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GERMAN ECONOMY TODAY

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## GERMAN ECONOMY TODAY<sup>1</sup>

Albert H. van Scherpenberg

When I left Germany, I did not anticipate that I would have to give a talk such as this and did not therefore bring with me the necessary material for it. However, I shall give you a brief outline of the present economic situation in Germany.

To begin with, I shall give you a few facts which are decisive in our economic life. Very great changes have occurred in Germany as a consequence of World War II and its very unhappy issue. The area of Germany, which before World War II exceeded 500,000 square kilometers, or roughly 200,000 square miles, has dwindled to about 300,000 square kilometers. The country is now divided into Eastern and Western Germany. The territory on both sides of the frontier is inhabited by German nationals. Trade across this frontier is very restricted, for there are in its way very serious obstacles. This is one of the many consequences of partition.

The area, which now comprises Western Germany, had, before the war, a population of somewhat less than 40 millions. It now has a population of nearly 50 millions. The balance is made up of refugees, who came from various regions inhabited by Germans, but mostly from territories which have been allotted to Poland and Soviet Russia. One such territory is Silesia, which was one of the richest provinces of old Germany. Soviet Russia and Poland have also occupied other territories like East Prussia, which, for more than a thousand years, belonged to the Germans. The loss of these territories has influenced German economy in a most fundamental way. Apart from the fact that Silesia was a very important centre of German industry and had some of the richest coal fields, it was the main agricultural surplus territory of Germany. I shall at a later stage advert to this fact.

There have been other changes too, as a consequence of the last war. There has been the enormous destruction of housing and industry,

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<sup>1</sup> From an address delivered at a meeting of the Institute on September 29, 1950.

wrought especially by aerial warfare. You will get some idea of the extent of this destruction when I tell you that about 30 percent of the entire housing space in Western Germany has been destroyed. This includes housing space in towns and cities. In those parts, which had to bear the brunt of aerial warfare, i.e., the big cities, the average percentage of the loss of housing accommodation is still greater. There have been other destructive factors too, e.g., dismantling for reparations. This may at first sight seem to be not so very important, particularly in the light of the values which have been credited for the dismantled installations. But their effect on the economic structure has been very considerable. The values do not give the whole story, because, for instance, if you dismantle a blast furnace, the scrap value of such plant might be only a fraction of its real value. There have been cases of big plants having been dismantled, of which the cost of dismantling has far exceeded the value credited to the reparations account. Dismantling affected the economy indirectly too by removing vital links from an organically integrated economic system. It has made the work of reconstruction very difficult. There have also been other factors, which are little known, but which should be mentioned, because they have influenced economic life to a very serious extent. A general rule has been laid down that all big enterprises, or large accumulations of economic power, should be dissolved. As a result, practically our chemical and iron industries today are in a state which makes it impossible for anybody yet to say to whom an individual factory belongs. This does not, of course, mean that factories are not working. On the contrary, they are. But it does mean that their economic possibilities are considerably limited. For as long as the capital market does not know to whom a factory belongs, nobody is prepared to lend money to that factory; as the creditor does not know from whom to get his money back. These, in brief, are some of the decisive influences which have been making themselves felt in German economy.

However, one other factor has very considerably affected our economy, namely, the loss of all foreign patents and trade marks. Patents have a way of becoming obsolete after some time. In a living economy, they are, with improvements, replaced by new patents. So in

this respect, the loss, though very serious, was perhaps not, in the long run, so tragic. But trade marks constitute an asset of good will, which cannot be replaced; and trade marks do not become obsolete. On the contrary, the older they are, the more valuable they become, provided the firm holding the trade mark lives up to its reputation. This loss of trade marks presents us with a very serious problem. Fortunately, however, in most countries, with whom we were at war, the difficulties arising out of this situation are being realised. It is hoped that, ultimately, some arrangement will be possible which will do away with the international confusion that now prevails in this matter.

