

WEST GERMANY: ECONOMIC ASPECTS

31 March 1960

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Mr. Martin J. Hillenbrand, Director of the Office of German Affairs of the State Department, Washington, D. C., was born in Ohio on 1 August 1915. He received his education in the United States, including a Ph. D. from Columbia University. In 1939 he entered the Foreign Service and was assigned to Zurich. Since then he has served in Rangoon, Calcutta, Lourenco Marques, Bremen, Paris, and Berlin. Mr. Hillenbrand was detailed to Harvard University in 1949 for special studies in economics. He was assigned to his present position in September of 1958. This is his first lecture at the Industrial College.

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COLONEL FLYNN: After World War II, a major item on the agenda of the allied powers was the decartelization of Germany. Today this seems to be all but forgotten, with little thought apparently given to the danger of excessive concentration of power in Western Germany. But, is this a danger, or is it in the best interests of the Common Market, or for unity in all of Western Europe or in the strength of the free world?

Today we turn our attention to the economy of Western Germany, and we are privileged, indeed, to have as our speaker the Director of the Office of German Affairs of the Department of State, Mr. Martin J. Hillenbrand. Mr. Hillenbrand.

MR. HILLENBRAND: Gentlemen: I will come later to the question which Colonel Flynn raised, the question of the recartelization or the reconcentration of German industry, but, before I do that, I would like to review very briefly the development of the German economy which has taken place in the postwar world, and which has given rise to the expression, "German economic miracle," or, as the Germans say, "die Deutsche wirtschaftswunder."

The postwar economic history of Germany is perhaps one of the best laboratories for the application of economic theory and the study of how that theory actually does, or does not, apply to the real facts of economic life that we can find, because, as you know, or at least those of you who were in Germany in the immediate postwar period know, the revival of the German economy in this period of some 15 years has been almost from scratch.

In a physical sense, Germany in 1945--when I use the term "Germany" I mean particularly West Germany, or the Federal Republic of Germany--this country of some 52 million people, which is under the governance of the authorities in Bonn, and which is split off from the East part of Germany, the so-called German Democratic Republic, which contains the remaining some 17 million Germans who were formerly members of the German Reich, was in a prostrate position. Its physical plant was to a great extent either demolished or in a state of unusability. The whole warp and woof of the economy had been

disrupted; the normal flow of goods had stopped. There was no stable currency; there was no currency, in fact, that was worth anything. The processes of normal trade and exchange had ceased. The black market was the universal mechanism by which such goods as were exchanged did flow through the life of the pseudo-economy that remained in 1945.

Now, 15 years afterwards, it is no exaggeration to say that the economy of Western Germany is the most powerful in Europe, and all the growth tendencies that can be noted indicate that it will become relatively more powerful with respect to the economies of the other principal countries, France and the U.K.

The reason for this startling development is a subject of great dispute among economists. Does it really represent an explosion which is completely inexplicable in terms of conventional economic theory? Or can it actually be explained in terms of that theory?

I think we might begin with certain basic statistical data which will give you an idea of the range of growth that has actually taken place. To start with gross national product, the normal figure is calculated in terms of 1954 price levels. This GNP increased by 92 percent between 1950 and 1959, or from \$26.5 billion to \$50.9 billion. Although the rate of expansion has slowed somewhat in recent years, the average annual increase for these years is still substantially above that of other countries of the organizations of European Economic Cooperation, which includes all of the principal Western European countries, as well as above the growth rate of the United States.

Moreover, since the middle of 1959, the Federal Republic has entered another boom period, which shows no present signs of slackening.

Industrial production, using 1950 as a base year at 100, has increased to 247 in the fourth quarter of 1959; 258 in the manufacturing industries; 147 in mining; 250 in electricity and gas; and 209 in the building industries. Per capita production in the industrial field has gone up from 100 in 1950 to 225 in the fourth quarter of 1959.

In the foreign trade field, although Germany has a trade deficit with the dollar area, it has maintained a substantial export surplus with other currency areas, and the Federal Republic is now the third most important trading country in the world. In 1959 German exports and imports were valued at \$18.2 billion, as compared with \$4.7 billion in 1950.

I can remember how some rash visionaries who were trying to project the growth of the German economy into the future wistfully expressed the hope, after the currency reform of 1948, that, if only by some miracle the Federal Republic could achieve an export figure of some 10 billion D-marks, the rough equivalent of \$2.5 billion, there would no longer be any requirement for U.S. aid. No one actually believed that this was an attainable figure in those days, but it was a figure which was set up as a goal. How far the German economy has developed in excess of these expectations is indicated by the fact that the value of German exports is at the present time running at a monthly average above \$9 billion per annum, or, roughly, nearly four times as much as this figure which no one really expected could be attained by German exports.

