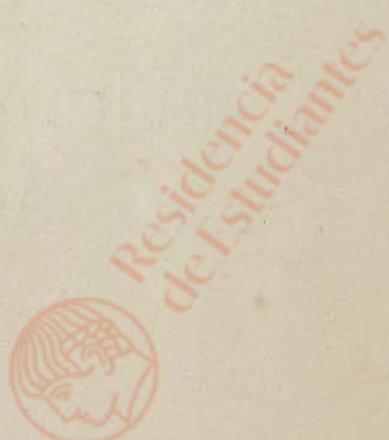
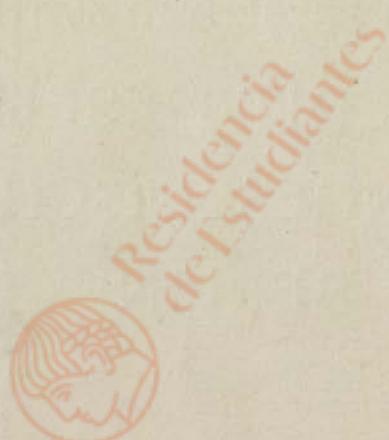


GERMANY'S ECONOMIC DEVELOPMENT

DURING THE FIRST HALF
OF THE YEAR

1938

REPORT PRESENTED BY THE
REICHS-KREDIT-GESELLSCHAFT
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Residencia
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The outstanding characteristics of German economic life: full employment and the incorporation of Austria in the Reich

The event which dominated economic life during the first half of 1938 was the incorporation of Austria in the Reich. The extension of the area of Germany has been an event of enduring importance for both parties. For the former Reich it is the more important in that there the continuous economic revival of the last five years has brought about a position of full economic activity with the effective employment of all available productive forces; whereas in Eastmark (Ostmark)—as Austria is now called—economic conditions at the time of the Anschluss were in a state of depression in some respects similar to that in Germany at the beginning of 1933. That is to say, there are in Austria resources of all sorts available: labour power, productive equipment, an agricultural system capable of extension, and unutilised mineral resources. What has so far been lacking is economic initiative, energy and confidence. The main source of trouble was the breaking of Austria's most important life-lines by the dictated peace of 1919, which crippled her territory, threw her economic system out of gear, subjecting it to the most severe strains and difficulties, both from within and from without.

The Anschluss has completely reversed this state of affairs. Eastmark now has access to a much larger market. Depression and stagnation has given way to a revival in all fields. From the fully employed former Reich (i.e. from Germany as it was before the An-

schluss) vigorous active forces are radiating into Eastmark. Her participation in the tasks of the Four Years Plan; the extension of her waterpower and means of communication; the increased utilisation of her mineral resources; an agricultural production campaign; the increase in the total level of her industrial output:—all these constructive measures have been undertaken, still others are planned. In short, the revival of the Austrian economic system is already well under way and the movement towards full activity is proceeding at a substantially quicker pace than even in Germany itself. Inevitably, of course, new problems arise and freshly emerging maladjustments have to be overcome; thus prices and wages must be brought into harmony, foreign trade relations must be overhauled, and various financial questions must be solved.

Full economic activity, the goal of the recovery measures introduced into Eastmark, has already been achieved in the former Reich. Where five years ago unemployment had reached enormous dimensions, there has now for twelve months been an appreciable shortage of labour, and in many branches of industry plants are fully used and in some cases used to excess. This represents a far more healthy and normal state of affairs for a community in which the mass of the people have a practically unlimited demand for goods of all kinds, than the slump refusal to take advantage of productive possibilities—a situation which simply represented self-imposed

poverty and the failure to utilise valuable resources. It has been the overwhelming merit of National Socialist economic policy during the last few years that it has vigorously and with complete success fought against this form of communal waste. Its first aim having been achieved, however, the tasks have shifted. The economic system is a living organism which is always moving and renewing itself. The rule of thumb application of measures which had justified themselves in the past would have been wholly inappropriate in the changed economic situation and would in fact have led to increased strains. For this reason the emphasis now rests upon maintaining economic flexibility and so achieving further improvements in commodity production. The new tasks arising here are numerous:

a) Full employment does not represent a hard and fast upper limit: on the contrary it is a fundamental characteristic of modern communities, with all the ramifications of industrial specialisation and the division of labour, that they invariably possess a considerable volume of latent resources which a carefully thought out economic policy can release and bring into play. Thus in the field of labour elderly workers who are still capable of employment can be brought into active service; increased use can be made of female labour; male workers can be correspondingly drafted into other posts; and in these and other ways certain last reserves can be made available. In this connection particular importance attaches to the decree announced at the end of June by Marshal Goering, the Authority in charge of the Four Years Plan, to ensure the availability of labour for carrying out tasks of outstanding national importance. This decree provides for the possibility of labour conscription for a limited period of time in respect of any able-bodied German man and woman of whatever profession.

b) In the second place special attention must be paid at the present moment to the community's productive equipment. Full employment implies higher than average utilisation of capacity, and so causes heavy depreciation: thus the undertaking of adequate replacements is never so important as in a

period of this kind. Over and above this, technical progress and industrial rationalisation make it possible to increase the range of production. The essential point here is to achieve a flexible adjustment to future demands; for continuous activity in the field of capital construction must be followed closely by an increase in the volume of consumption goods.

c) Flexibility in the economic system also requires that adequate reserves shall be available of usable goods. These must be brought into being on the one side by increased home production of old and new raw materials and of consumption goods, and on the other side by the wise and tireless fostering of foreign trade.

Considerable progress has already been achieved in the way of securing the flexibility and the reserves which the fully employed German economic system requires. The Four Years Plan represents a vital instrument towards this end, providing as it does first and foremost for the increase of home production in respect of urgently required raw materials of all kinds. German labour policy is also working in the same direction. It is of course obvious that in a community in which so many urgent tasks have to be fulfilled in all branches of public and private life, everything cannot be accomplished at once; on the contrary, an order of priority has had to be worked out and applied in such a way as to achieve the best possible long term results, due allowance being made for all considerations of high national policy. Since for various reasons a large volume of public constructional work must be maintained in a number of fields it is necessary to budget rather carefully in the field of the community's consumption.

It is, however, striking that in spite of the preference given to constructional work, success has already been achieved during the last few years in raising the level of consumption. This can be seen both in the rise of German labour incomes—viz. from 26,000 million Reichsmarks in 1933 to 38,000 million Reichsmarks in 1937—and in the increased volume of sales in respect of most consumption goods. It is also to be remembered—

a point which foreign observers frequently overlook—that the standard of life of a people must be measured by the incomes and the consumption of the *whole* population, and not simply by the position of the well-to-do classes. Thus when a community shows high and increasing unemployment, as in the United States, poverty among the unemployed may substantially lower the general average, in spite of the relatively high standard of living among those classes which are in receipt of steady incomes. By contrast, the reabsorption into productive work of 7 million formerly unemployed persons in Germany has meant a vigorous rise in the standard of living of the great masses of the German people. Nor is it to be forgotten that the standard of living is not expressed in incomes only but also in various social and economic activities—and it is precisely in this latter field that Germany has achieved progress which is unparalleled in other parts of the world. Improved conditions with respect to holidays and the arrangement of these under the auspices of the "Strength Through Joy" organisation; the higher social status of the working classes; the improvement of working conditions from a health point of view, and, not least, the guarantee of his job to the labourer—a factor the psychological value of which can scarcely be over-estimated—have all to be considered in this connection.

