabilitation of the German economy. A major objective of this rehabilitation program is to put the merged zones of Germany back on a self-supporting basis, i.e., to develop exports to a point where they cover imports. Meanwhile, however, the occupying powers must bear the cost not only of the basic program for the prevention of "disease and unrest", but also of the raw material and equipment imports required to "prime the pump" of German export industries. Certain funds are already in hand for this second part of the program, including the receipts from exports of 1945-46, some former German external assets transferred to the occupying powers under agreements with neutral countries, and the credits negotiated with the U. S. Commercial Corporation. The United Kingdom is participating in the program in two ways. It bears half of the costs of sending basic necessities to the merged American and British zones, and it finances half of the funds needed for "priming the pump" of the area's industry. Whenever, in the future, additional advances should be required, the United Kingdom also will bear an equal share with the United States.

The expected increase in imports will necessitate, but also make possible, larger German exports. In order to facilitate exports, the occupation authorities have authorized foreign businessmen to correspond with prospective German trading partners. Only so-called non-transactional mail, i.e., correspondence preparing rather than concluding actual contracts, has been allowed so far, but transactional mail may be admitted in the near future. Military government also provides facilities for foreign businessmen to travel in Germany and renew trade contacts. Contracts have to be submitted for approval to the Joint Export-Import Agency of the U.S.-U.K. occupying powers, and all payments have to be made to the account of the Agency rather than individually to German exporters. The Agency has issued rules of procedure, stating the principles which will determine the approval or rejection of contracts, and has established branch offices in the most important trading centers of the merged zones, mainly the state capitals. Finally, the Agency is prepared to act as seller of goods if a foreign buyer is prevented by government restrictions from entering into legal contracts with German nationals.

The necessity of setting up the bizonal export-import organization and the hardships of the winter months have delayed the beginning of the new program. Despite these handicaps, foreign trade has started to rise. In the first quarter of 1947, contracts for exports were negotiated to the amount of \$22 million. Export deliveries, which, however, include coal, reached \$34 million. Imports, excluding basic necessities imported by the occupation authorities, were approved to the sum of \$10 million. These amounts still are far below the levels that must be reached in order to fulfill the bizonal program, but they represent a material improvement in comparison with preceding periods.

f) Money and Exchange

When the occupying powers entered Germany, the collapse of the currency appeared imminent. Money in circulation had increased to approximately six times the prewar level. The German people's recollection of the hyper-inflation that followed the first World War added to the dangers of the situation.

Despite the oversupply of money and the scarcity of goods, the occupying powers took over the existing German system of price and wage controls and have been able to prevent any serious rise in legal prices and wages. The official cost-of-living index stood in December 1946 at approximately 120 per cent of 1938. It is true that only the meager official rations can be purchased at these prices. The supply of black market goods, however, is probably smaller than the amount of goods distributed through legal channels. Furthermore, many black market transactions take the form of barter, especially for cigarettes, rather than the form of sales at high money prices.

The maintenance of the official price and wage level at virtually prewar figures has had some unforeseen consequences. At the beginning of the occupation, a military exchange rate of 10 marks per dollar was established, as compared to a prewar exchange rate of 2-1/2 marks per dollar. This rate was introduced merely for the administrative use of

the occupying authorities, especially in calculating payments in marks to the troops. Its application for general purposes, however, would have tended to upset the entire price and wage system. German domestic prices even before the war were managed in such a manner that they had lost all relation to world market prices. No uniform exchange rate, and least of all the military rate, would represent a generally applicable ratio between domestic prices as expressed in marks, and world market prices in dollars.

Thus a difficult problem has arisen in connection with the pricing of export and import goods. The German exporter receives for his sales the legal domestic price in marks. Similarly, the German importer has to pay for his purchases the legal domestic price in marks. On the other hand, the foreign importer of German goods pays, and the foreign exporter of goods receives, the world market price in dollars.