As a result of a persistent export surplus, gold and foreign exchange balances of the Federal Republic have risen steadily. At the present time they amount, roughly, to \$6 billion, in U.S. monetary values, of which some \$5 billion is actually held in gold or U.S. dollar holdings.

The budget of the Federal Republic has increased to a level in the present fiscal year 1959-60, which ends today, 31 March, of roughly 40 billion D-marks--double the figure of 10 years ago. As you may be aware, the Federal Republic, although it can run a short-term accounting deficit, drawing on short-term loan possibilities, cannot engage in major deficit financing under the Constitution or basic law. Hence, in effect, the Federal Republic is without any significant national debt at the present time.

Finally, in the field of employment, unemployment has steadily reduced from slightly more than 10 percent of the labor force in 1950 to a postwar low of less than 1 percent in September 1959. Actually, there is no unemployment in Germany, and in many areas of the economy there is a definite labor shortage which has resulted in the need to import labor from such countries as Italy. Average hourly earnings in industry have more than doubled since 1948.

Now, as I indicated, economists have advanced various reasons for this phenomenal economic growth in the Federal Republic during the postwar period, and particularly since the currency reform of 1948.

Among the reasons which are advanced are the efforts of management, the length of hours which management is willing to work, the inconveniences which it is willing to accept, and the drive and

organizational ability which it has brought to the reconstruction of the German economy. Another reason often advanced is governmental monetary and fiscal policy, and the free market policy of the government with which the Minister of Economics, Ludwig Erhard, is identified. Government investment legislation is another factor often advanced. Then there is the contribution of labor and refugees, and allied aid and occupation policies, including the currency reform of June 1948, which the United States was primarily instrumental in forcing through, in some respects against the advice of some of the German leaders of that period in the banking field, and also against the advice, or at least against the desires, of the British and French military governments--although in the end they all agreed that this would have to be done. Then there is a general reason, which could perhaps best be described as the political and psychological conditions prevailing in the postwar Federal Republic.

Depending on the school to which the individual economist belongs, emphasis has been placed on one or more of these various factors. One thing is certain--the orthodox Keynesian or neo-Keynesian economist will find it difficult to explain the postwar German economy in terms of his own preferred theory of economic growth and the business cycle.

A very good example, a somewhat ludicrous one, is provided by the gloomy predictions of Professor Balogh of Oxford University. In 1950 he wrote a book, called "Germany: An Experiment in Planning for the Free Price Mechanism," in which he predicted dire developments in the Federal Republic. He could not have been more wrong in his predictions if he had deliberately set out to have every one of his major calculations proved wrong. Not one of the factors which he adduced as inevitably contributing toward economic crisis and stagnation in the German economy has affected the actual growth of the economy.

Perhaps a useful way to attempt to analyze the reasons for this growth is to attempt to see whether the operation of competition of free market forces, applied almost in terms of classical economic theory, provides a useful basis for explanation. This pretty much is the official explanation which the German Ministry of Economics advances. Dr. Erhard, who is a rather forceful speaker, goes around the country making speeches in which he says that the reason for the phenomenal economic growth in Germany is the free market policy which the government, and particularly his Ministry, has espoused. And there is a school of economists, centered around Professor Roepke of the University of Geneva, which has based a whole new development of

neo-classical economic theory, which hasn't affected thinking much in this country yet but which is very influential in Europe in economics faculties, on the conclusions drawn from the growth of the German economy.

The most important of the various measures taken was the currency reform of June 1948, which literally put the currency of the Federal Republic, which had become valueless, through a drastic wringer. Values in all categories, except actual possession of physical goods, were written down--more than 90 percent, as it actually worked out. At the same time, all but a small residuum of rationing and other controls on the economy were abandoned. The Allied Ordinances of 1947, prohibiting cartel agreements and providing for the breakup of the largest combines in German heavy industry as well as in commercial banking, were implemented.

All of these factors working together certainly conditioned the economy in the direction of greater freedom, with greater possibilities of choice for the German manager and entrepreneur. In the American Zone of Occupation at that time, great stress was also laid on what was called Gewerbe freiheit, or abolition of the licensing system, which is generally found in most European countries, and which required that the vestiges of the guild system authorize the entry of any new person or company into a specific field of endeavor.

