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POSITION OF WESTERN GERMANY AND
AUSTRIA IN EUROPEAN RECOVERY

2 May 1949

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MR. LOUDEN: General Holman and gentlemen: In discussing the subject of Germany and Austria, I shall refer to an event which I regard as the most important happening in Europe since the middle of the last century. It is the formation of the German Empire. It created an entirely new pattern of economic relationships and represented a complete break with the Europe which followed the French Revolution. The international problems which led up to World War I, which culminated in World War II, and which to a large extent remain unsolved today, are concerned with the failure of the old Europe to adjust itself to the new Germany which appeared on the scene just 78 years ago.

Let us consider some of the realities of the situation. In doing so, I shall divide the discussion into the following four topics:

1. The industrialization of Germany.
2. The nature of the German economy.
3. The significance of the German market.
4. The situation today.

Germany was the last great power in Europe to achieve unity and national existence. In contrast to the early unification of France and the formation of a national structure on the part of England, German history is one of continued internal strife and dissensions. Germany was split into hundreds of principalities and free cities which fought and conquered one another according to their greater or lesser ambitions. The religious wars of the Reformation occurred on German soil, during which Germans fought Germans to the complete exhaustion of their physical and mental resources. Nominally, this area was part of the oldest empire of Europe, the Holy Roman Empire, which Voltaire cynically characterized as neither holy nor Roman nor an empire. But it did provide some semblance of cohesion in administrative procedure. The final blow was the French Revolution and the dissolution of the Empire in 1806, which left the numerous German states in an unstable and chaotic condition.

At the close of the Napoleonic Wars, the area which later became Germany gave no indication of its future economic importance. The soil, on the whole, was mediocre or poor. Only limited areas could be rated as favorable for agricultural production. The important mineral resources were not located centrally where they could be developed, but were found

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on the periphery where they could not be exploited until after transportation facilities had been developed. The largest coast line was on the Baltic where the trade routes were unimportant. The North Sea ports of Hamburg and Bremen could not compete successfully with the Dutch and the British ports. The social structure was still feudal in nature, and the many political divisions created innumerable custom barriers. Each state reserved for itself the right to regulate commerce and navigation within its borders. This confusion and lack of unity were increased by many jealousies, directed largely against Prussia in order to prevent it from controlling the highways to and from the North Sea ports. Finally, however, Prussia succeeded in establishing an economic link between its eastern and western provinces. Trade was stimulated as a result. This development, together with the weak financial position of the other states, soon led to the adoption of a customs union because it was discovered that the revenues accruing from the union were greater than those which could be collected by the individual states. Gradually jealousies gave way to economic considerations.

This unified administration of customs, which was extended to include the post office and the consular services as well, stimulated and greatly expanded opportunities for trade. The chaotic system of weights and measures was swept away. The metric system was adopted, and the mark replaced the dollar and the guilder, providing for a single unit of exchange. This development might be characterized as the first step in the economic expansion of German commerce.

About 20 years later, in 1871, the second step was taken. This consisted of a combination of the several states into a political unit known as the German Reich. The sovereignty of the individual states was surrendered, within certain limits, and freedom of movement was permitted for both the individual and manufactured products. During approximately the next 40 years, from 1871 to 1914, there occurred one of the most phenomenal and rapid industrial expansions of any nation in history. Part of this growth was due to the fortuitous circumstances of time, in that it coincided with the period of rapid mechanization following the industrial revolution. Part of it was contributed by the annexation of Alsace and Lorraine, two of the most prosperous provinces of France. Part of it grew out of the late date at which the development of industry took place, which enabled the German manufacturers to profit by the experience and mistakes of industry in other countries. The American economist, Thorstein Veblen, pointed out that German industrialists were not committed to antiquated methods and uneconomic locations. They had no obsolete equipment or out-of-date methods of distribution. Industry was free during this period of expansion to take over the most modern processes at their best and highest efficiency, rather than to be content with customary compromises with partially amortized equipment. And part of the phenomenal expansion was due to the acquisition of a national

confidence, a belief that Germany was on the march to unlimited power and greater national wealth. Whatever the relative importance of these causes, the fact remains that within the short period of 43 years Germany became one of the leading industrial nations of the world.