Therefore, the occupation authorities have decided for the time being to refrain from fixing a uniform conversion factor for the translation of mark into dollar prices, and vice versa. Instead we have issued a long list of various conversion factors, reflecting for all major commodities the actual relation between legal domestic prices in marks and world market prices in dollars. For instance, the conversion factor for carbon brushes is 30 cents, and for pharmaceuticals 80 cents per mark. This means that a certain quantity of carbon brushes that sells domestically for 100 marks has to be priced for exports at \$30, but pharmaceuticals that sell domestically for 100 marks have to be priced for exports at \$80. As a practical matter, this is the best that can be done until major monetary reforms are undertaken in Germany and a more normal price system is developed there. These problems have been under quadripartite (four zones) discussion for some time and it is to be hoped that an early agreement will be reached.

g) Banking

In December 1946, military government established a new central banking organization in the American zone. Following the principle of decentralization, each German state received its own central bank, which took over the assets of the former Reichsbank as far as they were located in its area. The organization of the central banks was largely influenced by the model of the Federal Reserve System. As soon as the economic unification of Germany is implemented, the state central banks will be coordinated by a central board, which will issue currency through the medium of the state central banks. Until such time, however, the central banks have no power to issue bank notes or any other currency.

In consequence of our principle of decentralization, commercial banks in the American zone have been ordered to sever their connection with central offices in Berlin. Depositors are free, however, to dispose of their accounts both within the American and in transactions with the British and French zones, except for blocking measures applied in the process of denazification. From the beginning of occupation to the end of 1946, deposits in the American zone increased by 75 per cent. Most of the rise in deposits had to be kept by the banks in cash or with other credit institutions since no other investment opportunities are available. Total

assets of the banks in the American zone were 75 billion marks on June 30, 1946, of which one-third was kept in cash or bank balances, and two-fifths in Treasury bills and other government securities, the service of which has been suspended since the end of the war.

Problems and Prospects

All these achievements are merely the first step on the road to rehabilitation. The obstacles that still have to be overcome are no doubt as great as any which we have encountered so far.

First of all, the provision of the Potsdam declaration which calls for the economic unification of Germany must be carried out. Unification in itself will not solve the economic problems of Germany, but it will ensure the development of the whole German economy on a more rational basis. Uncertainty as to economic unification is a handicap in many fields, notably in adjusting the so-called Level-of-Industry Plan to changed conditions. Under that plan, which was approved by all four occupying powers one year ago, maximum levels were established for most German industries with a view particularly to preventing the resurgence of German war potential. Most experts agree that this plan needs substantial corrections, but the necessary amendments in each zone will largely depend upon developments in other zones and upon the question of whether the German economy is to be redeveloped as a unit or in separate self-sufficient parts.

Another problem that urgently needs attention is currency reform. The disproportion between the supply of money and of goods at prevailing prices cannot be maintained indefinitely. All experts agree that a reduction in the volume of currency will be necessary. Obviously, the execution of such a reform also depends upon the fate of unification. If common action of all four occupying powers is not forthcoming, the advantages and disadvantages of separate action in the merged American and British zones must be weighed.

Other problems arise in connection with the political aims of occupation. The decentralization of the German economy must be achieved in order to make it impossible for the country to reorganize for aggressive purposes. In this connection, military government in the American zone has enacted a drastic decartelization statute, which is aimed at destroying the concentration of economic power in Germany industry. Property of allied nations looted during the war has been and is being restituted. War plants have been and are being destroyed, and other plants have been and are being removed for reparations. The overall problem of reparations, however, still remains to be solved.

The lack of unified action of the four occupying powers, moreover, creates uncertainties that are detrimental to economic progress. As long as the management of an enterprise does not know whether or not a plant will be subject to restitution, or to destruction, or to removal under the reparations program, it cannot make definite plans for reconstruction or start an investment program which might be interrupted at any moment.

Finally, military government has to deal with the problem of reaching equilibrium in the balance of international payments of the merged

American and British zones. In this connection, the question of economic unification again becomes decisive. As long as unification is not achieved, interzonal trade must be treated as international rather than domestic commerce, with the resulting need for controlling interzonal payments.

The problem of equilibrium is particularly interesting to the American public. As long as the proceeds from exports do not exceed import requirements, they must be devoted entirely to paying for current imports. Only when an export surplus is reached, will it be possible for our merged zones to start repaying the advances made by the occupying powers for the importation of basic necessities.

Our stake in the economic problems of Germany, however, is greater than our interest in receiving repayment of our advances. We want peace, and we know that in order to have peace, we must have economic stability in Germany and in the rest of Europe.