For example, if a man wanted to open a drugstore or a pharmacy, he couldn't do it. He would have to get a license which, in effect, would be issued only by the guild of already existing druggists. This obviously had a dampening and restraining effect upon new enterprise in any field that was covered. We laid a great deal of stress on this, and in our own zone we were able to abolish this requirement. In practice, this has not really worked, because the natural inclination once the occupation had ended was to revert back to the old practices. We pretty much must now admit that Gewerbe freiheit is a dead thing, even in the former American Zone of Occupation. And the old guild system, inasmuch as it still affects the capacity of new businesses to be started, is still a fairly prevailing factor in the German economy.

It might be useful also to mention at this time certain handicaps which the German economy suffered under, and which one would have thought would have prevented or worked to prevent a rapid rate of economic growth. Apart from the destruction of physical plant and the general disorganization of the economy, there was also the unfavorable age composition of her population, as a result of the casualties of

World War II and the unfavorable demographic features of the German people during the period prior to the Hitler era, and during the Hitler era itself. There was the destruction of a large part of many German cities during World War II, so that a substantial proportion of the resources of the economy during the early postwar period, and up to today, have had to be diverted into the reconstruction and housing field.

In addition, housing had to be provided for the 10 million refugees who came into West Germany from the East, and for whom housing was not available. Well, as you all know, housing is a type of investment which, in terms of statistical contribution to production figures, has a low ratio. Therefore, the more your resources are engaged in housing and reconstruction, the more the remaining resources have to be fully utilized in order to create a rapid rate of growth in industrial and general production indices.

Another feature of German economic policy was the practical renunciation of fiscal policy as an anticyclical device. Fritz Schaefer, who was the Minister of Finance during most of the recovery period, remained strongly devoted to the principle of a balanced budget, and there was no deficit financing, both for constitutional reasons as well as for reasons of economic theory on the part of the Minister of Finance.

It is true, however, that the West German authorities did make use of tax legislation in order to spur capital formation. Another thing that should be mentioned, of course, is the factor of U.S. aid, which, between 1946 and 1956, amounted to some \$3.9 billion, in the form of non-military grants and long-term loans. However, it should also be noted that both the United Kingdom and France received a considerably larger amount of aid during this same period than did West Germany. France received \$5.5 billion, and the U.K. received \$6.8 billion, in the same period. So, when comparing the growth of the German economy with that of France and the U.K., which it has exceeded, one cannot assume that U.S. aid was a factor making for this exceptionally rapid growth, although there is no doubt that it came at the time when the German economy needed revitalization from the outside; this was provided by our infusion of aid.

However, it also should be noted that the German economy, in the immediate postwar period, suffered from dismantling of some of its major manufacturing facilities, much of which went to the Soviet Union. The value of these is very difficult to calculate, but certainly upwards of a half-billion dollars in plant which was thus lost.

Now, one factor that is often adduced, particularly by the British, as having helped the German economy to the detriment of other European countries is that during a great part of this period Germany did not have to support its own independent military establishment. As you know, the German military contribution to Western defense began only in 1955 with the ratification of the Paris Agreements, which were signed in 1954.

However, a mitigating factor was that, during the pre-1954 period, and even continuing into later years, the Federal Republic did make a sizable contribution to Allied Occupation Forces in the form of so-called occupation costs; subsequently the term "support costs" was used. These contributions did not absorb a materially smaller share of her national product than defense expenditures in other European countries at this time. From 1950 to 1955, so-called occupation costs averaged 5.8 percent of the gross national product of the Federal Republic, which, in comparison with the defense contribution of other NATO countries, is a figure which would put Germany somewhere halfway up the scale--not as large a contribution as that of the U.K., but considerably more than that of some of the other NATO countries.

One factor which has been given considerable weight is alleged German enthusiasm for hard work, the docility of the German workers, and the weakness of the German trade unions which has made a relatively low wage level possible. Yet the facts hardly match this implied popular concept of West Germany as a country in which big business dominates labor.

In 1951 the trade-union movement secured passage of the law on codetermination, the so-called Mitbestimmung recht. This law stipulated that half of the members of the boards of directors of all companies in the coal and steel industries were to be delegates of the union movement. The workers in these industries were also given representation in management.

In 1952 a so-called Works' Constitution law extended codetermination to all other branches of German industry, except that, instead of providing for one-half representation, it provided for one-third representation of worker delegates on boards of directors of all companies.