The broad foundation of this industrial expansion is indicated by the development in the heavy industries, as follows:

Table 1. Industrial growth of Germany, 1870-1913

	<u>1871-75 Average</u>	<u>1913</u>
Hard coal (Millions metric tons)	34.5	191.5
Bituminous coal " " "	9.7	87.5
Iron ore " " "	5.3	28.7
Pig iron " " "	1.6	14.8 (1910)
Railroad mileage (thousand kilometers)	18.5 (1870)	60.5 (1912)
Merchant marine (thousand tons)	82.0 (1871)	4,380.3

NATURE OF THE GERMANY ECONOMY

Up to the time of the formation of the Reich, Germany's economic character was predominantly agricultural. But, as in other industrial countries, a flight from the land began as industrial centers were established. Consequently, agriculture and industry changed places with respect to their relative importance, as indicated in table 2.

Table 2. Occupational distribution of working population
1882, 1907 and 1925

	<u>1882</u>	<u>1907</u>	<u>1925</u>
Agriculture	42	34	30
Industry	35	40	42
Trade and services	23	26	28
	<u>100</u>	<u>100</u>	<u>100</u>

The exploitation of Germany's coal deposits was one of the main sources of the nation's industrial expansion. In 1871 the combined production of coal and lignite was less than 38 million tons, but by 1913 the German output of 279 million tons had almost caught up with that of Great Britain. This production came largely from the Ruhr, the Saar, and upper Silesia. The Ruhr, however, was the most important, producing from 50 to 60 percent of the total.

The Ruhr means more than just coal and steel. It is the heart of German industry. Located there is a vast agglomeration of diversified industry based on science and technology. In addition to armor plate,

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there was produced such items as hardware, cutlery, bicycles, textiles, dyestuffs, and pharmaceuticals. Dr. Bayer gave to the world aspirin, veronal, synthetic camphor, synthetic indigo, and a long list of similar discoveries. Professor Haber and Carl Bosch invented the Haber-Bosch process for making synthetic nitrates. It was here that the Fischer-Tropsch process for transforming coal into oil was developed, as well as the process for converting coal into synthetic rubber.

To keep this industrial giant operating required imports of iron ore because the German ore was low grade; as well as copper from Chile, the United States, and South Africa; tin from the Dutch East Indies; chrome from Turkey; manganese from Russia; nickel from Canada and Finland; pyrites from Spain; phosphates from the United States; bauxite from Hungary; wood for pit props in the mines and for the raw material in the manufacture of rayon; cotton, wool, and silk for textiles; and, above all, food for the population.

All these requirements resulted in a tremendous volume of traffic, much of which came through the ports of Amsterdam, Rotterdam, and Antwerp. But it was the railroads which completed Germany's industrial development. Three systems linked the East and West: one across the North from Aachen to Konigsberg, one through the center, and the third connecting the major southern cities with Munich and Vienna. Three systems also linked the North and the South: one along the Rhine Valley in the West, one through the center from Hamburg to Munich, and the third in the East connecting Stettin with the cities to the south. With the completion of these systems new opportunities existed for the development of Germany's resources along the frontier.

The population growth which accompanied this industrial development was so great that soon the agricultural output was inadequate, in spite of a doubling of the grain production. This growth which followed industrialization, furnished, in turn, the basis for further industrialization. By 1880 the demand for labor had reached a point where the economic motive for emigration practically disappeared. In the meantime, continental immigration into Germany increased steadily, mainly from Austria, Hungary, Italy, and Poland.

In addition to coal and steel, the chemical and electrical machinery industries acquired an important place in Germany's economic structure. The potassium deposits of Saxony, for example, were used for the production of fertilizers and munitions, while the electrical industry grew out of the practical application of the American discoveries of the eighties and nineties. By 1913 half the world's trade in electro-technical products was controlled by German firms.

The distinctive feature of Germany's industrial development, however, was the growth of large units and the close connection between the banks and industry. After the business slump of 1873, cartels began to be established. They had legal sanction, since their agreements were treated as private contracts. Such monopolistic practices were frowned upon in the United States and Great Britain.

