PUBLIC AS OF JANUARY 1, 2009

L.5.2
CONFIDENTIAL

RFD. 88

Board of Governors of the Federal Reserve System
Division of Research and Statistics
International Sections

# REVIEW OF FOREIGN DEVELOPMENTS

June 1, 1948



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## THE BALANCE OF PAYMENTS OF VENEZUELA, 1948-49

Ernest C. Olson

During the past several months there has been a considerable expression of interest in the part which the Latin American republics are expected to play in the European Recovery Program. In view of the continuance of this interest since the recent enactment of the ERP, an attempt is made in this paper to indicate the extent to which one of the republics, Venezuela, will be likely to contribute to the financing of the Program during the period July 1, 1948-June 30, 1949. Four balance of payments estimates were prepared: the balance with the world, with the United States, with the ERP countries and dependencies, and with areas other than those named. These estimates essentially represent balances of payments on current account but include certain capital items, as will be made clear in the following discussion.

Venezuela is expected to have a surplus of $6.9 million in its global balance of payments for the fiscal year 1949. The balance of payments with ERP countries and dependencies forecasts a deficit of $81.9 million but it appears likely that this deficit will be more than offset by a surplus of

$87.9 million with the United States. During this period it is expected that the balance of payments with all other areas will show a surplus of $0.9 million. In view of the estimated deficit of Venezuela vis-a-vis the ERP countries and dependencies, these countries obviously will have no problem of financing a deficit with Venezuela. This is probably the only case in which the ERP countries will have a substantial surplus with a Latin American republic during the period under consideration. Accordingly, Venezuela will have no incentive to extend credit in order to maintain its level of exports to these countries. It should be pointed out, however, that in financing its deficit of $81.9 million with the ERP countries and dependencies, Venezuela will furnish an approximately equivalent amount of dollar assistance to this area. Beyond such incidental aid, it is extremely unlikely that Venezuela will contribute to the ERP.

The Balance of Payments of Venezuela, 1948-49
(In millions of U.S. dollars)

| | With the world | With ERP countries & dependencies | With the U.S. | With "all other" countries |
|---|---|---|---|---|
| Receipts | | | | |
| Petroleum (receipts from petroleum companies) | 533.0 | 53.3 | 453.0 | 26.7 |
| Coffee | 10.0 | 1.5 | 8.2 | 0.3 |
| Cacao | 9.5 | — | 8.3 | 1.2 |
| Other exports | 4.2 | 0.4 | 3.6 | 0.2 |
| Total Receipts | 556.7 | 55.2 | 473.1 | 28.4 |
| Payments | | | | |
| Imports[a/] (f.o.b.) | 510.0 | 127.5 | 357.0 | 25.5 |
| Maritime freight and insurance | 35.7 | 8.9 | 25.0 | 1.8 |
| Other charges | 3.0 | 0.7 | 2.1 | 0.2 |
| Debt repayment [b/] | 1.1 | -- | 1.1 | -- |
| Total Payments | 549.8 | 137.1 | 385.2 | 27.5 |
| Venezuela's Surplus (+) or Deficit (-) | +6.9 | -81.9 | +87.9 | +0.9 |

a/ Other than imports of petroleum companies.
b/ Export-Import Bank loans of $600 thousand and $500 thousand expected to be repaid by June 30, 1949.

Receipts

Receipts of foreign exchange from capital investment by foreign petroleum companies are not shown separately inasmuch as they are taken into account in the reporting of petroleum exchange receipts, as discussed below. Investment contemplated by U.S. interests during the fiscal year 1949 was taken into account in preparing estimates of Venezuelan petroleum exports.

Other foreign investment in Venezuela is not likely to be significant and will probably be offset by Venezuelan investment abroad. Similarly, it is very unlikely that foreign exchange receipts other than the above-mentioned and these accruing from exports will be of significance.

Last year exports accounted for 98 per cent of total reported exchange receipts, petroleum furnishing 95 per cent and coffee and cacao the remainder.

Petroleum. Available data on petroleum exports are reported by the Central Bank as receipts of foreign exchange obtained from the petroleum industry. These do not represent the true value of petroleum exports, however, since part of the petroleum companies' foreign exchange receipts are not sold to the Central Bank but are used to cover imports, transfers of profits and capital, and other expenditures in foreign currency.

Foreign-owned oil companies operate in Venezuela under concessions which provide the Venezuelan Government with a share of petroleum production. The Venezuelan Government receives one-sixth of the petroleum production of such companies either in foreign exchange or in kind. Since 1946 the Government has taken about one-fourth of this royalty in kind and sold it to the highest bidder. On the basis of prices received in connection with these bids, a new contract was reached with the petroleum companies in November 1947, under the terms of which the cash royalty was increased substantially. This agreement is to remain in effect for two years, and will thus be in operation during the entire period under consideration.

