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The Economic Situation in Germany

By WALTER EUCKEN and FRITZ W. MEYER

AFTER the war Germany lost about 25 per cent of the territory which it had in 1937. The areas which were so lost are East Prussia, Silesia, West Prussia, two-thirds of Pomerania, and in the west, the small but economically very important Saar district. Except for the last-named, these are regions which in the past produced a rich agricultural surplus. Besides providing for their own population, they were able to produce food for roughly 4.5 million people in other parts of the Reich. Their industries were largely engaged in the processing of food and timber. In Upper Silesia there was also the second largest center of German heavy industry. In the Saar district and in Upper Silesia there were about one-quarter of the German bituminous coal deposits and of the actual coal production of the Reich. It is fair to assume that with these territories Germany lost approximately 20 per cent of the productive capacity which it had in 1936.

POPULATION AND LABOR POTENTIAL

The population of the lost territories had to be absorbed by the reduced Germany. To be sure, of about 15 million inhabitants who before the war had lived in the area east of the Oder-Neisse line, only 7 million arrived as refugees and deportees. The fate of a substantial part, at least, of the "residual" 8 million is not known. One has to assume that more than half of them have perished or have been sent into slavery, and this does not take account of those inhabitants of eastern Germany who have died as soldiers or who have become prisoners of war. The transferred population consisted almost entirely of women, children, and old people. Over and above their numbers, the reduced

Germany had to absorb 3 million people who had to leave Czechoslovakia and other countries.

Rump Germany—the territory of the occupied zones and Berlin—had before the war a population of approximately 60 million people; i.e., a population density of 168 per square kilometer. German war casualties of soldiers and civilians are estimated to amount to 4.5 million people. As opposed to this population loss, Germany since 1939 has had a population increase of 13 million as a result of the surplus of births over deaths, influx of refugees and deportees, and displaced persons who have remained in Germany. Thus the total population of present-day Germany numbers nearly 70 million. With roughly 196 people per square kilometer, it has about the same population density as Great Britain and Northern Ireland.

The figures just quoted could lead to the belief that the existing labor potential of Germany was measurably strengthened by this greatest population transfer of modern history, distressing as the circumstances under which it occurred may have been. However, the situation is more complex. On the basis of German prewar and present-day western European standards, the labor potential has decreased in spite of the apparent population increase. The productive age groups of male workers have been depleted by death, invalidity, and lack of training.

WARTIME CHANGES IN PRODUCTION

But what of Germany's industrial plant? Between 1933 and the first years of the war, productive facilities were tremendously extended. This was not an all-round extension, however.

On one hand, credit policies, manpower direction, prohibition of investment, and limitation of imports of the necessary raw materials were brought into play in order to hold down consumer goods industries and consumption itself. On the other hand, capital goods and armament industries absorbed the whole increase of productive capacity gained by enforced saving and centralized economic planning.

The intensity with which this shift in Germany's economic structure to the production of "cannons instead of butter" was carried out can be gathered from the fact that between 1933 and 1939 even agriculture lost 1.5 million workers. This happened in spite of food production drives and attempts at establishing economic self-sufficiency. The 1.5 million workers did not represent the absorption of manpower surplus, but an actual loss of manpower to agriculture. The size of this loss becomes particularly impressive if one considers that during the whole industrialization period from 1882 to 1933, German agriculture had suffered a total manpower loss of not more than 2.2 million workers.

Of course, the production of consumer goods was further curtailed as far as possible during the war years. It is a bitter irony of fate that the wartime bombing of Germany did much more harm to the already underdeveloped consumer goods industries than to the armament industry. The plants of the latter were largely erected after 1933, and their locations had been selected with a view to air-raid protection. Consumer goods industries, on the other hand, were left in their old locations, which were mostly in the cities.

