

GERMANY'S ECONOMIC SITUATION

AT THE TURN OF
1937/38

REPORT PRESENTED BY THE
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Results achieved and Tasks ahead

During the year 1937 as the economic advance continued, all Germany's last remaining reserves of labour, stocks and productive capital (apart from the consumption goods industries) were brought into full employment. The German economic system has thus achieved a new high level of production and work in all internal branches. The number of insured labourers and salaried workers employed totalled more than 19 million, and was thus higher than at any previous boom period, while the residue of unemployed persons—most of them only capable to a limited extent of working—was never before so low as in the Autumn of 1937, when it fell to less than half-a-million. The volume of industrial production exceeded by about 20% the previous record level of 1928/29. The volume of capital construction during 1937 exceeded that of the years 1928 and 1929 by milliards of marks. The output and sales of the iron industry during the past year amounted to almost 20 million metric tons of crude steel—a fact the significance of which can be appreciated when it is remembered that the crude steel output of the boom year 1929 in Germany and the Saar territory, itself the highest level hitherto recorded, amounted to only 18.3 million tons, and that during 1937 the crude steel output of Great Britain amounted to no more than 13.0 million tons. Many other illustrations of the same general type could be produced. The figures above given are sufficient to show—what is indeed acknowledged by every student and observer—that

the German economic system has now achieved a condition of complete and full activity.

This success did not take place automatically and without effort. On the contrary it required vigorous and resolute determination in all branches of the economic system. Governmental construction works provided its first stimulus and have continually played a vital part in its realisation. But if, as we have seen, the position now is that all productive reserves have been brought into full use, this means not merely that the recovery of industry has been unusually vigorous and complete, but also that fundamentally new tasks have arisen and that the new problems to be faced require a satisfactory solution with ever increasing urgency. The issue is essentially a double one: on the one hand the present high level of activity must be maintained, both in volume and in value terms and in respect to both home production and to the vitally necessary maintenance of trade with the other nations of the world; on the other hand the possibilities of home production must themselves be vigorously and carefully expanded. Both these aims are served by the year-old second Four Years Plan, which has thus come to be of decisive importance for the economic progress of the whole nation. It is based on the principle that the first duty of industry and business is to the community, and it provides for the best possible application of the country's productive forces with the object of maintaining and improving the supplies of necessary commodities.

The first of these two tasks—that of maintaining supplies—comprises in its turn two essential groups of problems: in the goods field the problems of supplies and stocks, and in the value field the problems of prices, credit and currency. From the former point of view the essential points are, first, to make up the shortage in food supplies; for Germany's agricultural territory is so limited in area as to make it certain that, however great the efforts of the agricultural classes, this shortage must remain for a long time to come. In addition, the raw material requirements of German industry are such as to depend to no small extent on substantial imports of textiles, ores, metals, timber, mineral oils etc. The Four Years Plan lays especial emphasis on raising home mineral production and on increasing the output of home industrial materials with a view to gradually reducing this dependence upon imports. The experiences of the last few years have already shown the enormous possibilities which vigorous enterprise and initiative can open up in this field. For decades the patient researches of our scientists in a number of fields have evolved new processes of great economic importance in connection with synthetic production, methods of making alloys, the development and application of light metals etc., while entrepreneurs have at great cost built up the technical equipment for the practical utilisation of these inventions and discoveries. In this way the close co-operation of science and practice has already opened up a large field of valuable enterprise. All this work has of late been given a special stimulus by the government, particularly in view of the shortage of raw materials and with respect to the production of new materials; and state aid has decisively accelerated its rate of progress. Two points have here to be kept continuously in mind: scientific research always requires special encouragement since it is the vehicle whereby intellectual initiative bears practical fruit; but the translation of advances in theoretical knowledge into the field of practice on a large scale must take place gradually—starting on a small scale, and slowly but surely growing—if harmful mistakes in investment

are to be avoided. It is only when a process is carefully tried out in this way that it can be successfully employed for productive purposes. The success of German industry at the Paris Exhibition, especially in the field of new industrial materials, has proved the worth of the progress already achieved in the world's competitive markets, while the "Productive Nation" Exhibition in Düsseldorf in 1937 displayed to the world the many ways in which these new materials could be used.

There remains, however, a large proportion of goods and raw materials for which Germany, in view of the quantitative and qualitative limitations of her soil, her climate and her mineral wealth, depends and must continue to depend on imported supplies. For this reason foreign commercial relations must be further encouraged. The second Four Years Plan has included within its scope many measures for the furthering of this end. They comprise the maintenance and further extension of the New Plan, with its provisions for supervising imports and controlling foreign exchange; the various strenuous efforts that have been made to improve Germany's position by negotiating new commercial treaties; and the continually renewed calls upon industry by the State to develop its export business. In actual fact the year 1937 has witnessed remarkable success in this last field. German exports for the first eleven months of 1937 exceeded those of the corresponding period of 1936 by more than 1,000 million RM. This means that exports for the whole of 1937 probably reached a figure of about 5,900 million RM—an increase of 1,700 million RM over the level of 1934. This increase corresponds closely with the simultaneous improvement in international trade as a whole—for total world trade turnover rose between 1934 and 1937 by about 40%. Germany has thus succeeded in enjoying her full share of the general improvement in world trade. Such a result required the unflagging efforts of German industry in the export field. German producers and merchants have been faced with conditions of increasing strain in the world markets: they have had to overcome a whole series of obstacles to trade and adminis-

trative red tape and to fight their way in a world of currency manipulations. The more striking, then, is the success they have achieved.