At the present time, Venezuelan petroleum production averages about 1.2 million barrels per day. With the present equipment and machinery, it is believed that this output could be increased by only 50 thousand barrels per day. The petroleum companies plan to drill additional wells, install new equipment, and enlarge transportation facilities, which are very tight at the present time. Under this program, it is estimated that production will gradually be increased by 0.2 million barrels per day, reaching a total daily output of about 1.4 million barrels by the end of 1948.

The average daily rate for the July 1948 through June 1949 period is assumed to be 1.3 million barrels. This quantity, at the new contract price, should produce exchange receipts of $533.0 million for the Central Bank.

Available information indicates that approximately 10 per cent of total Venezuelan production accrues to companies of European countries participating in the ERP and 85 per cent to companies owned by U.S. interests. The remaining 5 per cent represents royalty oil accruing to the Venezuelan Government. It is assumed that during the fiscal year 1949 the 10 per cent share of ERP companies will be exported to ERP countries and the 85 per cent share of U.S. companies will be exported to the United States. It is also assumed that the remaining 5 per cent will be sold by the Venezuelan Government to all other areas. Forecasts of petroleum exchange receipts, which appear in the various balances of payments shown in the accompanying table were arrived at by applying the above percentages to estimates of total petroleum receipts.

Coffee. On the basis of a projection of the Central Bank's monthly purchases of coffee exchange in 1947, coffee exports for the fiscal year 1949 are estimated at $10 million. The geographical distribution of Venezuelan coffee exports was forecast on the basis of the distribution during the four months, June, August, September, and October of 1947. Exports to the United States during these months amounted to 82 per cent of total exports, while exports to ERP countries and all other areas were 15 per cent and 3 per cent, respectively. Coffee receipts for each balance of payments were derived by means of these percentages.

Cacao. With the removal of price controls in the United States, the world price of cacao rose steadily throughout 1947, reaching a peak in November and falling slightly thereafter. The average price during 1947 was 35 cents per pound. It is expected that prices during the 15-month period under review will remain at this level or will increase slightly and that the same rate of production which prevailed in 1947 will continue during the period under consideration. On this basis, cacao exports of $9.5 million are forecast for the fiscal year 1949.

The geographical distribution of Venezuelan cacao exports is believed likely to be approximately the same as that in August, September, and October 1947. Exports to the United States during these months amounted to 87 per cent of total exports and virtually all of the remaining 13 per cent was shipped to Trinidad and Puerto Rico. Thus, practically none went to ERP countries and none is expected to go to that area during the fiscal year 1949.

All other exports. Exports other than petroleum, coffee, and cacao are principally gold and livestock products. Central Bank purchases of exchange from such exports are expected to remain at the 1947 level of $4.2 million.

In the absence of any better basis for estimating the geographical distribution of such exports, their ratio to total receipts in the global balance of payments (cf. first column of the table) was applied to the totals of each of the three regional groups as shown in the table.

Payments

Imports. Total imports during the fiscal year 1949 are expected to continue at approximately the same annual rate as that estimated for 1947. In the absence of adequate information concerning Venezuelan imports, total imports in 1947 were taken to be equivalent to the sum of U.S. exports to Venezuela, plus exports of eight of the most important trading countries1/ in the ERP, and estimated exports from all other areas. In most cases, it was necessary to project a 10- or 11-month figure for the year.

In order to arrive at a figure for imports from all other countries, it was assumed that the percentage share of Venezuela's total imports supplied by such areas would tend to revert in 1947 to lower levels characteristic of the prewar trade pattern. For 1946 it is estimated that 18 per cent of Venezuela's imports originated in areas other than the United States and ERP countries, while in prewar years the proportion was about 5 per cent. In view

1/ United Kingdom, France, Belgium-Luxembourg, Netherlands, Italy, Switzerland, Sweden, and Norway.

of this, it was assumed arbitrarily that imports from other areas during 1947 amounted to approximately 10 per cent of total imports. In accordance with the foregoing assumptions, global imports for 1947 were estimated to be $510.0 million.

In estimating the origin of Venezuela's imports in fiscal year 1949, it was assumed that the United States' share will decline slightly from the 1947 level of 76 per cent to about 70 per cent, and Europe's share will increase from 14 per cent to about 25 per cent. It was assumed that the share of all other areas will be 5 per cent. The following table shows Venezuela's imports by origin[1] as percentages of total imports.

| | 1937 | 1938 | 1939 | 1940 | 1941 | 1942 | 1946 | 1947 |
|---|---|---|---|---|---|---|---|---|
| United States | 53 | 57 | 61 | 74 | 79 | 74 | 76 | 76 |
| Europe | 41 | 39 | 33 | 17 | 9 | 9 | 6 | 14 |
| Other areas | 6 | 4 | 6 | 9 | 12 | 17 | 18 | 10 |
| Of which Western Hemisphere (excluding U.S.) | (2) | (2) | (3) | (5) | (10) | (17) | | |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | | |

Maritime freight and insurance. Estimated net maritime freight and insurance payments to all areas are expected to amount to $35.7 million. Payments to ERP countries and dependencies are estimated at $8.9 million, while payments to the United States are expected to be $25.0 million, thus leaving a residual of $1.8 million to be paid to all other countries.