ALLIED INDUSTRIAL POLICIES

After the war, those industrial plants which had been spared from bombing and other effects of combat were

claimed for reparations. In March 1946 the Allies issued a plan for reparations and the postwar organization of the German economy. This plan determined the industries which were to be completely dismantled, and fixed the production limits for the remainder in percentages of the production values of 1936. The plan set these limits at between 15 and 40 per cent for mining and capital goods industries. For processing industries the limit was fixed at between 60 and 78 per cent. A few branches of industry (construction, furniture, and bicycle) were to remain untouched. The productive facilities of industries which had to be completely dismantled and those which were not necessary for the productive capacity allowed to other industries were intended to serve as reparations. Except for the dismantling of armament plants as such, this plan was never put into effect.

In the eastern zone the Soviet Union has followed its own discretion in removing factories, partly including the workers, and in the dismantling of transportation facilities. It has transformed the ownership of the most valuable remaining enterprises into Soviet stock companies. This means that it has left them in the old location but transferred their ownership to the Soviet Union. According to the industrial production plan for the second quarter of 1947 in the eastern zone, these Soviet stock companies were counted upon to produce 27.5 per cent of the total industrial output of the zone. Another 65 per cent was to be produced by communal enterprises; so that apparently the proportion of private enterprise was around 10 per cent. This means, of course, that for all practical purposes industry in the eastern zone was completely socialized. Agriculture had been started on the road to collectivization even earlier, by expropriation and re-

distribution of farm land exceeding 50 hectares. Estimates of the present industrial potential of the eastern zone vary between one-third and two-fifths of the capacity of 1936. In view of the increase in population since that time, this means less than one-third of the per capita level existing before the war. Of the output which can be achieved with these residual facilities, at least one-third, but probably more than one-half, goes to the Soviet Union.

PRODUCTION POTENTIAL IN BIZONIA

After the complete breakdown of any uniform policy regarding reparations and economic planning by inter-Allied co-operation became apparent, a revised plan for the American and British zones was issued. This plan limited future production in general to the 1936 level. Apart from the increase of the permissible production volume from 67 to 100 per cent of the 1936 level, the plan brought relief primarily by a better co-ordination of the quotas for the various branches of industry. Not all the dismantling which was foreseen in this revised plan has as yet been carried out, and there is much hope in Germany that in view of the latest developments it will not be carried out at all.

The production potential of industry in Bizonia, however, must not be believed really to approach 1936 levels, even if no further reduction should be enforced. Machinery, particularly in consumer goods industries, is highly obsolete. This obsolescence has been accentuated through the dismantling of the most modern enterprises, but is not reflected in the data which are presented with regard to output capacity. Removal of individual machines and plant units in the course of reparations has decreased plant capacity in many instances to a greater extent than would correspond to the production capacity

of these machines and plant units as such. Productive capacity has further decreased because war damages, dismantling, and the cutting up of Germany into various economically separated areas have destroyed the whole structural integration of the various branches of German industry. The weakest link determines the strength of the whole chain. High productive capacity in one branch of industry is an empty proposition and cannot be utilized if the capacities of primary industries and assemblers are smaller than those of the fabricators.

If there were no obstacles to foreign trade, co-ordination within the framework of the German economy proper would not be essential. What would matter then would only be a harmonious structure of the world economy. From this ideal, however, we have receded very far indeed. Consideration of the effects of dismantling and lack of co-ordination within German industry permits an estimate of the productive capacity of industry in Bizonia at not more than 75 to 80 per cent of the 1936 level. Agriculture in that area never increased its output beyond 1936 levels. Therefore the loss of productive capacity through deterioration of soil and plant must be deducted from that level. It has certainly been considerable; quantitative estimates, however, cannot be given.

Without further questioning the reliability of available data, all this adds up to the conclusion that the output facilities of western Germany approach at best three-fourths of the 1936 level. Progressive deterioration results further in a continuous and rapid decline of these facilities. They would permit, however—and this is the decisive point in our analysis—the achievement of an output of three-fourths of the output of 1936 if sufficient mechanical power, raw material, and manpower were available.