The consequences of the developments, I have mentioned, upon the German economic structure, have been very far reaching. The most striking has been the complete change in the German food situation. Before the war, Germany, although not self-sufficient, was able to produce nearly 90 percent of her food requirements. This percentage has gone down, for Western Germany, to nearly 70 percent; and that is putting it rather on the high side. That means that our need to import food stuffs has very much increased. In former times the bulk of the imports were raw materials and finished goods needed to maintain the general standard of living. Now the increased need for food imports has impaired this situation. All nations are happy if they sell finished goods. But they are not always quite as happy to sell raw materials, although most of them still do so. In the case of raw materials, there is a very strong competition in some markets; and the same applies to food stuffs. It has now become quite difficult to get oils, wheat, other food stuffs, fat stuffs, etc. These difficulties have cropped up owing to political events, which were rather unexpected. But from the point of view of our trade with Pakistan, this is perhaps a change for the better. Formerly, we did occasionally import wheat from this region, although not in considerable quantities. I think, before the war, we imported 1,50,000 tons of Punjab wheat; but this was not a regular feature of our trade. However, in the present economic circumstances of Germany, it is very likely that these imports will become very regular.

You might ask me what has happened to the agricultural surpluses, which, before the war, existed in the eastern areas. There are two

answers to that. One is that Russia's population is increasing and its consumption of grain has, during the last few years, increased enormously. So all that surplus finds a ready market in Russia. The second answer is that the pre-war surpluses have been greatly reduced, as a result of measures of Bolshevisation. Consequently, today we have to rely very much on imports of food stuffs from countries, which, in former times, only occasionally served as sources of food supply to us.

The change in population has also enormously affected the position. If you suddenly increase the population of a country by about 25 percent, you create some gigantic problems. For example, the housing problem becomes acute. Land has to be taken away from agriculture and used for building houses on. Then there are other drains on economy. There is a huge increase in the need for public utilities, such as water works, electricity, sewage, hospitals, schools, etc. These additional burdens constitute an enormous mortgage on the present German economy.

The consequences of war damage are even bigger. It should be remembered that no compensation was paid for war damage caused to Germany. There were no means available for reconstruction; so that all of it had to be done on private account. There were factories which were destroyed 100 percent; and they had to be rebuilt out of the pockets of the owners. In an impoverished country this has very great and serious effects on the whole economic structure. In Germany it has caused shortage of capital. This also explains why German products at present are not always as competitive as one might expect. The German home market was completely emptied of all goods. It was so hungry for goods that it was possible for German producers to sell all their manufactures in the home market at relatively satisfactory prices; and that helped them to rebuild industry. Of course, this was only a stop-gap. The best chance of getting good prices was missed in the first years after the war, when the hunger for goods was world-wide. But then Germany was cut off from all international trade. Thus our export industry came into a falling market. These are the conditions on which German economic reconstruction had to be based.

Some remedies have been found to overcome these difficulties. There were two stages of reconstruction, each fundamentally different from the other, both in their economic methods and in their atmosphere. The first stage, which began at the time of the collapse, lasted until the introduction of currency reforms. In that stage, there prevailed general economic confusion; production was very low and everything was rationed. Some times, the daily average of rationed food did not even reach 1000 calories per head although, according to the League of Nations investigations, the minimum food ration for an adult, who does not indulge in physical or intellectual work, is about 2400 calories. Thus, a very great strain was put on the working capacity of the German population. Accordingly, productivity was very low. Each week, people took off another day, in addition to Sunday, to roam about in the country and collect food from the farmers, who were somewhat better off than the townspeople. But this period was not one of stagnation. It was used to clear away a great deal of rubble, to repair the damaged machinery and to lay the foundations of recovery. Everything was made difficult by the absence of a valid currency. Most of the trade was done on a barter basis. It was not possible to get an artisan to cover your roof without giving him—not money—but food and cigarettes. The real currency in that period was the cigarette. The occupation authorities too helped by importing food stuffs and necessary raw materials. This very valuable and important help kept our body and soul together in that period and avoided the impending wholesale starvation.