Net payments for these services were estimated from their relationship to imports over a period of several years. The ratio of these values ranged from about 5 per cent in 1935 to nearly 16 per cent in 1942, with a decline to 9 per cent in 1945. In view of the apparent downward trend from the wartime peak, it was assumed that maritime freight and insurance charges would amount to about 7 per cent of imports during the fiscal year 1949. Inasmuch as Venezuela's predominant export, petroleum, is carried in American-owned tankers and, in view of the very limited shipping facilities of the Venezuelan maritime fleet, freight and insurance items will presumably continue to appear during this period as net payments by Venezuela in connection with imports carried by foreign-owned vessels. In order to determine the distribution of such payments among the United States, ERP countries and dependencies, and all other countries, the same percentages as those representing their share of total Venezuelan imports were applied to total payments for maritime freight and insurance.

Other charges. This entry in the various balances of payments comprises interest payments, including approximately $48,000 expected to accrue on outstanding Export-Import Bank loans; port fees; radio, telephone and telegraph services; tourist travel; etc., and appears in most of the available data as a net payment by Venezuela. In 1945, the only year for

1/ For the years 1937-42, U.S. Tariff Commission, "Recent Developments in the Foreign Trade of Venezuela", 1945. The figures for 1946 are projections based on Venezuelan import statistics for the first three months of 1946; those for 1947 were derived as explained above.

which such charges are shown in both gross and net terms, the largest receipts in order of magnitude were: commissions paid to representatives of foreign firms, tourists' receipts, and receipts from foreign diplomatic representatives. The largest payments were expenses of Venezuelan travelers abroad, Venezuelan diplomatic expenditures, film royalties, and remittances of profits on foreign investments other than those of the petroleum industry. Total payments were $10.9 million and total receipts $8.0 million, with a resulting net payment of $2.9 million. Since such net payments do not appear to be subject to wide fluctuations, a net payment of $3 million has been arbitrarily assumed for the fiscal year 1949. In estimating the share of such payments which the United States, the ERP countries and dependencies, and all other countries will receive, the percentages derived for the distribution of imports by origin were used as a rough measure in the absence of any better basis for calculating the distribution.

Debt repayment. This payment item of $1.1 million represents the anticipated repayment of two Export-Import Bank loans, one in the amount of $600 thousand and the other in the amount of $500 thousand. It is expected that both loans will mature by June 30, 1949.

## NOTE ON OFFSHORE PROCUREMENT IN EUROPE

Albert O. Hirschman

Various proposals have recently been advanced to solve the intra-European payments problem. The following note presents a case for giving preference to the device of offshore purchases and examines the relation of offshore purchases to the distribution of U.S. aid between grants and loans.

### I. Alternative Forms of Financing Intra-European Net Deficits

Let us assume that France tends to run a current account deficit of size q with Belgium and that the Western Hemisphere deficit of France and Belgium are F and B, respectively. Suppose, also, that a total amount of F + B dollars is available for spending by the Administrator who also wishes to make possible the financing of the French deficit with Belgium. Then the following arrangements are possible:

Belgium obtains directly B-q dollars and France obtains directly F dollars; additional q dollars are made available

(a) to Belgium on condition that it lends a similar amount in Belgian francs to France;[1] or

(b) to France on condition that France spends these dollars on purchases in Belgium (offshore procurement).

Actually both courses of action have the same immediate result in terms of commodity flows. It is therefore clear that in this respect an extension

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1/ This might be termed the "double credit" method.

of reciprocal grants or credits in combination with U.S. financing of Western Hemisphere deficits is essentially equivalent to the technique of offshore purchases.

The two courses of action are, however, significantly different with respect to the following considerations:

(a) Comparative convenience and flexibility. There can be little doubt that offshore purchases are a more straightforward way of financing net balances arising from intra-European trade than an attempt to impose intra-European credit patterns as a condition of our assistance in financing the Western Hemisphere deficits. The offshore purchase device is also preferable on grounds of flexibility since allocation of dollars for offshore procurement will be subject to quarterly review while credits will be given for periods longer than three months and, once granted, cannot be cancelled.

(b) The emerging debt pattern. If all of the aid given to Belgium and France were on a loan basis, the "double credit" method would result in a U.S. dollar loan to Belgium matched by a Belgian loan to France, while offshore purchases would result in a direct dollar obligation of France. Here, too, the offshore purchase method seems preferable since it would result in a less complicated structure of international indebtedness. It is, of course, conceivable that in certain cases such a structure might offer a somewhat greater assurance for eventual repayment, but in general this would seem unlikely.