Now, I need not belabor this point, but, if you look at the situation in this country, the chances of similar legislation ever passing the Congress, even during the days of the New Deal would be or would have

been absolutely nil. So the role of labor and management in Germany is certainly not one that can be evaluated in conventional terms.

It is true that during the early days of the recovery period the German trade unions did not press for higher wages, but it is a mistake to think that wages have not risen in Germany. The index of hourly wages increased by 68 percent from 1950 to 1957, and a comparison with prewar figures shows that the index of real hourly wage rates in West Germany in 1957 was 52 percent higher than in 1938, while its British equivalent had increased only 21 percent. Computations which were made about five years ago by the U.N. Economic Commission for Europe showed that, already in 1955, the share of wages and salaries in the West German national income, was 63.6 percent, the second highest in Western Europe.

So the argument that German labor has received a disproportionately low share of the national product and that this has been a major factor in enabling rapid economic growth is not borne out by the statistical data.

Another argument that is sometimes made is that the West German economy has not had to carry a share of so-called social welfare benefits comparable to, say, the United Kingdom. Again the statistical data do not bear this out. When you compare the value of welfare services compared with national income, you find that, as far back as 1953, when economic growth was starting really to get under way, it amounted to 16 percent of national income, compared with only 12 percent in the U.K. In other words, the Federal Republic is more of a welfare state than is the United Kingdom.

What has given the impression that the United Kingdom is next to the Scandinavian countries, the welfare state par excellence, is the fact that practically all of the social welfare measures were put into effect by the Labor Government after the end of World War II, whereas in Germany they have had a progressive coverage of the field of social welfare legislation since 1881, when Bismarck first introduced certain measures of social welfare legislation.

Anyone who has lived in Germany will recognize that practically every aspect of life is to some degree covered by some kind of social welfare legislation, whether it is in the medical field, the life insurance field, or in the availability of drugs at reduced rates at the Apotheke.

Now, it is true that in present-day Germany there are a number of forces which seem to be working contrary to the factors which, during

the period of rapid growth and up to the present, have been adduced by at least some economists as primarily responsible for this growth.

For example, there is now quite definitely a process of recartelization reconcentration going on in heavy German industry. This is proceeding not only by consolidation between firms but also because of the reconcentration of the commercial banks. Under the European system, and particularly in Germany, it is quite common for commercial banks to hold a substantial proportion of their assets in the form of shares. The old banks, the big three so-called of the pre-Hitler and the Hitler period, in effect owned or owned partly, a major portion of German industry. When the banks were broken up in the immediate postwar period, this resulted in a diffusion of the shares held by the banks, and, therefore, a considerable spread of the ownership and the control which these banks had exercised. Now these banks have, in practice, although still not completely in a legal sense, reconcentrated, and it seems quite certain that, with the continuance of this practice of holding shares, the control exercised by them will be restored at least to some extent.

In addition to that, there is no doubt that a certain number of the old families, the Krupp family, the Flick family, and so on have come back into control of major aggregates of German heavy industry. On the other hand, the use of the term, "Ruhr Baron," to apply as a general term to the owners and managers of German industry no longer really has much relevance.

A study which was made some years ago, which is probably accurate in its major findings today, indicates that most of the old families which operated in a quasi-baronial sense no longer have effective control over the old family holdings. With the exception of Krupp, Flick, and a few others, the major portion of German heavy industry is not held by such family combines.

In fact, you have had in postwar Germany a process which, perhaps more than in most countries, bears out the theories of James Burnham in his book, "The Managerial Revolution." Effective control of German heavy industry in most cases is not in the hands of the owners, whether they are family owners or not, but in the hands of a very energetic group of new executives who have come up in the postwar period.

For example, take the firm of Krupp. While it is owned by Alfred Krupp, who is now the titular heir to the Krupp interests, and while he exercises nominal direction, the actual direction of the firm is in the

hands of a very energetic young managerial type by the name of Berthold Beitz, who in effect makes the important decisions for the Krupp interests. In other cases the managers play an even more significant role. There are old family firms, but their ownership is diffused among commercial banks and to some extent even among shareholders in the population--although there is no such thing in Germany as the widespread ownership of stocks and equities that you find in this country.