The German banking system provided a powerful stimulus to industrial growth. In Germany the banking concept was different from the Anglo-Saxon concept. The German bank represented a combination of commercial and investment banking, a combination which requires the backing of a central bank. Thus, the portfolio of a German bank contained not only government bonds and treasury bills, but also substantial holdings of industrial stocks and bonds. In addition, banks traded in stocks and bonds for the purpose of regulating market values or for speculative purposes. Thus, German banks were planned mainly as instruments for the financing of industries instead of for the granting of credit. In one way or another, banks had a hand in almost all promotional activities and remained financially interested in the industries concerned.

International connections were established with banks in the United States, Great Britain, Italy, Turkey, Egypt, Rumania, China, Japan, India, Latin America, and other countries. Among the New York firms, for example, were Speyer & Co., Hollgarten & Co., M. M. Warburg, Kuhn-Loeb & Co., Ladenburg-Thalman Co., and others.

Thus, Germany became a capital exporting country in spite of the necessity for importing raw materials. The explanation is that invisible balances were heavily in favor of Germany due to proceeds from shipping growing out of its geographical position in the central part of Europe, from services and profits of its foreign banks, and from the sale of German patents abroad. Thus, the German banking system played a leading role in and was an integral part of the economic expansion of Germany. The growth of foreign trade from 229 million dollars in 1870 to 4,279 million dollars in 1913 is a good index of this expansion.

THE SIGNIFICANCE OF THE GERMAN MARKET

By World War I the German economy had become a gigantic pump which sucked in the raw materials of Europe and other areas and poured out the products of its industries. In one sense, Germany had become the workshop of Europe, ranking first in the world production of brown coal, second in the production of steel and electric power, and third in the output of hard coal. In fact, German trade was the hub of

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European trade. No nation has all the resources it needs. International trade is the means by which human existence is improved and living standards increased. The importance of this foreign trade, not only to the population of Germany, but also to all of Europe, is indicated in the following tables:

Table 3. Importance of German exports in supplying western European countries, 1936

Destination of German exports

<u>Country</u>	<u>Proportion of each country's imports</u>	<u>Proportion of total German exports</u>
Austria	16.9	2.3
Belgium-Luxembourg	11.6	4.4
Denmark	25.3	3.8
France	7.0	5.3
Great Britain	3.9	8.5
Italy	26.8	5.0
Netherlands	23.3	8.3
Norway	18.4	1.9
Sweden	22.6	4.8
Switzerland	24.8	5.3
Greece, Iceland, Ireland, Portugal, Turkey	27.0	21.1
Other European countries	-	29.3
All other countries	-	<u>100.0</u>

Source: Blaisdell, Thomas C., Military Government Journal, March 1948, p. 2.

Table 4. Importance of German imports in foreign trade of western European countries, 1936

Origin of German imports

<u>Country</u>	<u>Proportion of each country's exports</u>	<u>Proportion of total German imports</u>
Austria	16.1	8.0
Belgium-Luxembourg	10.5	3.3
Denmark	20.3	3.7
France	4.3	2.3
Great Britain	4.3	6.3
Italy	19.6	4.9
Netherlands	15.7	4.0
Norway	13.1	2.1
Sweden	15.8	4.5
Switzerland	19.4	2.5
Greece, Iceland, Ireland, Portugal, Turkey	33.0	7.3
Other European countries	-	10.9
All other countries	-	40.2
		<u>100.0</u>

Source: Blaisdell, Thomas C., Military Government Journal, March 1948, p. 3.

AUSTRIA

Before World War I, Austria's economy was an integral part of the Austro-Hungarian Empire which was fairly well balanced. After 1918, however, Hungary, Czechoslovakia, Yugoslavia, Rumania, and Poland were intent upon building up their own separate industrial economies. Austria, therefore, was left with its plant capacity but with a market only about one-eighth of its former size. Vienna, with a population of almost two million, was deprived of its function as the capital of an empire supported by an economically integrated hinterland, and became the capital city of a state about the size of North Carolina, with a total population of about seven million. Thus about one-third of the people of Austria lived in Vienna, which gives some idea of the disproportion between the urban and rural population. Vienna, therefore, was characterized as an enormous "waterhead" set upon a puny body.