Preference for offshore purchases, as opposed to the "double credit" method of dealing with similar problems concerning financing of the non-U.S. Western Hemisphere deficit, was one of the reasons for which the Administration successfully fought insertion of the so-called "Taft Amendment" into the Economic Cooperation Act.1/

## II. Offshore Procurement in Europe and the Loan-Grant Ratio

An important advantage of the method of offshore procurement over the "double credit" method is that it gives the Administrator considerably greater latitude in setting the terms of the aid rendered. The "double credit" method must be conceived as the extension of one credit conditioned upon the extension of another credit. Offshore purchase dollars, on the other hand, can be given either as loans or grants and can therefore be better related to the ability to repay of the individual ERP countries.

Since the Administration has considered the proper distribution of loans and grants on the basis of the Western Hemisphere deficits only, the question arises as to the method which should determine the setting of aid

1/ Senator Taft, it will be recalled, proposed an amendment which would have authorized the Administrator to guarantee 70 per cent of any credits extended by other Western Hemisphere countries to the ERP countries. The amendment also contemplated U.S. advances of dollars on account of such guarantees.

terms for offshore procurement dollars spent in other areas. The alternative ways of dealing with this problem may best be illustrated by a numerical example.

Let us assume that the Western Hemisphere deficits to be financed by ECA for France and Belgium are 1,000 and 500, respectively. Suppose also that, as a result of legislation, at least 650 must be given to these two countries in the form of loans and that, after study of the ability to repay of the two countries, the Administrator has decided upon the following aid terms.

| | Loans | Grants | Total aid |
|---|---|---|---|
| France | 250 | 750 | 1,000 |
| Belgium | 400 | 100 | 500 |
| Total | 650 | 850 | 1,500 |

If it then appears desirable that a Belgian export surplus to France of 100 be financed by offshore purchases, the French total dollar allocation would be increased to 1,100 and the Belgian total allocation reduced to 400, France passing on 100 to Belgium. What rearrangement of the loan-grant ratio is necessary and advisable as a consequence of such action?

(a) If the loan-grant ratios for individual countries as previously determined (i.e., 25 to 75 for France and 80 to 20 for Belgium) are left unchanged, the following result would obtain:

| | Loans | Grants | Total aid |
|---|---|---|---|
| France | 275 | 825 | 1,100 |
| Belgium | 320 | 80 | 400 |
| Total | 595 | 905 | 1,500 |

It is immediately evident that by adopting this method one of the conditions of the problem, i.e., that of keeping the total loan figure at a minimum of 650, is not complied with.

It must be remarked, however, that insofar as offshore purchases are made by countries receiving aid mostly on a loan basis in countries receiving aid mostly on a grant basis, the opposite result would follow, i.e., the total amount of loans would be raised to a higher figure than necessary. Analysis of the 1947 pattern of intra-European trade and payments leads to the conclusion that, on the whole, keeping the individual countries' loan-grant ratios constant would not result in a significant alteration of the distribution of total aid as between grants and loans. There are, however, other objections which can be raised against the method just described [see (c) below].

(b) A mechanical way to take care of the problem encountered in (a) is to apply to the offshore dollars such terms as would have applied to them had they been given directly to the countries in which the offshore purchases take place. This would, in our example, result in the following distribution.

| | | Loans | Grants | Total aid |
|---|---|---|---|---|
| France | | 330 (250+80) | 770 (750+20) | 1,100 |
| Belgium | | 320 | 80 | 400 |
| | Total | 650 | 850 | 1,500 |

Here the total loan amount again equals 650, but the individual countries' loan-grant ratios have been changed. In this example, this leads to an increase in the dollar debt burden on one of the countries above the amount originally considered as representing its ability to pay while decreasing the amount of loans of the other country far below what it had been judged able to carry. The desirability of this shift may be questioned. It could only be defended by the consideration that it is advisable to provide incentives for European countries to develop export surpluses with each other. But since obviously all ERP countries cannot have export surpluses with each other it would be more correct to say that incentives should be provided for the expansion of intra-European trade regardless of whether this expansion results in a temporary increase in net balances. Any incentives provided should, therefore, if at all possible, be neutral as between export and import surpluses.

(c) These considerations lead to a proposal to leave the absolute magnitudes of loans as originally allocated to the individual countries as nearly unchanged as possible. In our example, this would result in the following arrangement:

| | | Loans | Grants | Total aid |
|---|---|---|---|---|
| France | | 250 | 850 | 1,100 |
| Belgium | | 400 | - | 400 |
| | Total | 650 | 850 | 1,500 |

In other words, any diversion of direct aid from an intra-European creditor to an intra-European debtor for offshore procurement should first be taken out from the grant portion of dollar aid to the creditor. It is indeed more important that the absolute amounts of loans allocated to the various countries remain in the neighborhood of the amounts determined on the basis of their ability to repay than it is to safeguard any particular loan-grant ratios. After all, the individual countries are concerned with absolute amounts of loan obligations rather than with their relation to total aid.

Only when the margin provided by the grants originally contemplated for creditor countries is exhausted will it be necessary to choose between methods (a) and (b). While (b) is doubtless the safer road to travel, it could still result in such a distortion of the contemplated allocation of the loans that it might be preferable to try out the former method (a) first, in the expectation that a certain compensation as among countries will take place, and the loan-grant ratio in the total U.S. aid will remain largely unchanged.