LOW PRODUCTIVITY

The facts which have been described so far give only the first clue to an understanding of the causes of stagnation in the German economy. Actually, the existing size of the national product is at full employment only half of the capacity of the quantitatively reduced and qualitatively deteriorated national plant. Obviously, therefore, the productivity of labor must be very small, and indeed this is so. This shows itself also in those branches of industry which do not encounter any such difficulties as lack of raw materials or mechanical power. In the coal mines of the Ruhr, for instance, the real wages are relatively excellent, and still the daily per capita output of the miners is less than two-thirds of what it was in 1938. In numerous other branches of industry the productivity of labor is even much lower.

Observers who are not very favorably inclined conclude simply that the Germans do not want to work, that they do not exert themselves enough, or at least that they do not work efficiently enough. More thoughtful analysts of the situation in Germany and abroad go one step further, and explain this phenomenon by malnutrition, lack of clothing, and in general by the miserable living conditions which exist. They point out that these conditions make it impossible for the majority of the German people to do any intensive physical or mental work. They add that in many branches of industry raw material as well as mechanical power is not sufficiently available. Finally, they refer to the black and gray markets with their disorganizing effect on economic enterprise and morale.

These simple and apparently so convincing explanations are actually prevalent. They reflect the opinion of the occupation authorities and also of the

majority of the economic policy makers in the German governmental departments. They were the basis and guide for all important economic measures from 1945 until the formulation of the economic plan for 1947-48 in Bizonia. In spite of the prevalence of this opinion in policy-making circles, and in spite of the popular appeal of its apparent simplicity, it represents only a dangerous half-truth. It must be replaced by a correct analysis if insights are to be gained and truly remedial measures are to be devised. This can be done by picturing the situation as it is and as it appears daily and hourly to the impartial observer of economic life in present-day Germany.

WASTED WORKING STRENGTH

Such an observer will find that the Germans of 1948 do not by any means work any less than in the years before the war or less than people in the other countries of western Europe. Probably they work more and longer. The overwhelming majority of the city population, that is many million people, if they do not want to starve and go completely to the dogs, are simply forced to do extra work which was unnecessary before the war. In dirty, overcrowded, and unlighted trains they travel into the farm areas which surround the cities or even farther into areas which are a hundred miles away in order to get from the farmers some food in exchange for part of their city rations, part of their wages in kind, if they receive such, or simply for other possessions which they still retain. They collect beechnuts from the forests and leftover ears of grain and potatoes on the harvested fields. In their free time or during their vacations they cut peat, collect wood in the forests, cultivate a small vegetable plot, or search for rabbit food. Housewives spend uncounted hours in lines before stores, in lines before distribution of-

fices for ration coupons, and in lines before various other government offices. At home, uncounted hours are used in mending over and over again the last pieces of clothing or in boiling sirup out of sugar beets. Coal is collected or even stolen from the railroad tracks or from the clinker dumps of the gas companies. Self-grown tobacco is cut with razor blades and worked into cigarettes. The wood ration must be cut into firewood.

All these activities, which are by no means exhaustively enumerated here, claim daily extra work of several hours. This extra work must be performed. Exempt are only those who have sufficient remaining possessions to maintain their normal living standard through bartering on a more or less permanent basis, those who fraudulently retain raw material which they are supposed to use for production, those who resort to graft and bribery, those who engage in black market activities on a large scale, and those who receive gifts from relatives in America. Those not so fortunate must do work in addition to the work of their occupation, and that is extra work of ridiculously low productivity.

Even under existing conditions, it would be more sensible to transport the food so collected in half a railroad van to the city than to have it brought there by a full trainload of people at the expense of many times the necessary demand on the railroad and at the expense of several thousand man-hours on the part of the people who get it. It would also be much more sensible for farmers to cultivate with tractors and plows the acreage which is now being planted with potatoes by city people.