Each of the new states created out of the division of the Empire had a definite will for a separate political existence. But the position of Austria was different because it was forced into an existence without

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plan or popular support. In fact, the most western province which borders on Switzerland actually requested annexation with Switzerland. The lack of a feeling of political unity reflected the deterioration of the economic structure. The situation became so serious by 1922 that panic broke out in Vienna because the provinces refused to send provisions to the city. The League of Nations was obliged to step in to assure the continued independence of the country.

Yet the location of Austria is important because it is the place where the trade routes from the East and the West intercept and cross those from the North and South.

After the Nazis took over Austria in 1938, the economy was completely integrated with that of Germany. Austria had important deposits of oil, iron ore, and magnesite. Before World War II, the country was the world's second largest supplier of magnesite. Production of crude oil was started just before World War II. Output increased rapidly, and by 1944 these oil fields became the third largest producer in Europe.

Austria's economy is predominantly industrial. The chief industries are iron and steel, textiles, paper and pulp, and building materials, with some leather goods, aluminum, machine tools, and chemical. In spite of considerable bomb damage in some cities during the war, the total plant capacity at the end of hostilities was greater than before 1938. The great expansion was initiated by the Nazis for war purposes, but it was uneconomic and not integrated for peacetime purposes.

Austria's foreign trade is characterized by the imports of food and raw materials and the exports of manufactured goods. The necessity for importing a substantial portion of the food requirements and large quantities of industrial raw materials has resulted in a consistently adverse balance of trade. Austria has, therefore, been dependent on the tourist trade and earnings from transit shipments to balance the surplus of imports. The following table gives estimates of the country's potential balance of payments for 1937, 1947, and the tentative balance for 1952.

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Table 5. Estimated balance of payments statement, Austria
(Millions of dollars)

	<u>1937</u>	<u>1947</u>	<u>1952</u>
<u>Imports</u>			
Food	77	135	115
Coal	19	22	45
Textile fibers	28	35	45
Metals	17	-	45
Other raw materials	53	60	75
Manufactures	79	60	110
	<u>273</u>	<u>312</u>	<u>435</u>
<u>Exports</u>			
Raw materials and paper	95	51	140
Oil and oil products	-	-	5
Metal manufactures	60	30	150
Other manufactures	76	54	115
Electric power	4	5	10
Tourist traffic	36	-	30
Other service items	19	5	10
	<u>290</u>	<u>145</u>	<u>460</u>

Source: U. S. Dept. of Commerce, International Reference Service,
August 1947, p. 5.

What is the situation today? A combination of French revenge, British casualness, Soviet calculation, and American impatience has produced a combination of almost insoluble problems, inextricably intertwined. After the defeat in May 1945, the prewar Germany was divided into four fragments and a splinter. The fragments consisted of about 95,000 square miles of the Trizone, about 46,000 square miles of the Soviet Zone, and the splinter, the Saar. In addition, about 40,000 square miles east of the Oder-Neisse Rivers were placed under Polish administration. This area is frequently referred to as the separated area.

The genesis of the German problem is very interesting. The original groundwork was laid at the Quebec Conference in September 1944, when the pastoral state for future Germany was submitted. The misconceptions of the German economy are indicated by the implications of the Quebec concept. Among the most important are the following:

1. Closing down the Ruhr would be beneficial to the rest of Europe. In other words, Germany's loss economically would represent a gain to the economy of its neighbors.

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2. A population expanded on an industrial base can produce sufficient food to assure the survival of its people.

3. A relocation of dismantled plants in neighboring states would not violate the principle of comparative advantage on which international trade is based.

4. The elimination of the metallurgical, chemical, and electrical industries as a means of insuring the disarmament of Germany would not result in reducing European living standards.

Then in 1945, in rapid succession, we had the Yalta Agreement in February which proposed unconditional surrender and the elimination of all German industry that could be used for military production; JCS Directive 1067 in April which set forth the basic policies for the guidance of the Commanding General of the United States (this directive was based on the Yalta Agreement); the Potsdam Agreement in August which, among other things, stressed (a) the organization of the German economy so that the primary emphasis was on agriculture and peaceful domestic industries, (b) the assurance of the production of goods and services for the occupying forces and displaced persons, and (c) the establishment of a balanced economy to reduce the need for imports.