I think that, because of the importance which is attributed to German management, I should say a few words about the managerial type. I have just finished reading a book written by Heinz Hartmann on "Authority and Organization in German Management." It is published by the Princeton University Press. Apart from being filled with a lot of sociological jargon, I think he has hit on an essential truth in his analysis, and that is that the managerial role in Germany is somewhat different than it is in this country. This derives from German social tradition, from the nature of authority in German society. While we have a democratic state in postwar Germany, with representative institutions and a parliamentary body that functions reasonably effectively and at a fairly high level of sophistication in some instances, the fact is that the German economic society is still permeated by the concept of authority and by the concept of the manager or director--the *Unternehmer*, as the Germans call him--having a certain mission which goes beyond the concept of service as entertained in the United States. It becomes something almost akin to a vocation, and this is accepted by German labor and by German society as a whole. This concept permeates the entire structure of the German industry, and has made it possible for German industry to function effectively, despite the codetermination system, where on the boards of directors in the coal and steel industries 50 percent of the membership is made up of labor.

Because of this vocational approach to management, this sense of mission that many German managerial types bring to their jobs, you do have a certain dynamism and a certain spirit, one can say, of unselfishness in relation to their concept of their own role. This I think is not a factor completely to be ignored in trying to figure out why German management operates in the peculiarly effective and sometimes dedicated way it seems to.

The Germans have invented a term, *Managerkrankheit*, or managerial sickness, to describe the heavy death rate among many managerial types in the postwar period, who have apparently driven themselves so hard that the incidence of heart disease and other forms of illness is so

much higher than in the population as a whole. This has really become an attribute accepted in German society that the manager has to drive himself so hard that he must expect relatively early death.

As far as the German trade union movement is concerned, I think it is true to say that it has become bureaucratized in the postwar period in the same way that the American trade union movement has become bureaucratized. You have larger and larger unions which bargain collectively with management for certain objectives. The attempt to achieve common goals with management is usually outside of the context of what might be conceived to be national interest or the effect on the economy as a whole. However, because many of the goals, the so-called fringe benefits, which unions traditionally seek in addition to wage increases, have already been covered under social security legislation of long standing in Germany, the drive of the trade unions has not been as intense. It has not had much effect on the internal price structure, nor has it tended to be a factor in creating creeping inflation of the kind we have had in this country.

In fact, looking at the level of German prices over the last 10 years, one cannot help but be impressed by the steadiness of the price level and the fact that there has been no creeping inflation. While there have been certain increases, these are not pronounced, and they are relatively low.

One of the reasons for this, of course, is that Germany has consistently followed a policy of free imports. There is no doubt that imports have had a depressing effect on internal price levels in Germany. This was a calculated policy on the part of the government. Because of the experience of the German people with inflation in the post-World-War-I period, stable prices have been a particularly strong objective of the government. The German authorities have been willing to brave the pressures of the German industries which were being affected by cheap imports and have resisted these pressures. The general effect has been to maintain a level of prices which has certainly been one of the major factors in the stability of the German economy and its capacity to grow in terms of production, without having the type of gradual and persistent upward trend of prices that most other European countries and the United States have had in the postwar period.

In the international field, in addition to espousing a policy of free trade, with the exception of protection for certain agricultural products is one pressure that no government has shown itself able to resist as yet. The Germans have, as you know, been among the leaders in pressing for European economic integration.

During the days of the European Defense Community, which went down the drain in 1954, the Germans felt that European integration had to come first in the political area, and then only in the economic area. When the EDC was defeated by the French Chamber of Deputies in 1954, the foremost German proponents of European integration--Professor Hallstein, Chancellor Adenauer himself, and Foreign Minister von Brentano--felt that the only area which was now open to press forward in was the economic area. So they pushed very hard and were among those most instrumental in the drafting of the tactics and their ratification establishing both the European Economic Community and Euratom.

As you know, a great fight is going on at the present time between the so-called Six and Sevens. The European Economic Community, which is headed, incidentally, by the same Professor Hallstein, who has been one of the real leaders of the European integration movement in the entire postwar period, has agreed to accelerate the rate of economic integration by advancing the date on which the first leveling of internal tariffs will take place. This is to be joined with a leveling of the external tariffs of the community by 20 percent.

However, under the terms of the treaty, when the leveling takes place, certain of the low-tariff countries, notably the low countries and Germany, will have to raise their external rate a certain amount to the outside world, including the so-called Free Trade Area which the U.K. has formed in Europe consisting of seven other countries.

This has led to a great deal of controversy and a great deal of bitterness, because the non-European Economic Community countries feel that traditional trading patterns will be drastically affected by this acceleration proposal of Professor Hallstein. Meetings are going on in Paris right now in an effort to smooth out the controversy, which has led to threats of action to be taken not only in the economic field but also in the political field. It is not clear exactly how this is going to work out.