From the economic point of view, such extra work is senseless waste. From the point of the view of the individual German, however, it is exceedingly important because it saves him from ultimate misery and frequently

even from death by starvation. For that reason this extra work is also more important to him than the work at his job. Since the Germans must be very much concerned about the preservation of their physical strength, it has become a matter of course for millions to take it as easy as they can in the shops and in the offices in order to preserve their real stamina for the struggle for existence outside of their regular employment. Today a considerable part of the working strength of the German people is drained off in this way from activities in which it could produce valuable and much-needed goods and services. Instead of doing that, it is led into channels in which it is—from an over-all point of view—simply wasted.

A very considerable, if not actually the major, part of the difference between productive capacity and actual output in Germany finds its explanation in this wastage of working strength. Wasted is also the work of the tremendous number of officials engaged in government activities which a planned economy requires. All the efforts which have been made by the government and private entrepreneurs in order to bring about a lengthening of the working day and an increase in intensity of the work performed have proved to be useless. Actually, they have only added to the chaos which reigns in Germany today.

PAYMENTS IN KIND

In mining, for instance, and more recently also in numerous other industries, wage payments in kind have been introduced. In this category belongs also a foreign currency bonus which permits free disposal, for import purposes, of 10 per cent of the foreign currency realized from the sale of exported goods. Five per cent of this bonus goes to the entrepreneur and 5 per cent to his employees. The only achievement has been an in-

crease of employees in these industries, with a resulting labor shortage in other industries. The expected improvement in labor productivity has not been realized.

Partial wage payments in kind, furthermore, have increased the turnover in the black market and in barter deals. Actually, they have made worse the situation of the normal consumer who does not have the advantage of such payments in kind for his work, because his rations and allocations have had to be decreased in order to permit these abortive incentive payments. Finally, these payments in kind have completely thrown out of gear all existing differences among wage and salary levels. The miner in the Ruhr district, for example, earns per year a cash income of RM 2,000 net. On the other hand, his payments in kind, which are not taxable, have a black market value of roughly RM 40,000 per year. Thus he has a total net income of RM 42,000 yearly. In Württemberg-Baden in the American zone, a worker in the tobacco industry who now receives 800 cigarettes per month in addition to his money wages makes about RM 20,000 per year. A high government official, however, who does not accept graft and does not receive any cigarettes above his normal tobacco ration, has a net income of from RM 3,000 to RM 6,000. The manual worker who also gets nothing over and beyond his normal tobacco ration receives a yearly net income of between RM 1,500 and RM 3,000. The computation of income in kind at black market prices is perfectly justified, because the normal consumer must also pay black market prices if he wants to get goods of which there is a scarcity.

DEMORALIZATION

Under such conditions there can be no thought of an equalization of in-

come among wage and salary earners. As a result of a wage policy which takes cover under the most varied forms of payment in kind, actually a completely new social class structure has arisen. The new proletariat consists of the more or less normal consumers. It comprises members of all former income groups. It is recruited mostly from unorganized groups which are too weak to resist discrimination or from groups which are known not to strike or not to put pressure upon the government.

In the higher income strata are the workers with high payments in kind, the businessmen who commit tax frauds and disregard regulations, numerous farmers, and finally the black and gray marketeers. The income of an individual has hardly anything to do with his actual work performance or capability. It is much more dependent on good luck, accident, and readiness to disregard the law.

It is not surprising that under such conditions morale among employees goes down. That the collapse of the German economy has not yet become even worse is due only to the existence of a still amazingly large number of people who without wavering and under the most difficult conditions perform their work as they did previously. Their number, however, decreases fast. Those who steadfastly give to their jobs what the latter demand either become physically exhausted or finally learn that they also have to make only sparing use of their strength in their occupations.

MISDIRECTED EFFORT AND MATERIALS

The difference between the dominant but untenable opinion which looks upon physical exhaustion as the essential reason for the low productivity of labor in western Germany and the opinion presented here which sees the crux of the matter in the misapplication of existing

work effort is perhaps subtle. It is nevertheless of tremendous practical importance. One must realize that if work effort is not lacking but only misdirected, one could redirect it into economically useful channels, replace waste, and correct the distortion of the wage structure. It would thus be possible to improve the economic situation of Germany from within.