Two years later we were not so confident that the Yalta Agreement was economically valid. Something had to be done to take Germany off the backs of the American taxpayers. The question of war potential versus peace potential was no longer so important, but the requirements of the European market had become very important. The European market needed German steel, heavy locomotives, railroad equipment, electric dynamos, and gas turbines--not German toys and souvenirs.

Probably the first government to realize this was the one hardest hit by the Nazis, the Netherlands. In January 1947 this country submitted a memorandum suggesting that it was not advisable to lay down maximum quotas for German steel production.

There followed, then, a number of economic missions to Germany, the Hoover Commission being the best known.

By the end of August 1947 there appeared a revised Level of Industry Plan for the Bizone.

Out of this experience have developed the following convictions:

1. Western Europe cannot endure unless there is economic strength in Germany.

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2. To permit German production, a difficult rapprochement will have to be effected between Germany and France.

3. New industries will have to be developed to replace those lost to the East.

Can Germany resume its traditional prewar role as the major buyer and seller in Europe? The present trade deficit amounts to about one billion dollars annually. By 1952 it is estimated that no equilibrium will have been attained. This means that the Marshall Plan is not the aid to end all aid, as it was supposed to be.

The OEEC Interim Report presumably presents the four-year plans of the Marshall-aid countries. It should be realized, however, that this report represents merely an addition of the statistical hopes and expectations. They represent the most optimistic estimates of production, consumption, exports, and national income. Notice, I omitted imports because of the austerity programs in effect in some of the countries.

Germany's problem of economic viability is great because the area now is only a portion of its former economic entity. There may be a real danger that each country will attempt to solve its own economic problems. If this occurs, Europe will drift back into the depressed conditions of the early thirties when bilateral defensive agreements were common. What is needed is active trade.

This morning we have the good fortune of having two experts with us: Dr. Saul Nelson, from the Economic Cooperation Administration, and Dr. Arnold L. Steinbach, from the Bureau of Labor Statistics. So I shall ask them, during the question period which follows, to participate in some of the answers. These gentlemen have recently returned from these particular areas.

Thank you, gentlemen.

QUESTION: I would like to know the status of the 1949-1950 ECA program for Austria, and within that, how much is direct aid and how much of it is drawing rights?

MR. LOUDEN: I have the information here but I think we might as well let the experts answer that question.

DR. NELSON: I am afraid it is a little premature because, as yet, the figures are not all complete. It depends, first, upon the amount of money that is actually appropriated by the Congress; and, secondly, upon the conversations we had first in Paris and then in Washington.

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In very approximate terms, however, we have recommended for Austria an amount of direct aid which will be, say, 15 to 20 million dollars. As to the question of drawing rights, we have made no recommendations with respect to any of these countries. That was done at the specific request of the representatives of OEEC in Paris. They felt that if we, that is ECA, made any special recommendation, it would prejudice the representatives in Paris. I would guess again that Austria should get something in the neighborhood of 50 million dollars in drawing rights from other countries. That is just a guess at this stage. The picture may alter very considerably when the actual negotiations take place in Paris in the course of the next couple of months.

QUESTION: I am a little disturbed at the observation that has been made that, before World War II Germany had a certain volume of manufacturing and exports and imports; the intention is to build it back up to what existed prior to World War II. Isn't there some other answer? Somebody else may be able to fill the void that Germany has caused rather than building back these tremendous potentials that Germany had before World War II.

DR. NELSON: I think that the answer probably lies in a couple of basic conditions relating to Germany.

You have a population in Western Germany alone which is about 25 percent greater than it was before the war. The population in Western Germany runs to about 47 million as of today. The agricultural potential of Western Germany, no matter how developed, is not sufficient to produce more than about half the food that Western Germany needs.

Assuming you get German unification, that is with the Soviet Zone, that would not add anything on net, because the Soviet Zone can just about produce the food which it requires. It is about balanced agriculturally. About half the food required by the population of Western Germany must be imported. That would cost somewhere in the neighborhood of a billion to one and a quarter billion dollars annually, assuming a reasonable feeding standard, a standard not so much as before the war but somewhat better than it is today.