A GERMAN REPORT ON REPARATIONS J. Herbert Furth

For the first time the voice of a prominent German has been heard on the subject of the country's economic future. Mr. G. W. Harmssen, vice-president of the senate of the city-state of Bremen (U.S. zone of occupation) and a member of the bizonal State Council, was asked by the prime ministers of the German states in the combined U.S.-U.K. zones to prepare a basic statement on the German attitude toward the problem of reparations. In his report[1] he tries to present a balance sheet of the entire German economy. The report includes a main volume (125 pages) and 12 appendices (totaling 307 pages), discussing reparations in international law, reparation problems after the first World War, Allied reparation claims, the German standard of living and national income, Germany's economic and social structure, food and agriculture, industry, transportation, exports and imports, removal of industrial equipment, fiscal policy and capital formation, and the payments already made by Germany to the Allies. The report contains frequent digressions into the fields of philosophy, political science, and law, but only selected statements on economic matters--those which seem most startling--will be discussed at this time.

## Summary of the Report

The basic argument of the report is briefly summarized in the following paragraphs.

The reparation claims of the Allied nations are limited by the so-called Potsdam Agreement, which guarantees the German people a standard of living at least as high as the average standard of the other European nations. Before the war, the German standard, taking into consideration the peculiarities of the structure of the German economy, actually was not higher than the average standard of similar nations of Northwestern Europe, with which alone it should be compared. At most, German per-capita consumption might be permitted to fall 15 per cent below the 1936 level. This means that even the revised level of industry for the U.S.-U.K. zones, which provides for a per-capita income about 25 per cent below 1936, is far too low. It also means that the income level on which the ERP plans are based is utterly insufficient: Germany must not be compelled to export any coal or steel before 1952, and the prospective production of machinery must be doubled. The German national product must be maintained at a minimum of 63 billion reichsmarks of 1936 purchasing power.[2] Of that amount, about 2 billion reichsmarks is needed for new investment, 4.7 billion for reconstruction investment, 3.3 billion for the satisfaction of pent-up consumers' demand, and 53 billion for the satisfaction of normal consumers' demand. In 1952, output of goods and services could reach a maximum of 60 billion reichsmarks; therefore, at that time foreign assistance still will be needed to the extent of 3 billion reichsmarks annually. The austerity of this program is indicated by the fact that in 1952 per-capita income in Germany will be lower than before the war, while that in the United States will be higher by one-third. (pp. 23-37)

1/ Reparationen, Sozialprodukt, Lebensstandard: Versuch einer Wirtschaftsbilanz (Reparations, Social Product, Standard of Living: An Attempted Economic Balance Sheet), Bremen, 1947.

2/ The appropriate factor for converting reichsmarks of 1936 purchasing power into dollars of 1948 purchasing power may be roughly estimated at approximately 60 cents per reichsmark. In this paper, all reichsmark figures refer to reichsmarks of 1936 purchasing power.

The magnitude of the task of achieving a gross national product of 60 billion reichsmarks by 1952 is demonstrated by a discussion of the present national income and wealth. In 1946, German national product was only 32 billion reichsmarks, as compared to 66 billion in 1936; because of reparations paid out of current production, only 25-30 billion actually was available to domestic consumers. Considering the value of the lost territories (Eastern Germany and the Saar), the confiscation of the property of German refugees as well as of foreign assets and the merchant marine, looting by members of the occupation forces, and the damage caused by the military action of the Allies during the war, the prewar national wealth of Germany (about 550 billion reichsmarks) has been reduced by 40 per cent; at present, national wealth is as low as it was in 1924, at the end of the German inflation following the first World War (p. 46). German forests are threatened with extinction within twenty years if the present rate of exploitation continues, especially in the British and French zones. Germany is even prevented from sending out whaling fleets in order to avoid the extinction of an animal which is hunted by all seafaring nations. (pp. 49-50)

German industrial capacity has decreased by 7.7 per cent because of the losses in the East and the Saar, and by another 20-25 per cent because of war damage. On a 1936 basis, actual production was only 27 per cent in 1946 and 40 per cent in the first half of 1947. Moreover, at least half of the production in the USSR zone went to the Soviet Union. The level of production of consumers' goods was even lower than the average. Under these conditions, further removal of industrial equipment would be unjustified, quite apart from the psychological effect of removals upon the industrial workers. Finally, removals would use large quantities of scarce lumber for packing: that lumber would be sufficient to manufacture furniture for one million bedrooms for the German population. (pp. 52-57)

German import requirements in 1952 will include 3 billion reichsmarks for foodstuffs and 3 billion reichsmarks for industrial equipment and raw materials. Moreover, Germany will have to provide for one billion as freight payments and 0.75 billion as debt service, based upon prospective reconstruction loans of 15 billion reichsmarks. In order to bring about an equilibrium in the German balance of international payments, Germany will have to export annually goods valued at 7.7 billion reichsmarks. (p. 63)

Despite its poverty, Germany already has made reparation payments to the Allied nations, which should be valued at 177.75 billion reichsmarks. These payments include the items listed in the following table; they are far larger than the maximum sum of reparations, which was demanded by the Soviet Union and rejected as excessive by the Western powers.