Of course, one must ask what use there is in having production facilities which still permit increase of output and redirection of work effort if at the same time mechanical power and transportation facilities remain inadequate. What hope is there when coal, scrap iron, and timber are subjected to compulsory export and at the same time Allied rule makes it impossible to import those raw materials which are really needed by the producers? Actually, the existing imports into Germany bring either goods which just happen to be available abroad or goods which are asked for by the German planning agencies on the basis of highly artificial calculations. If exports and imports are not given free rein, the existing shortages of raw materials and mechanical power present greater obstacles to output improvement than manpower shortage and low labor productivity.

Even in this area, however, the existing scarcities are largely the result of waste. Apparently, there is sufficient raw material available for perfectly useless products which flood the German market. Coal and iron are available for production of ash trays, chandeliers, lamps, and so forth, but not for production of dishpans, pails, cooking utensils, and cutlery. Paper for a flood of useless pamphlets, yes; but for schoolbooks or a new edition of Goethe, no. Ceramics come on the market in unbelievable quantities, but plates and cups are not

produced. In the neighborhood of Cologne farmers have planted whole fields with tulips, but in the city people die of starvation. Leather is particularly scarce, but the skins of cattle which have been slaughtered for the black market rot in the ground in which they have been buried. Wooden boards are so scarce that only one out of three persons who die in Germany is put away in a casket, but valuable woods are being used for fuel. These are only a few illustrations, but they show quite clearly that mechanical power and raw materials are just as wasted as human work effort.

It is not only lack of production as such that explains the scarcity of goods in Germany. Actually, of the little that is produced, a considerable amount is useless stuff which represents wasted raw material that could have been put to use for an increase of essential output. And last but not least, many goods are produced but not sold. In the course of the German flight from money these goods are being hoarded. Where for technical or other reasons hoarding is not feasible, the flight from money takes other forms. The manufacturer produces less in order to preserve his machinery, and the farmer cultivates less intensively in order not to exhaust his soil.

The individual household or the individual enterprise is not responsible for this situation. The household head and the manufacturer act correctly in order to safeguard simple survival. The economic order as such, however, is breaking down.

Why all this wastage in the midst of dire need? Why this complete chaos in production and distribution? What way is there to start the reconstruction process in western Germany and to restore a meaningful, productive, and serviceable economic order?

FAULTY PRICE STRUCTURE

The most important reason for the existing conditions is the reigning price structure. The prices simply do not make sense. The government-administered prices, practically without exception, are relatively lowest for those goods of which there is the greatest scarcity. The prices of food and rent are still much the same as they were ten or fifteen years ago. However, the less important the goods or services, the higher their prices. The government does not object to extremely high prices for collectors' stamps, flowers, and paintings. Thus the prices do not reflect the scarcity of goods at all, but lead to a direction of productive strength into channels in which, from the point of view of real needs, it is purely wasted. Hence the almost unbelievable number of stamps, art, and antique dealers and toy shops, as well as of their respective productive facilities, which have grown since the war like weeds, as if Germany were a rich country.

The prices do not present any incentive for producers of scarce goods to turn out and to market as much as possible. The farmer has no real motive to cultivate his land intensively and to limit his own consumption in order to market much. The prices do not encourage the construction of housing or much repair work on existing buildings; they do not even incline the landlord to limit his own use of his premises in order to make profits from rent. Wrong prices which do not reflect true scarcity are the first reason for the inadequate utilization of the productive capacity—of the rampant wastage in Germany.

EVILS OF PLANNED ECONOMY

For the struggle against the consequences of these wrong prices there are

mustered in Germany large numbers of officials and police with the corresponding material equipment for enforcement work. This apparatus is supposed to force the producers to turn out and sell at the regulated prices sufficient quantities of the goods which are scarce or which the officials believe to be scarce. Production and trade are centrally administered. This veritable army of officials is also supposed to force the consumers through rationing to limit the demand for scarce goods and thus not to draw the wrong conclusion from the apparent inexpensiveness of these goods.