Now the problem is how are you going to pay for that billion dollars of food plus the raw materials which are required by German industry. It is possible, of course, to support Germany indefinitely. But if you rule that out and if you say that Germany must pay its own way ultimately, the only way in which it can pay its own way is to permit a very substantial measure of industrial production. Actually, the ECA recommendation is that Germany by 1952 would produce about 20 percent more than it did in 1936. That would still mean, however, that it would

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be producing considerably less steel than it did before the war; that certain of the basic industries would be limited, such as aluminum, nonferrous metals, and so on; that production of certain types of products such as the radioactive items, the synthetic fuels, magnesium, and other similar items will be prohibited; that the amount of shipbuilding will be limited; and so on. In other words, we will attempt to maintain certain kinds of security restrictions. But nonetheless they must export somewhat more than they did before the war in order to support this large increase in population. There just doesn't seem to be any other alternative.

DR. STEINBACH: In addition there is one thing I think is important. It is something we forget when we think of Germany, France, and so forth. Look at the distribution of the resources of Europe below the surface. We find Germany has coal and steel. That has to be brought to the surface. Unfortunately the Germans are living where this industry is located. That means that the Germans will operate these industries. Since Europe needs these products and since we wish to restrict Germany's war potential, shall we move the Germans to Poland and perhaps the Poles to Germany and have them dig the material out of the mines?

QUESTION: I would like to ask a question in connection with Austria. There appears to be conflicting reports with regard to the Austrians' solidarity, that is, their ability to get together and counteract the interference from the Russians on the over-all Austrian economy by reason of the Russian control of the Soviet Zone?

MR. LOUDEN: In other words, how greatly has Soviet exploitation of the manufacturing facilities in Austria affected its economy? There is no doubt that it has greatly retarded reconstruction, particularly with reference to certain items, such as glass. The Brunn Glassworks happens to be in the Russian Zone. Perhaps Dr. Steinbach could bring us up to date on this situation.

DR. STEINBACH: In Austria you have a situation which is different from Germany. You have a government in Austria which, in spite of Soviet interference, is able to do some planning. So interference is not so great as it is in the Soviet Zone of Germany. However, there is considerable interference in certain aspects of production. There are the USIA factories which were taken over by the Soviets. These include a large shoe factory, rubber and tire factories, and one of the largest textile mills in Austria.

Something very interesting has happened within the last 12 or 15 months. As long as a black market existed, the Russian factories prospered. The Russians used the goods to barter with Switzerland, Italy,

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and other western European countries for items needed in Russia. But since the currency reform in December 1947, we discovered that many of these factories were going bankrupt because now they must have income with which to purchase raw materials. They are forced to adjust themselves to the economy. I personally have the feeling that if the occupation is going to be continued, the Soviet interference is going to decrease rather than increase because of these and other difficulties.

If I may add, it was very interesting to note that the strikes which occurred after 1947 in the Soviet Zone, so far as Communists were concerned, were much worse than in the other zones. The workers were forced to go on piece rates the same as in Russia. There are some workers particularly tool makers and mechanics, who never before worked on piece rates in Austria. When the Russians forced piece rates on the Austrian workers, particularly the tool makers and mechanics, the workers learned a lesson. So my feeling is that Soviet interference, by and large, is not going to increase.

DR NELSON: Just one brief added comment, which is that one of the most serious immediate problems resulting from the quadripartite arrangement is the fact that the Danube is closed to traffic below the American Zone. The Danube used to be an extremely important traffic artery. As a consequence, the railroads are overburdened. Generally speaking, I think it is true that, despite the Soviet occupation, despite the whole question of captured enemy assets, Austria on the whole is progressing toward unity quite remarkably well.

DR. STEINBACH: May I add something further? As a result of the Marshall Plan, you have much more east-west trade today than you had before. Yugoslavia, Poland, and Czechoslovakia need American goods and they cannot get them directly because that would probably be bad for Soviet prestige. So they are getting them through Austria, and we, in turn, are getting goods from Yugoslavia and other countries through Austria. It is necessary for the Soviets to use this channel.