The maintenance of prosperity in Germany by greater flexibility and the increase of inventories, the urgent need for renovating and extending productive equipment, and the huge long-term public constructional tasks (including that of the economic reconstruction of Austria) which lie before Germany—all these depend upon increased savings and higher state revenues. Thus the danger which threatens some other countries—e.g. the United States—that excessive saving may give rise to deflationary tendencies, is non-existent in Germany. On the contrary, savings, both now and for some time to come, can hardly be too great. During the last few years indeed they have risen to a gratifying extent. But further progress in the same direction must be strongly encouraged. A high volume of

savings is essential for the reorientation of financial policy announced in the Spring of 1938, the fundamental point of which is that unemployment having been fully overcome, the method of relying upon short-term anticipatory borrowing must cease, the finance of public undertakings resting instead upon the twin pillars of increased national revenues on the one side and the absorption of new savings by the issue of government loans on the other. That this policy is the correct one is shown by the success with which government loans amounting in all to about 3,500 million Reichsmarks—a larger total than for the whole of 1937—were placed during the first six months of 1938. In addition special efforts are being made to increase national revenues by drawing more fully upon sources of taxation.

Savings and tax payments can only flow from surpluses in production. For this reason the raising of output is as vital an economic task at the present day as is the search for higher industrial profits. From this point of view recent years have doubtless brought some progress—as can be seen from the profit and loss accounts of German industrial firms. In this connection however full employment raises new problems. The utilisation to capacity of productive equipment is for the most part associated with "diminishing returns", and a number of other factors tending to raise costs must also be allowed for. The more urgent, then, is the task imposed upon the industrial community of offsetting these increased burdens with fuller measures of rationalisation. It is necessary in this connection to refer once more to the importance of building up adequate reserves. Even in a community without unemployment there are risks and the possibilities of loss for individual firms. The economic system does not remain stationary but alters and advances; new technical progress may make existing equipment out of date and worthless; changes in the production of capital and consumption goods may introduce fundamental changes in the structure of employment, and so on. Accordingly not merely industrialists but also the bankers who provide them with working capital have to face continuously changing risks.

These risks must be taken into account in the granting of credit and must of course be covered by building up a corresponding volume of reserves. It is also to be remembered that in principle the risk factor has considerable economic importance and that the

bearing of uncertainty is a valuable service to the community even in times of full employment. For uncertainty-bearing represents a healthy and restless stimulus towards enterprise, and so promotes the growth and advance of the whole economic system.

German industry

Further Increase in Production in the Former Reich

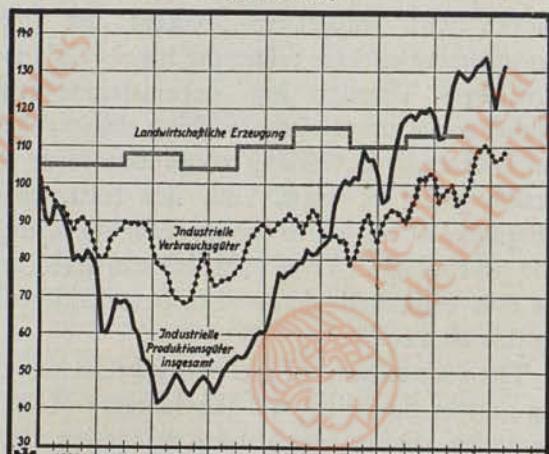
At no time since 1933 has the fundamental contrast between the industrial advance in Germany and the trend of production elsewhere been so clearly visible as during the first six months of 1938. Whereas the index for industrial production in the world as a whole has steadily fallen since the end of 1937—mainly owing to the recession in the United States and the tapering off of the boom in Great Britain—German industrial production has continued to show an uninterrupted rise, allowance being made for the customary slowing up during the winter months. During the first quarter of 1938 the German production index, at 120.7, was a further 10.2% higher than in the corresponding period of 1937.

Industrial production in Germany

1928 = 100	total index	total production goods	capital goods	consumption 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
1937 " "	118.8	126.0	128.1	101.5
1937, 1st qu., m.a.	109.5	114.8	112.6	97.0
April	118.5	126.2	129.3	100.0
1938, 1st qu., m.a.	120.7	126.3	125.2	107.4
April	125.9	135.0	138.2	103.9

PRODUCTION IN GERMANY

(1928 = 100)



Landwirtschaftliche Erzeugung = agricultural produce.