The position of the Federal Republic throughout has been somewhat torn by a desire to support French policy, which favors such an acceleration, and at the same time to do nothing which will intensify the crisis of relations which has been created with the non-European Economic Community countries. It is certainly not beyond the wit of man to devise some sort of compromise, particularly once the factual data are more clear and available to all parties, to which will be mutually acceptable and which will permit a kind of slow adjustment to the obviously discriminatory measures which the Common Market will evolve towards the outside world.

I would like, in the few minutes which still remain, to draw some general conclusions from this survey of the German economy in the postwar period. If my analysis has been correct, I think it is fair to say that no one factor has been primarily responsible for the relatively rapid rate of economic growth in the Federal Republic.

Perhaps the best way of trying to generalize is to say that a number of factors have brought about a more efficient allocation of resources than in most other countries where the growth rates have been slower, or where economic life has been fairly stagnant.

I think I have touched on most of the factors which can be said to have brought about a more efficient allocation of resources. At the same time, I have indicated certain trends which have now started, and which run counter to these factors. It will be interesting to see whether the German economy can absorb these trends and continue its rate of growth.

It is a fact that, in the past, the prophets of doom who have made pronouncements on the German economic future have been consistently wrong. It may well be that these new factors likewise will not have any effect on the main trend of the economy, which certainly is among the most resilient and dynamic in the world. We shall have to wait and see.

In terms of Germany's contribution to Western defense, apart from the political factors involved, there is certainly no reason why the German economy, and even its somewhat constrained federal fiscal system, cannot raise all the money required to pay for Germany's agreed contribution to Western defense within the framework of the North Atlantic Treaty Organization.

So I think that, on the whole, from a NATO point of view, from a Western defense point of view, we do not need to look for trouble from the Federal Republic. The burden of the defense portion of the national budget is not so great as to cause the kind of difficulties which it is causing in certain other NATO countries at the present time.

We may therefore conclude that, certainly in the short run and perhaps even in the long run, all of the economic signals in Germany are favorable. We can expect continually expanding private investment. We can expect increasing personal consumption. We can expect increasing exports of capital goods to Western Europe and to the rest of the world. And we can expect that the government will be in a position to meet its financial and military obligations out of its own resources.

Thank you.

COLONEL FLYNN: Mr. Hillenbrand is ready for questions.

QUESTION: Sir, can you be more specific on this currency reform of 1948, and on what happened to cash on hand, to bank balances, and to debts?

MR. HILLENBRAND: Yes. The situation before the currency reform was that a lot of worthless currency was floating around which could buy very little, because most of the valuable commodities were being traded on the black market on a semibarter basis. The currency reform which was imposed involved the calling in of all the old currency. That was the physical thing that happened. New currency was then given out. The first distribution of the new currency was on the basis of 5 percent of the value of the old currency which was turned in. The same thing was then done for bank accounts. They were simply transferred from the old value to the new. Certain other forms of the things which were stated in mark values were transferred in terms of value to the new system.

Then there was a subsequent payment beyond the 5 percent of another 2 or 2-1/2 percent to certain categories of cases. But the return on the old values was actually some 7 percent of the total. In other words, the inflated currency values went through a very drastic wringer process. The only values, in effect, which stayed stable were those in the form of stocks. I don't mean paper stocks; I mean commodity stocks. In other words, people were sitting on top of stocks of bicycles or textiles, and they were the immediate beneficiaries of the currency reform.

That is why, the day after the currency reform had been carried out, stores which had been empty, except for a few little items of handicraft, suddenly blossomed out with all sorts of goods which had been brought from cellars and warehouses and were put on sale for the new hard currency.

There were all sorts of technical aspects having to do with the various kinds of special accounts, and, of course, special provisions had to be made for foreign assets, foreign holdings, and so on. It was a very drastic type of currency reform. The model for it in some respects was the earlier, similarly drastic, currency reform that they put through in Belgium after the war.

QUESTION: Mr. Hillenbrand, I have heard it said--I might say, by a Britisher--that one of the reasons for the economic miracle in Germany was that the economy had been completely destroyed, that they

had a very good labor force, a skilled labor force, and that the West had given such liberal capital contributions that they had no real problem in capital formation. He said that this sort of miracle has sort of resulted from feeding on the complete destruction that had been left there. Will you comment on that theory?