Mr. Harmssen's Estimate of German Reparation Payments
(In billions of reichsmarks at 1936 prices)

| | | |
|---|---|---|
| Value of Eastern Germany | | 65.0 |
| Value of the Saar | | 5.0 |
| Confiscated property of German refugees | | 40.5 |
| Confiscated foreign assets | | 9.75 |
| Confiscated German gold | | 0.75 |
| Confiscated merchant marine | | 0.5 |
| Publication of German patents | | 12.5 |
| Labor of prisoners-of-war | | 5.0 |
| "Manipulations" with Allied military currency | | 1.75 |
| Removal of rails (mainly USSR zone) | | 1.0 |
| Sovietized corporations (USSR zone) | | 1.6 |
| Removed industrial equipment: | | |
| USSR zone | 4.8 | |
| French zone | 1.2 | |
| U.S.-U.K. zones | 3.5 | |
| Berlin | 1.5 | 10.9 |
| Cost of removal of industrial equipment | | 8.0 |
| Loss through forced export of coal | | 0.5 |
| Loss through forced export of timber | | 1.0 |
| Reparations out of current production (French and USSR zone) | | 14.0 |
| | Total | 177.75 |

Criticism of the Report

The author's interpretation of the Potsdam Agreement is rather peculiar. There is nothing in the Agreement to suggest that the victorious powers had guaranteed to keep Germany at a level considerably above that of many of their Allies. Moreover, the author's claim that Germany's per-capita consumption must not fall by more than 15 per cent below the 1936 level, is quite arbitrary. A German per-capita income 25 per cent below the 1936 level, corresponding to a total national product of about 52 billion reichsmarks, still would leave the Germans with a standard of living higher than that of prewar Czechoslovakia and considerably above the prewar European average. According to the author's computations, such a standard of living could be reached in 1951 and would not require foreign assistance after that year. Moreover, the German "pent-up" demand for consumers' goods will not be as large as the author assumes: durable consumers' goods (except housing) are far less important in Europe than in the United States, and semi-durable goods will be fully replaced by the satisfaction of "normal" demand within two or three years. It is true that such a development of the German standard of living would not compare favorably with the progress made by the United States, but there is little reason why it should.

The author also overestimates the gap between the present level of production and that to be reached in 1951. At present, industrial output is officially estimated at less than 50 per cent of 1936; the official figures, however, neglect the large volume of commodities channeled into black and "gray" markets. If these goods are taken into consideration, the output has probably already reached more than 60 per cent of 1936 or about 40 billion reichsmarks. An annual increase of 10 per cent of the present level would make it possible to reach the goal of 52 billion in 1951. Aid under ERP, plus the assistance given by the U.S.-U.K. occupying forces for the prevention of disease and unrest, should be more than sufficient to make such progress possible, unless political disturbances intervene. Germany's recovery after 1924--when its national wealth, according to the author, was at the same low level as at present--showed the rapidity at which recovery can proceed once political obstacles are removed. Neither the slight overcutting of the German forests, needed to make good at least a small fraction of the damage done by the Germans in Allied countries, nor the exclusion of Germany from whaling will interfere substantially with the reconstruction of German industry. By the way, the opposition to reconstruction of the German whaling fleets is probably not due merely to concern about the fate of the whales: Germany's neighbors have not forgotten the use made by Germany of its merchant marine in the treacherous attack upon Norway.

The question of the removal of industrial equipment is more complicated than the author seems to recognize. There is no doubt that even in the U.S.-U.K. zones much of that removal is uneconomical; that in some cases machinery is removed which might be used for the development of Germany's peaceful industries; and that decisions sometimes are based upon ignorance or even upon fear of normal competition. The author, however, does not take into consideration that the bulk of all machinery removed in the U.S.-U.K. zones was part of the German war industry, and that much of the rest owed its existence merely to the German drive for self-sufficiency and for overdevelopment of heavy industries. A considerable part of the equipment therefore must be regarded as real economic surplus: even if the removal of machinery for the production of explosives, poison gas, guns, war planes, and warships does not greatly benefit the economy of the Allied powers, it certainly cannot greatly harm the future economy of a peaceful Germany. The fact that such removals make necessary the use of lumber that otherwise could be made into bedroom furniture for the German population, does not seem to be a sufficient reason for leaving Germany with the greatest concentration of war industries in Continental Europe.