The increase in exports made it possible to provide foreign exchange for at least the most urgent requirements of imported foodstuffs and raw materials, though in addition further inroads had to be made on reserve supplies of raw materials still available at home. The international trade position continued to show an active balance, amounting to 443 million RM during 1937, as compared with 550 million RM for 1936. This surplus, however, did not bring with it a correspondingly large supply of free foreign exchange. Various factors connected both with the provisions of the various clearing and payment agreements and still more with the unfavourable contrast between imports and exports as regards terms of delivery—imports having to be paid for in cash or over a short period, while the possibility of exporting finished goods often involved the provision of relatively generous terms of payment on the part of the German exporter—have brought about a great difference between the total of goods exported and the total of foreign exchange received. For this reason the figures for exports and their improvement during the last few years cannot be taken as a measure of the foreign exchange situation.

Foreign trade is a vital necessity for Germany's economic system, and continues to require especial encouragement. Efforts in this field will have to be still further increased—if only because world economic conditions, which during the earlier part of 1937 were continually improving to the advantage of exporters (owing to the general economic recovery and the boom in armaments) have since the Autumn shown considerable signs of recession. In addition longer term influences must not be forgotten—e.g., those arising from the recent slow-down in the growth of world population and from the growing industrialisation of many agricultural and primary producing countries. This last factor represents a sharpening of the foreign competition with which Germany is faced in the

consumption and production goods industries. It means, too, that increased efforts will have to be made if the level of exports now achieved is to be maintained. Since Germany is at a disadvantage from the point of view of currency and credit as compared with the Anglo-Saxon countries, success must depend upon the high quality of her products and upon the promptness and reliability with which delivery is effected. Both these points require special attention. It cannot be too often emphasised that the economic prosperity and activity of the community and the continued provision of its members with the necessary consumption goods depends fundamentally upon a steady and freely flowing supply of raw materials. Every advance which can be made in this direction within the scope of the Four Years Plan represents a contribution to re-establishing that productive elasticity of which the economic system has been to some extent deprived by the strains and stresses of the last few years.

This, then, represents the main task—the task of maintaining and extending the production and supply of goods. But putting it in the forefront does not mean that problems of credit and finance can be treated lightly. It is clear indeed that these latter problems are no longer of over-riding importance: there is no further danger of a repetition of the experiences of the disastrous years of crisis and depression when production was cut down in defiance of the urgent economic needs of the community because of difficulties of a monetary or financial nature. But we must by no means fall into the opposite error of neglecting the monetary side of the picture altogether. German economic policy rightly lays special emphasis on a systematic settlement of the financial problems raised by the Four Years Plan and the other constructional works undertaken by the State. It is well known that during the last five years large volumes of credit for these purposes have been provided by the banking system—at first mainly in the form of short term money market advances, but since 1935/36 increasingly in the form of long period loans. During the last three years not merely have tax yields increased by milliards of marks, but at the same time Government loans totalling

in all about 7,000 million RM have been placed: facts which indicate most impressively the improvement in profits and incomes and the revival in the community's powers of capital accumulation. Recent developments have brought about a striking shift from money market finance to finance by capital issue and by taxation. But many problems remain to be solved in this field too. It will be for the banks to provide for the increased working financial needs of industry—especially in connection with the development of the new home produced raw materials—with all the money resources at their disposal. At the same time new de-

mands will be made on the capital market, since to the requirements of the State is now added the needs of private entrepreneurs in connection with new long term constructional work—and they cannot reasonably be excluded from using the recognised instrument of the capital market for the satisfaction of these needs. From this point of view the enormous economic importance of savers and savings can be clearly understood. The authorities in charge of Germany's economic leadership have explicitly and continually called upon all classes in the community for an increase in capital accumulation.

German Industry

The Level of Production

The output of industrial goods in Germany reached a new high level during 1937, above that ever witnessed before. In the third quarter of the year the volume index of industrial production as a whole stood at about 122 (1928 = 100) and was thus about 8.5% higher than in the corresponding period of the previous year and about 135% higher than at the crisis of 1932 when it stood (in the third quarter of the year) at the low point of 52. The figures so far available suggest that the total gross value of industrial output reached a figure of 75,000 million RM during 1937, as compared with about 65,000 million RM in 1936, and only about 38,000 million RM in 1932. The gross value of industrial production in 1928 and 1929 stood at about 85,000 million RM, but

the excess of this figure over that for 1937 is entirely due to the higher price level then ruling. When price differences have been eliminated it appears that the present level of production is substantially higher than that of the last boom period.