When I was in Vienna we had a meeting in General Palmer's office. It was August 1947 when everyone thought the Russians were going to start a putsch to get a Communist government in Austria. We heard rumors and there were secret reports which turned out to be untrue. They had been planted by the Russians. General Palmer asked me one question: "What is going to happen?" I answered, "Nothing." At that time the Austrians were getting 100 million dollars in relief from the United States. I told General Palmer, "As long as the Soviet Union knows that the Austrians have one dollar left, they are not going to start anything because they want to get that last dollar." The Austrians, for example, couldn't get any coal from the East, but as soon as Austria had 100 million dollars, the Russians offered them bituminous coal. These are some of the reasons why Soviet interference is not going to be too great.

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QUESTION: I have just totaled the chart showing projected exports and imports for Germany to 1952 and it looks to me that there is an unfavorable balance of about four billion dollars over a six-year period. I would like to know where that money is coming from. I would like also to know who is getting the exports?

DR. NELSON: In the first place, the chart was based on 1948 estimates which have been modified a great deal as a result of recent developments. In general the export figures should be a little higher and the import figures somewhat lower.

Looking at 1952, the Germans expect their trade to be very much higher, that is about 2.7 to 2.8 billion dollars instead of the figures shown. Actually, I would expect that by 1952 they might reach about 2.25 to 2.5 billion dollars. This would represent an over-all balance in all currencies. It will be difficult, but it is not impossible. But the big problem in Germany is going to be balancing its dollar deficit because a large part of German imports will have to come from the Western Hemisphere, particularly the food and some of the raw materials, while the Western Hemisphere will not be in a position to absorb enough German exports to pay for them. Before the war that surplus with the Western Hemisphere could be converted into dollars because Britain had the dollars. In the next few years, however, Britain is not going to have the dollars and this problem of how to convert the German European surplus into convertible currency--hard currency such as dollars or Swiss francs--is a 64 billion dollar question. I don't profess to know the answer. It is not simply a German problem. It is an over-all problem.

With respect to the rest of the question, I would say that for 1949-1950 Germany will show about a billion dollar deficit each year. The total deficit may be about two billion dollars, perhaps a little more, and it will be coming from ECA and from Army carry-over appropriations. Starting with the establishment of a Western Germany government, the two funds may be merged into one.

QUESTIONER: In other words, we pay for it no matter who gets it.

DR. NELSON: In straight frank terms, yes.

QUESTION: I would like to ask about the productivity of a worker in Europe today. Which country has the greatest productivity per man today? What about the future in that respect?

DR. STEINBACH: Production in Austria has reached an index of more than 100, compared with March 1937. But the rate of production is only about 70 for the comparable periods. This is comparatively high

because about a year ago, or more than a year ago, it was only 50. The reason for low productivity is lack of machinery. For instance, the building industry in Austria has to use manual labor instead of heavy equipment which is normally used in the industry. Production per worker naturally is lower. Then there is the lack of trained labor. For instance, there are about 200,000 foreign workers, most of them displaced persons, who are not interested in raising the output per worker.

We should get an increased productivity rate, but personally I would say, "Let us not do it too fast because the human factor is usually neglected." We might perhaps help the Communists if we get into some serious disorder.

QUESTIONER: What I am trying to get at is, with ECA aid the European countries are all getting the machinery they need and the dollars they need. The result should be that the country that has the greatest productivity per man will be the country that wins out in the long run. I would like to know what your opinion is as to what country that is going to be. Is it going to be Germany or is it going to be England?

DR. NELSON: I was going to say before you added your last phrase that it will be either Germany or England. Germany quite clearly is likely to move well ahead of the other countries on the continent. As to whether productivity will be greater in Germany or the United Kingdom, that is something I don't dare guess. I do not think anybody at this stage can say.

DR. STEINBACH: I would like to add something. Perhaps it will not shed much light or add anything to what has been said, but after all you don't expect to receive a 100 percent answer to your question. If anyone knew the answer they would not talk about it.

Probably the country that is going to win is the country with the greatest amount of raw materials. That is my opinion. Germany has the coal and we will have to go to that country for coal. These are the factors you have to consider in order to answer the question you raise.

DR. REICHLEY: Dr. Steinbach and Dr. Nelson, I thank you for your participation in this discussion. I also thank Mr. Loudon for giving us the background material.

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