The author's forecast of German foreign trade requirements would be more interesting if it were somewhat more detailed. While the calculations made in connection with CEEC and ERP cannot claim a high degree of accuracy, their refutation cannot be undertaken by means of a few global figures. It is true that Germany will need somewhat greater food imports than before the war, but the figure quoted by the author not only exaggerates the importance of the relatively small surplus sent before the war from Eastern to Western Germany, but also disregards the savings made possible by lowering the quality of the German diet. Moreover, it appears that freight charges are already included in the import figures quoted by the author. With these corrections, Germany's import needs (including freight) in 1952 probably will be closer to 5.5 billion than to 7.0 billion reichsmarks. Imports plus the net balance on service account (postwar debt service) would require exports of not more than 6.0 billion reichsmarks, a sum actually reached in 1937 and probably not beyond future German capacities.

The strongest criticism, however, must be reserved for the author's computation of Germany's alleged reparation payments. Some very large items listed by the author--value of ceded territories; property of ethnic Germans who were not German citizens--should never have entered the list, and most of the remaining items are vastly exaggerated.

The value of confiscated foreign assets was about 1.5 billion reichsmarks, rather than 9.75 billion as estimated by the author. The "German gold", which the author wants to be credited to Germany on reparation account, actually was less than the equivalent of gold looted by the Germans during the war in Allied countries. The value of the German merchant marine was 0.2 billion, and not 0.5 billion reichsmarks.

The estimation of the value of the publication of the German patents is based upon Communist propaganda. The author admits that about 100,000 out of the 115,000 published patents were already in existence in 1931 and therefore would have expired in any case by 1948 at the latest. The author's computation thus attributes a value of almost one million reichsmarks to each of the remaining 15,000 patents. Since the overwhelming majority of all patents is completely worthless and only a few produce revenues of any considerable size, the actual value of these patents probably was less than one per cent of the sum quoted by the author.

The labor of prisoners-of-war could be claimed by the belligerent nations--against proper compensation in reichsmarks--up to the time of a conclusion of a treaty; at least in the West, this compensation has been paid. Moreover, the Allied powers have agreed, upon U.S. initiative, to return all prisoners-of-war before the end of 1948.

The "manipulations" of members of the occupation forces with Allied military currency brought substantial losses to the U.S. and U.K. Treasuries, but these losses should hardly be credited as reparation payments by Germany. The removal of rails would have to reach the fantastic figure of about 15 million tons of steel, if it were to correspond to the value quoted by the author; actual removals must have been less than one-tenth of that amount.

The author's valuation of corporations taken over by the Soviet Union without physical removal from Germany is the only figure in his list which appears to be approximately correct. The value of all industrial enterprises in prewar Germany has been estimated at 24 billion reichsmarks, of which around one-fourth was located in the present USSR zone of occupation. Assuming that additions made after 1938 were about balanced by destruction during the war, the value of the industrial enterprises in the Soviet zone would be around 6 billion reichsmarks. Since it is widely believed that about one-fourth of these enterprises has been taken over by the Soviet Union, the value of the Sovietized industries would be around 1.5 billion reichsmarks.

The author's data on removals of industrial equipment are more difficult to judge, especially as far as the Soviet zone is concerned. The value of industrial machinery and other equipment in prewar Germany has been estimated at 15 billion reichsmarks, of which about one-fourth, or 3.75 billion, was located in the present USSR zone. If reports are true that about 40 per cent of the entire machinery has been removed, the value of the removed equipment would be 1.5 billion. The value of machinery in the French zone (excluding the Saar) was about one billion reichsmarks; if 40 per cent of that equipment has also been removed--which probably is too high a ratio--the value of the removed equipment would be around 0.4 billion, or one-third of the figure quoted by the author.

Removals from the U.S. zone are scheduled to reach a total of 0.24 billion reichsmarks; so far, however, equipment worth only about one-half of that sum has been removed. The corresponding figures for the U.K. zone are not available with the same exactness, but comparing the volume of tonnage in question, the value would be probably two and one-half times the value of removals from the U.S. zone. Thus, removals from the combined U.S.-U.K. zones so far have reached hardly more than 0.4 billion. The author complains that the official evaluation underrates the true value of the removed equipment; there appears to be some justification for that claim, but it is unlikely that the true value was more than twice the official figure. In that case, the total value of the removals from the U.S.-U.K. zones still would be only 0.8 billion, or less than one-fourth of the figure quoted by the author. Assuming that the figure for Berlin is similarly exaggerated, total removals from all zones would amount to about 3.2 billion reichsmarks.

The cost of removal appears much too high (two and one-half times the corrected value of the removed equipment). Moreover, it seems doubtful whether it should enter the list at all. From the creditor's point of view, the value of a piece of machinery is not affected by the question whether it was standing ready for delivery in a German shop or had to be laboriously dismantled and put together again. For the reparation debtor, however, the cost of removal may be so high in some cases that it would have been more economical for him to buy an identical piece abroad or to produce it domestically rather than to dismantle an existing plant. In these cases, he may be right in asserting that he should be credited with the cost of removal. It is unlikely, however, that such conditions exist in the majority of all cases: insofar as the removed equipment consists of war material which Germany would have to destroy even if no reparations had to be paid, the amount to be credited on reparation account under that heading would consist only of the difference between the cost of removal and the cost of destruction. In any case, the liberal estimate of removals from the USSR and French zones, and the upward adjustment of the value of the equipment removed from the U.S. and U.K. zones presented in the preceding paragraphs should suffice to take care of that item.