The analysis of industrial production as between the two main groups of industry, those producing commodities for immediate consumption and those producing long-lived production goods, shows that the latter group continues as in previous years to be well in advance of the former. The total value of the output of production goods has far more than doubled since 1932, whereas the rise in the case of consumption goods has been considerably more moderate. This is in itself a normal development, since the necessity for subsistence and clothing on the part of the masses of the people inevitably makes for a greater stability in the volume of consumption; thus, the recession in the consumption goods industries during the crisis was very much less marked than that in the production goods industries.

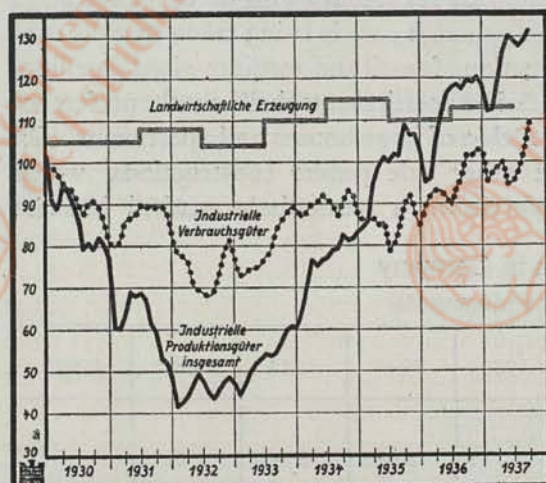
It is striking, indeed, how of late the consumption goods industries have overcome their former backwardness. The production index of these industries was higher by

in thousand million RM	Gross value of total industrial output	Production goods	Consumption goods
1929	85	48	37
1932	38	20	18
1933	40	22	18
1934	51	28	23
1935	59	32	27
1936	65	37	28
1937	75	45	30

Industrial Production in Germany

Period 1928 = 100	Total index	Total pro- duction goods	Capital goods	Total con- sumption goods of elastic demand
1929 Monthly Av.	101.4	103.2	103.0	97.0
1930 " "	87.1	85.5	84.0	91.2
1931 " "	68.5	61.0	54.2	86.5
1932 " "	54.0	45.7	35.4	74.0
1933 " "	61.5	53.7	44.9	80.1
1934 " "	80.9	77.2	74.8	89.6
1935 " "	95.3	99.4	102.4	85.6
1936 " "	107.8	112.9	116.6	95.6
1936 1st qu., M.A.	96.6	98.6	97.5	91.6
2nd " "	108.1	115.0	121.1	91.4
3rd " "	112.2	118.6	126.2	97.2
1937 1st qu., M.A.	109.5	114.8	112.6	97.0
2nd " "	119.1	128.5	132.4	96.5
3rd " "	121.6	129.5	134.3	102.9
October	125.6	132.3	135.8	109.4
November ..	127.4	134.0	136.1	111.4

PRODUCTION IN GERMANY
(1928 = 100)



Landwirtschaftliche Erzeugung = Agricultural produce
Industrielle Verbrauchsgüter = Industrial consumption goods
" Produktionsgüter insgesamt = Total industrial production goods

6.1% in the third quarter of 1937 than in 1936, advances having taken place both in the production of foodstuffs, beverages, etc., and also in that of textiles and clothing. This development was due to two main factors; first, the increase in the national income and the consequent rise in the demand for consumption goods of all sorts, and secondly the mild improvement, during

the Autumn, in the volume of raw materials available for these industries—an improvement which enabled them to increase the utilisation of their productive capacity.

Nevertheless the main seat of the economic advance in Germany continues to be found in the industries producing production and capital goods—i.e., first and foremost in the heavy and constructional industries, in engineering, shipbuilding and in the automobile industry. In all these branches not merely has full employment and utilisation of available capacity been attained, but the remarkable fact has emerged that in many cases maximum productive capacity has turned out greater than past experience had suggested to be possible. In other words concealed reserves of productive elasticity have come into play—a fact which is difficult to express in statistics, but which has proved itself of enormous economic importance. (To some extent the same thing is true with regard to stocks and supplies.) This elasticity factor, however, must not be over-estimated as a whole and on a long term basis. On the contrary the complete activation of the economic system has meant that to a large extent the limits of productive capacity, of useable raw materials and of employable labour have been reached. In short, the task of mobilising all the community's productive resources has now been fulfilled. At this stage new ends and aims must be introduced, such as are contemplated in particular within the comprehensive programme of the new Four Years Plan. In the first place, the present level of employment and production must be maintained (as has been emphasised in the Introduction); the great constructional works of the State demand increased efforts and endeavours; greater attention must be paid to renewing and improving productive equipment; and finally we must not lose sight of the fact that all human economic activity must aim at an improvement in the standard of life rather than remaining content with the level of consumption at present achieved.

Here, then, is the essential task of "Rationalisation" as properly understood. Labouring forces must be used in the best