The second stage came in the summer of 1948. The currency was established on a sound footing, although many people were badly hit by it; for all money was reduced to one-tenth of its value. If you were very rich, it was bad enough although you still kept something. But the middle class people, with small savings, were really reduced to complete destitution. That threw a big burden on the state; because people could not be allowed to starve and die. The reform of the currency had a very stimulating effect. Everybody began to work hard in order to earn money. There was one other great advantage. The wages were converted to the new currency at the one to one rate, i.e., at the full value of their old rate, so that the condition of the worker was not worse, rather it improved. The mass of working population was

thus satisfied with the wages. This led to an enormous push towards production and the results, which in themselves were not unexpected, occurred earlier than expected. In a very short time, rationing was abolished. But there was still rationing by prices and, as money was scarce, it did not lead to monetary speculation or excessive prices. In the beginning, there was a certain increase in prices; but it subsided very soon. It was now easier to rebuild the factories and production came into full swing. The products found a ready market first within Germany and then slowly outside Germany.

This period of recovery was enormously expedited by the Marshall Aid Plan. This Plan did enormous good to us and was very highly appreciated in Western Germany. We never felt anything of the kind of slavery which, the Russians said, it created. On the contrary, it freed us from the slavery of destitution. All these factors produced very strong psychological effects. The population which, until 1948, was lethargic, became active and started looking forward to a future and felt that it was worth while to work. For Marshall Aid Plan was meant, not just as a subsidy, but as an incentive for the European countries to work together.

We now come to the second, and perhaps the most important, stage of our industrial revival and our foreign trade. With the organisation of European economic reconstruction it became possible to do away with restrictions on foreign trade. This at first seemed to give disappointing results and our imports went up. But later exports followed suit. Our Minister of Economic Affairs was not dismayed by the initial disappointment, for he is a fervent adherent of free enterprise and free trade. The earlier phase of this stage was natural; but it was provisional and temporary; and our hopes were fully justified. After about six months or so, the fruits of this measure began to ripen and since the beginning of this year our exports have developed so favourably that really we can now hope to meet our foreign commitments, if not yet fully, nearly fully by our exports. This development is a very clear example of the use of international collaboration and cooperation in the economic field.

The next step was the foundation of the famous European Pay-

ments Union. This was concluded after negotiations which, because the problems were overwhelming, were very very difficult. It means that the countries belonging to this Union will form more or less one monetary area. Its most important feature is the fact that the sterling area as a whole has also joined the European Payments Union. It can now settle its whole trade with all European countries by means of this Payments Union. It gives to the whole thing an aspect which far exceeds European limits and makes it world-wide. We can only wish that this very daring experiment will bear fruit.

In the meantime a third and even more important phase in European cooperation has been entered. It aims at the lining up of basic industries in European countries under a common supreme authority. I cannot here enter into details of the most important scheme, known as Schuman Plan, produced by the remarkable Foreign Minister of France. It contemplates that there will be very close European cooperation which will assure not only the recovery of the European countries but also the maximum of political and economic peace and contentment in Europe.

I have tried to sketch before you a short survey of the salient features of the present German economic situation. You will have seen that Germany is again becoming an integral part of the economic system of Europe. She is still weak in many respects. But she is honestly and sincerely working her way back to full cooperation in the economic and, if I may say so, also the political field.

#### *Summary of Discussion*

*Question:* Is there any possibility of trade between Eastern and Western Germany?

*Dr. Albert H. van Scherpenberg:* Of course, there is a certain amount of trade going on between Western Germany and the Russian zone. The Soviet zone is in an extremely difficult position. We are anxious that the trade relations with Eastern Germany should be as lively as possible.

*Interruption:* The difficulty may be in the system of payments.



*Dr. Albert H. van Scherpenberg:* No. In the Soviet zone practically all industry has been socialised. It is very difficult to carry on normal trade in such circumstances.

*Question:* Is there much unemployment in Western Germany?

*Dr. Albert H. van Scherpenberg:* Yes, due to the influx of refugees who were practically all destitutes. They did not bring any capital with them; and Germany herself was short of capital. Everything possible is being done to remedy things; but it takes time. At present we have about 1.3 million persons unemployed, which is not too high as compared to our population. At one time this figure exceeded 2 millions. A great deal is being done in this respect.

*Question:* Is it true that one time you could pay in cigarettes to the porter at the railway station?