A similar problem exists in the case of the compulsory export of coal and timber. The author concedes that by and large exports of these raw materials have been paid for at world market prices, but he asserts that they might have been used more profitably within Germany. Under normal conditions, the author's claim certainly would have to be disregarded: a debtor compelled to replace some broken eggs cannot claim to be credited with the value of the chickens which he might have hatched in the course of time. In the present state of dislocation of the world economy, the assertion that world market prices do not fully represent the "true value" of the goods, cannot be brushed aside so easily. The author forgets, however, that the exports of coal and timber resulted in foreign exchange proceeds, which in turn made possible the importation into Germany of vital raw materials.

The author's calculations of reparations out of current production are difficult to follow. It is true that not only the Russians but also the French have exacted such reparations, the latter mainly by undervaluing exports from, and overvaluing imports into, their zone of occupation. In view of the low level of the foreign trade of that zone, however, the total value of French reparations for the period from the beginning of the occupation until the end of 1947 probably was not higher than 0.2 billion reichsmarks.

The bulk of reparations out of current output has been exacted by the Soviet Union. In view of the lack of data on the foreign trade between the Soviet Union and the USSR zone of occupation, an exact computation of these reparations is impossible. It seems plain, however, that the figures quoted by the author are too high. Industrial production of the USSR zone--which constitutes the basis of most reparation shipments--probably has not been higher than 50 per cent of 1936, i.e., at an annual rate of 4 billion reichsmarks. Assuming that as much as one-half of the total output has been used for reparations, the total for the period from the beginning of the occupation to the end of 1947 would, at most, reach 5 billion reichsmarks. This figure means some double counting since it includes the output of the Sovietized corporations, the value of which has already been counted as reparations. On the other hand, some reparation deliveries of agricultural produce may have taken place so that the total was perhaps not very different from the figure just mentioned. The author derives a higher sum merely by adding together commodity deliveries and money payments, and in respect to the latter by switching from reichsmarks of 1936 purchasing power to current reichsmark figures.

Altogether, German reparation payments thus may be estimated to include only the following items at the following values:

| | | Billions of reichsmarks (at 1936 prices) |
|---|---|---|
| Confiscated foreign assets | | 1.5 |
| Confiscated merchant marine | | 0.2 |
| Confiscated patents | | 0.1 |
| Removed rails (mainly USSR zone) | | 0.1 |
| Sovietized corporations | | 1.5 |
| Removed industrial equipment: | | |
| USSR zone | 1.5 | |
| French zone | 0.4 | |
| U.S.-U.K. zones | 0.8 | |
| Berlin | 0.5 | 3.2 |
| Reparations out of current production: | | |
| USSR zone | 5.0 | |
| French zone | 0.2 | 5.2 |
| Total | | 11.8 |

The total of 11.8 billion reichsmarks, of which probably 8.7 billion (including the share of the Soviet Union in reparation removals from the Western zones) went to the Soviet Union, certainly is not a negligible figure, representing almost 4 per cent of the present German national wealth as calculated by the author, and about 30 per cent of the estimated annual German national product in 1947-48. It appears very small, however, if it is compared with the reparation claims of the Allies or even with the losses suffered by Germany during the war. Moreover, the amount that went to the Western Allies actually is smaller than the value of goods distributed in the U.S.-U.K. zones of Germany by the two occupying powers for the prevention of disease and unrest. The author does not mention this offsetting factor.

The author's computation obviously is meant to impress the reader with the inequity of asking for further reparations. Actually, the exaggerations of which the author is guilty destroy the validity of his argument. Compared with the sum of 177.75 billion, a further burden of 15-30 billion reichsmarks, which would correspond to the Soviet demands for reparations, would seem relatively innocuous. If the figure of 11.8 billion, however, is taken as a basis for comparison, the Western powers appear justified in opposing the Russian demands as excessive from the point of view of survival of the German economy.

In a remarkable review, the London Economist[1/] has likened the report to "Mein Kampf". This comparison does an injustice to both Mr. Harmssen and the late Mr. Hitler. "Mein Kampf" was frankly the work of a fanatically extreme nationalist: it was a call to a new war of revenge and aggrandizement. Mr. Harmssen, a prominent member of the Democratic People's Party of Bremen, certainly would reject with utmost sincerity the accusation of being a nationalistic war-monger; he certainly believes his work to be an impartial statement and analysis of facts. Just for this reason, the report is far more disquieting than the appeal of an outright nationalist would be. It shows how the mind of a moderate and responsible German still is distorted by the effects of Nazi rule and defeat, and how difficult it is for him to judge the problems of his country in their proper relation to the outside world. This attitude indeed represents a serious obstacle to the reintegration of Germany into a new Europe.

1/ Economist, March 13, 1948, pp. 410-411.