MR. HILLENBRAND: Well, I have heard this theory, too. As I indicated during my remarks, the implication is that, as a result of greater need, Germany received more aid from the outside. This is not the case. She received less aid than either the U.K. or France. It is very hard to explain, in terms of any economic theory I know, how it is an economic asset per se to have all or a good part of your manufacturing plant destroyed and have to rebuild it again. It is true, and this was the experience after World War I, where a great part of the German heavy industry was dismantled for reparations, that, when they rebuilt, they rebuilt with more modern equipment, and were able to draw on the most up-to-date technologies, and therefore their industries achieved a higher state of rationalization, a lower cost per unit produced, than other industries in the U.K., France, and so on, which might be competitive and which were still using the same old equipment. While this is true, however, the fact is that the same process of rejuvenation and rationalization went on in France and in the U.K., partly as the result of U.S. aid payments. For example, we built the most modern steel plant in the world in France, largely through Marshal Plan aid.

I think there is probably an element of truth in what you say, but I don't think it is even the beginning of an explanation for the phenomenal German economic growth. I think it is one of many factors which probably played a role. I think it was a challenge to the German people, who rose to that challenge. I mean, the fact that they had to rebuild stimulated a willingness to work harder than was the case in certain other European countries.

But I don't think that in terms of economic theory you can really claim that losing your plant and having to rebuild it is something which should contribute towards rapid economic growth, because, after all, the indices that you start from are not the indices reflecting the state of the economy when the plant is destroyed but rather the state of the economy prior to the destruction of the plant. So the replacement of the equipment is not a prenet gain to your national wealth.

QUESTION: Sir, you mentioned the matter of the lack of inflation, or slight inflation, in Germany. Will you tell us what percentage of the GNP goes to the government in the form of taxes? You also mentioned the social security aspect. I am under the impression, based on a

social security tax I had to pay for my maid, that they run a social security tax of somewhere between 18 and 20 percent in Germany, particularly for the lower-paid people--not above a certain pay scale, which I believe was 400 marks. Would you care to comment on that?

MR. HILLENBRAND: Well, in rough figures, the Federal budget is, slightly under 20 percent of the GNP of Germany. There are also, as you know, Laender budgets, and other forms of local tax-collection systems or revenue-raising systems which add to this burden. It is true that, I think, Germany has one of the highest tax burdens of any modern Western country, when you add all these together, although exact statistical data are hard to come by on the overall figures.

It is true that this roughly 20 percent of GNP which accrues to the Federal Government in the form of revenues includes, of course, a large part of the social security benefits, at least those which are nationally administered as opposed to those which are administered on a local basis. I don't think one can draw any real conclusions as to the effect this has had on the price level. The reason for relative price stability in postwar Germany has been other than the impact on prices of government expenditure or government taxation.

The idea that Germany is a country in which taxes are lower than those in most European countries is, I think, incorrect. It is true that under the tax legislation in the early fifties, certain preferential kinds of rates were applied to industries to encourage the plowing back of profits into industry and rapid capital formation. This has been reversed now, and in fact the Bundestag at the present time is considering a tax law which will eliminate most of these preferential rates for certain kinds of industry. I think the conclusion is that this is no longer required to assist the process of capital formation.

QUESTION: Sir, I have read that the East German economy is also at present in a state of boom. For example, the number of immigrants from East Germany into West Germany has turned around and gone back the other way. Is this the case? If so, how important do you think this East German economy will be?

MR. HILLENBRAND: There are really two questions there. First, to deal with the less complicated one, we were somewhat intrigued ourselves by a number of newspaper articles about the reverse flow of refugees allegedly taking place. We have checked these figures and find that, while there is a slight reverse flow, it is by no means as large as these articles by, say, Flora Lewis and a number of others would have indicated. I don't know where she got her statistical data. She probably

got it from the East Germans. Everyone knows that the statistics they hand out have been notoriously false, intended entirely for propaganda purposes.

We have a fairly accurate check on this, because of the role we play still in the refugee-processing procedures in Berlin and in West Germany. We know that these data are incorrect, although it is true to say that there are more people going back now than there were five years ago. It is true also to say that the East German economy, compared with the stagnant conditions, say, of five years ago, has shown certain improvements.

These improvements are largely reflected in indices of industrial production and, to a certain extent, in the availability of certain low-grade consumer goods in the economy of East Germany. On the other hand, there is no comparison between the rate of economic growth in East Germany with that in West Germany nor between the diversity of the economies or any of the other things which you normally use for evaluation of economies.