*Dr. Albert H. van Scherpenberg:* Yes, even in the three Western zones cigarettes served this purpose; and American cigarettes were preferred to the British.

*Question:* Is it correct that there is no ration in Germany?

*Dr. Albert H. van Scherpenberg:* There is no ration whatsoever in Germany?

*Question:* What about Berlin?

*Dr. Albert H. van Scherpenberg:* That is a state in itself and the question of Berlin is a very peculiar one. One should not judge the situation in Western Germany from Berlin. We help Berlin as much as possible and I have come here to negotiate on behalf of Western Germany and Berlin. The Burgomaster of Berlin has authorised me in this respect.

*Question:* Does the same currency circulate in Berlin?

*Dr. Albert H. van Scherpenberg:* Yes.

*Question:* Will not the Schuman Plan create obstacles in the recovery of the German industry and render nationalisation impossible?

*Dr. Albert H. van Scherpenberg:* The steel industry under the Schuman Plan would be put under an international authority. The

point in the second part of the question does not arise here, because we are going one step further by putting it under an international authority.

*Question :* Can people move freely between Eastern and Western Germany ?

*Dr. Albert H. van Scherpenberg :* No. They need a pass and it is quite difficult to get a pass as so many certificates from the Burgomaster are required for it.

*Interruption :* So in effect intercourse between the two zones is at a standstill.

*Dr. Albert H. van Scherpenberg :* Well, it is not at a stand-still ; it is like between Pakistan and Bharat.

*Question :* I want to know if Germany is at present importing any consumer goods ?

*Dr. Albert H. van Scherpenberg :* Oh yes.

*Question :* From which countries ?

*Dr. Albert H. van Scherpenberg :* I am afraid I cannot answer without documentation. In any case, of course, in the first place from all countries with which no special exchange difficulties exist, *e.g.*, from a few European countries belonging to sterling area.

*Question :* Is it a fact that half the imports of Germany are being paid out of the Marshall Aid which would end by 1952 ? If so, what would happen thereafter ?

*Dr. Albert H. van Scherpenberg :* Your information is a little obsolete. During the current year our exports came up to cover over 90 percent of our total imports inclusive of the American aid imports. So we are rather hopeful that, by the end of the Marshall Aid, like other European countries, we will be able to cover our urgent needs and some arrangements are under consideration to see to it that after the end of the Marshall Plan there should not be a setback to international trade.

*Question :* After this speedy reconstruction, will Germany be able to compete in the field of steel industry with other countries, such as Belgium ?

*Dr. Albert H. van Scherpenberg :* In the months of June and July, 80 per cent of our steel orders were export orders. The condition will be very much eased with the relaxation of the steel quota.

*Question :* What is the position now about the steel quota ?

*Dr. Albert H. van Scherpenberg :* So far as I am aware there is no steel quota now. But steel production will be adapted to requirements. It should not be overlooked that, due to dismantling, the capacity is limited.

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## LABOUR MOVEMENT IN JAPAN<sup>1</sup>

Komakichi Matsuoka

The Japanese labour movement began fifty years ago, when Japanese labour began to develop on account of the growth of war industry caused by the Sino-Japanese War. It received a further impetus during the war with Russia. With the outbreak of this war, war industries in Japan developed on an unprecedented scale. Consequently there was a movement for the organisation of the working class. But this movement was, in the beginning, spontaneous in its nature. Side by side with it, there was an ideological movement in favour of socialism, which was imported from the West. But soon anarchist tendencies got the upper hand in the labour unions. In 1910 the Emperor was assassinated by some anarchists, who were sentenced to death. This affair provided the Japanese Government with a good pretext for persecuting labour and the socialist leaders. This persecution was so severe that the word 'socialism' altogether went out of everyday language. If any one uttered this word, he was liable to arrest. The authorities came to regard the labour movement as dangerous.

A few years after this assassination, some change in atmosphere took place. During this period Mr. Bunji Suzuki, a graduate of the Imperial University, Tokyo, and an avowed Christian, began to organise what was called the Friendly Association (in Japanese "Yuai-Kai").

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<sup>1</sup> From an address delivered at a meeting of the Institute on October 31, 1950.