Experience shows that success in both directions is poor. Water is not likely to flow uphill. The tolerance of barter transactions and wage payments in kind is silent admission that economic results which stem from unrealistic prices cannot be corrected through governmental orders—and especially not with officials who are largely affected by corruption. The whole experiment has not only distorted the wage and income structure of Germany; it has also resulted in a tremendous amount of waste. Such wastes have to be considered not only the cost of maintaining a whole army of officials, but also the even higher cost which the producer and the consumer have to carry directly as a consequence of economic planning.

The existing rations not only force the consumer to resort to self-help because they are quantitatively insufficient; they also disregard individual needs. What is a nonsmoker supposed to do with cigarettes? What is the miner to do with currants and coffee if he has no potatoes? The schematic treatment of the individual through a centrally administered economy forces him to resort to barter or home production if he wants optimum satisfaction within the limits of possibility. This in turn requires a considerable expendi-

ture of labor and transportation which thus is withdrawn from more economic usage, and causes still another form of waste.

In this German economy with dammed-up inflation, oversupply of money and therefore excessive demands for goods, practically every type of merchandise which reaches the market at all finds its buyer. Entrepreneur and governmental planning agencies need not worry as to whether their actions will lead to optimum satisfaction of needs. Even if they were really concerned with achieving this goal they would not be able to do so, because they do not have any true price index to go by. On the other hand, they do not incur any risks even if they make serious mistakes. True, there are many ordinances, and penalties for their violation. Only one type of punishment does not exist—the financial loss which in a price-guided economy represents the strongest motive for maximum efficiency.

A TRUE YARDSTICK NEEDED

Germany lacks also an adequate yardstick for economic calculations. This lack underlies actually all the existing causes of waste. It was not only the war and its aftereffects that caused this chaos of the German economy. Of course they have decreased possible production and have thereby depressed living standards below the prewar level. However, that even the still existing productive potential is not fully utilized can be traced to the fact that we now have in Germany an economy which operates very much with calories, quotas, production goals, and allocations, but is very limited in true economic calculations. As long as this situation exists, substantial progress is impossible and all aid from abroad is, so to speak, put into a leaky barrel from which the

greater part of the content seeps out again without doing much good.

The first and most important requisite for a reconstruction of the German economy is the introduction of a yardstick for economic calculations. This requires the accomplishment of two interrelated tasks: (1) establishment of a yardstick of computation upon which everybody—and that means the occupation authorities too—can rely and which clearly reveals existing scarcities and corresponding economic activities; (2) enactment of measures which force everybody—including the government—to take his clues for action from this yardstick.

At the appearance of this paper the currency and tax reforms for western Germany which have been planned to provide a fulfillment of these two tasks will probably have become reality. At the time of this writing, their details are not known. Responsibility for their success lies with the occupation authorities, because of their power to decide the nature of these reforms. It is certain, however, that they will have little success and that they may even fail, if the emphasis is put on the second task. There are strong tendencies at work to decrease available surplus of purchasing power and to lower taxes in order to give entrepreneurs and employees an incentive to increase their efforts. However, there are also strong tendencies to maintain at the same time essential parts of the system of price regulation and centralized administration of the economy. This would mean a start without a goal, a journey into the unknown. If an important part of the prices remains at a fixed level, the interaction of misorientation of the productive forces, formation of a new surplus of money, appearance of a black market, and the necessity of barter will begin again. One can rest assured that

with the lessons learned in the past, the road to chaos will be traveled much faster for a second time than it was traveled before.

REINTEGRATION INTO WORLD ECONOMY

Of course, a functioning price system alone is not enough to lead the German economy back to normal, if the country remains cut off from foreign trade. Germany can live only if it can exchange the products of its industry for the products of the industry of other

countries—if it can import raw materials, semifinished goods, and food on the one hand and can export finished goods on the other. Through free foreign trade such commercial exchange can be restored. The price system of Germany should be brought into coordination with the price system of other countries and a balance should be re-established.

Seen in this way, the economic question of Germany is only a part of the much larger question of the reconstruction of a global economy.

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