It is true that East Germany has played and is going to play an increasingly important role in the collective economy of the satellite bloc. You've got a reservoir of skills, as well as a certain amount of industrial resources in East Germany, which the Soviets, now that they have stopped taking reparations out of the country, are willing to exploit, and in fact are insisting on rehabilitating, because they feel it has a real contribution to make to the general economic growth of the Soviet bloc area.

It would be strange, indeed, if East Germany, considering the skilled labor force that still exists there, and the other advantages it has, did not become the most important industrial area in the Soviet bloc, other than the Soviet Union itself. There is no doubt that there is a great potential there, but it is limited, of course, very drastically by, first of all, the continual drain of the cream of the labor force to the West, which is still going on, and also by a very unfavorable population structure, which over the years will become ever more unfavorable and will result in a drastic curtailment of the available labor supply within the most productive years.

QUESTION: I believe you said, sir, that the Keynesian theory has not worked out in Germany very well. So far they haven't had any business recession in Germany in the postwar period. If they do have one, what theory will they use to stamp out the recession?

MR. HILLENBRAND: Since the official policy of the Ministry of Economics is essentially to allow free market forces to make adjustments, presumably, at least initially, they would, at the most, resort to central bank policies, which are supposed to be counter-cyclical, and other fiscal measures such as are available to the Federal Government. Now, of course, if it turns out that these measures don't work, then, obviously, you will have pressures on the government, if only from the opposition party, to resort to more Keynesian measures. All one can say at this point is that, since there has been no depression there has been no temptation on the part of the government to resort to any of these measures nor any pressure on it to do so.

It is quite clear that the German Ministries affected, Economics and Finance, are simply not counting on a depression of the conventional kind. They feel that the built-in stabilizers in the economy are such that, as long as the outside world, particularly the United States, does not enter a period of deep depression, there is no reason why the German economy should have to go through the kind of depression that advanced countries of the Western World seemed to have to go through periodically in the period before World War II. That doesn't mean, of course, that you don't have cyclical movements within a general ascending curve, in the same way that we have had them in this country. Whether you call it a recession, or a floating readjustment, or whatever term you want to use, the fact is that there are periods of boom and there are periods of relative stagnation. You've had that in Germany. We are now in the middle of a period of boom again. I think that no one really expects that the general tendency will stop being in an upward direction.

QUESTION: I was over in Germany in 1936, and one of the things that impressed me then was the success of the Nazi program for instilling in the German people the idea that labor was its own reward, and building up a real respect for work in itself. I dare say that the denazification program has not eliminated this from the German people. I also know that we have comparative figures on the productivity of over-all economies of various countries. But, do we have anything to show what the productivity of German labor is in comparison with American labor, British labor, and French labor, for instance?

MR. HILLENBRAND: Well, productivity figures, are, as you know, among the hardest to collect on a comparative basis. The ECE in Geneva has made some attempts, and they are not usually accepted by economists as having much validity. But, for what they are worth, the conclusions are that the German labor per man-hour work is not necessarily any more productive than labor in this country, given a similar state of

rationalization of a given industry, but that German labor is willing to work more intensely over longer periods of time and has done so.

These figures, I think, must be viewed with a certain amount of distrust. . There is no doubt that in certain industries, at least, where you have a high level of morale from management right down through the laboring force, you have probably greater output per man even during the same working period of each week than you have had in some countries, like France and the U.K. But this is purely an impression. It would be very hard to document this, because, you have a different degree of rationalization from industry to industry, and also from country to country, and the kind of indices you will get in one country are hardly comparable with those you will get from another country.

So I think that a scientific economist would have to leave it at that without trying to draw any further conclusions. The general impression undoubtedly is a correct one, that work has much more of a value in itself to the average German than it does to the average Frenchman or to the average Englishman. I think this is partly explicable in terms of traditional German national psychology and partly explicable in terms of the peculiar situation that existed in Germany after World War II, when the compulsion to work became a substitute for the lack of other amenities of life and a compensation for the drabness of existence. You worked hard, got tired, went home, fell asleep, and went back the next day and worked hard, got tired, and it helped to remove you from some of the other pressures of life and the drabness of those early years of existence.

Of course, now that you've got a full-blown consumer economy again in Germany, this inclination, I think, is fast fading.

COLONEL FLYNN: I am sorry we will have to close.

Mr. Hillenbrand, your presentation has not only been a major contribution to our unit of study but I feel that those of us who are going to visit Germany next month owe you a particular debt of gratitude for a very comprehensive review of the German economy which should make our visit much more meaningful. Thank you very much, sir.

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