Industrielle Verbrauchsgüter = industrial consumption goods.

Industrielle Produktionsgüter insgesamt = total industrial production goods.

show, however, a substantial increase since twelve months ago in respect of these latter industries also, the production index for consumption goods being about 10% higher in the first quarter of 1938 than in the first quarter of 1937. This expresses the increase in consumption resulting from higher labour incomes.

It is illuminating to bear in mind not merely the index numbers but also the actual figures for the volume of home produced goods. By excluding double reckonings we may

arrive at net figures for the output of goods; and these, as calculated by the Business Research Institute, indicate that German industrial production rose from 17,600 million Reichsmarks in 1932 to 37,500 million Reichsmarks in 1937—an increase of about 113%. During 1938 a further rise in net production to over 40,000 million Reichsmarks is to be expected.

German industrial production¹
(estimated)

thousand million RM.	1932	1937
Capital goods	4.5	16.0
other production goods ...	4.1	8.2
consumption goods:		
a) elastic demand	5.0	8.2
b) inelastic »	4.0	5.1
total industrial production	17.6	37.5

¹ Net home production values neglecting imports and exports; price changes not eliminated.

Whereas total net home production has more than doubled since 1932 the output of capital goods has risen by almost 300%. A certain percentage of capital and production goods produced was exported, but the major part remained at home—as is shown in the fact that real capital investments during 1937 reached the extraordinarily high level of about 16,000 million Reichsmarks. Of this total about 6,500 million Reichsmarks took the form of replacements to cover depreciation in respect of wear and tear and obsolescence of existing plant. The net increase in the community's capital equipment, then, amounted

National income and capital construction

Year	total national income	capital construction		proportion of new investment to national income
		total	new investment	
	thousand million RM.			
1928	75.4	13.7	+ 7.0	9.3%
1929	75.9	12.8	+ 5.8	7.6%
1933	46.6	5.1	— 0.8 ¹	.
1934	52.7	8.3	+ 2.4	4.6%
1935	57.9	11.2	+ 5.2	9.0%
1936	62.6	13.8	+ 7.6	12.1%
1937	68.5	16.0	+ 9.5	13.9%

¹ In 1933 total capital constructions did not cover replacements, and new investments were therefore negative; i. e., there was a net consumption of capital.

to about 9,500 million Reichsmarks during 1937; i. e. it represented 13.9% of the total national income. A comparison with 1928-29 shows that at the present moment the proportion of the national income required for new constructional work is substantially higher than it was then.

The Incorporation of Austrian Industry

The industrial system of Greater Germany is faced with important new tasks following upon the union of Eastmark with the former Reich. The main object must be to restore to complete productive activity Austria's industries, which have for decades been held back and kept in a state of depression. At the same time it is necessary to make the industrial system of Eastmark an organic part of the structure of German economic life; while taking in hand and carrying through the large measures of reconstruction that have been planned will involve drawing upon all available productive resources.

A survey of the development of Austrian industries during the last few years shows the magnitude of this task. As in Germany so in Austria, industrial production suffered severe reverses during the slump years 1930-32. Since 1933 however the fundamentally contrasting lines of economic policy in the two countries brought about vital differences in the development of their industrial situations. Whereas in Germany the magnificent public recovery measures brought about an increase in output at a rate which grew from year to year, in Austria industry continued to remain in the depths of depression. The responsibility for this lay with the restrictive economic policy of the earlier Austrian governments, which under continuous pressure from foreign creditors renounced all measures for self-help and the initiation of a recovery, while on the other side concentrating exclusively upon raising exports and bringing about a balance in their foreign payments. The improvement in the international balance sheet was indeed accomplished, but at the expense of the community as a whole and at the cost of grave sacrifices for the Austrian people; for the

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Capital and Reserves
60 million RM.