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### The Port of Hamburg Within the German Economy

By Senator, Prof. Dr. Karl Schüller, Hamburg

The year of 1951 confronted the German economy with a lot of problems. During this period, bottlenecks in the basic industries developed into threatening dimensions and their effects on the overall economy have been serious and increasingly harmful so that a clear conception will be required to tackle them effectively. After a flood of programmes for economic policy — I shall only mention Niederpreisig, luxury tax and special turnover tax, the Düsseldorf Programme — a partial conception took shape slowly, but fairly steadily. This was the Investment Aid of German Industry which is now to come into force after 9 months' delay.

During the year, Hamburg's economy which is situated at a great distance from the collieries, has had to suffer badly from the effects of the bottleneck problems. The coal supply position is like the sword of Damokles which will go on hovering above our industrial production until the menaces of winter are gone. The iron and steel supply has become the key problem for Hamburg, too. It was not shipbuilding alone — but it was this branch of industry in particular — which had to directly suffer from the consequences of a production and distribution policy that was without direction until autumn. Thus, the building of quay sheds, for one thing, was badly handicapped by long terms of delivery for steel products and by difficulties in the supply of timber and of building materials depending, in their production, on coal. We do hope, therefore, that the regulation directing the distribution of iron and steel which has been issued at long last, will be applied in a fair and appropriate manner. I have said it quite often that, on account of the importance of German shipbuilding and of an own merchant service for foreign trade and foreign currency earnings, our interpretation of what is just and fair cannot render us suspect of pursuing a policy which is to serve the interests of Hamburg or the coastal Länder only, but our interpretation is, and must be, valid for the economic policy of the entire country.

But not only in the supply of materials have we been sharing the general problems of the year 1951. Under the influence of general stagnation, the production and employment position also took an unfavourable course as was to be expected in view of the peculiar economic structure of our city state. The slow-down of industrial production in summer prevented the employment figure from rising during 1951. Even today, we are by 35 points of index below the average for the Federal Republic. The employment figure rose in Hamburg by nearly 14 000 which is 2.3 per cent of the overall rise in the Federal Republic, while Hamburg's share in the overall employment is put at more than 4 per cent. During the entire year, unemployment in our city remained at an average of about 95 000, recently it has even exceeded 105 000. At roughly 13.7 per cent, Hamburg's unemployment burden is about the same as that of the "refugees' Land" Lower Saxony, and only in Schleswig-Holstein the figure is even higher. Slowly, it is being generally appreciated what I have said over and over again: the region of

structural unemployment is not confined to the three refugee Länder; after the loss of its hinterland, Hamburg too has become a center of structural unemployment.

The bottlenecks in the supply of materials and in employment are accompanied by the notorious bottleneck for capital which, since 1950, has made itself felt as a particular handicap to port and shipping. Our strained budgetary position does not allow us to make all the investments required for a full reconstruction of port facilities. The second Port of Hamburg Reconstruction Plan (for the period 1950/52) shows that, in view of the extent of destruction of the harbour and its facilities through the war and its aftermath, there was no other way but to make a thoroughly planned start. In 1946 when the first Plan was drawn up, we had unsparingly struck a balance, and we had set our reconstruction such targets as can be realized. If we consider the extent of damages in the port area which comprised, inter alia, about 654 000 square metres

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(or 90.2 per cent) of quay shed floor space, it will be obvious that honesty was a necessary part of our planning which was aimed at regaining 70 per cent of the 1936 turnover capacity for which about 50 per cent of war damages had to be repaired. We were aware that, under present political and economic conditions, it would be utopian to attempt a 100 per cent reconstruction. We knew that the appropriation of municipal budgetary funds to the amount of, up to date, 176.5 million RMarks/DMarks could only be justified if the means were used to rebuild certain centres of gravity, with all the technical and economic knowledge that had come to hand in the meantime. As regards the turnover of goods in the port, the estimates for our second reconstruction plan were exceeded by actual developments. In Timm's opinion of September 1949, it had been estimated that turnover would amount to 13.5 million tons in the years 1952/53; we can now say, however, that already in 1951 the aggregate turnover will have come to at least 14.2 million tons. So our expectations for 1952 have been even exceeded one year in advance. As regards the composition of turnover, however, by export and import, by bulk goods and piece and bag goods, we have not as yet achieved all we are aiming at and what has been made the target until the end of the second reconstruction plan — that is to say for 1952. The proportion of exports in the port's total turnover has dropped negligibly to 30.5 per cent as against 32.5 per cent in the previous year. Also the proportion of piece and bag goods which, according to the structure of the port, we want to raise to 40 per cent of turnover, is at present at only 36.4 per cent and has not yet come up to what we had been expecting. In exports, however, piece and bag goods account for over 59 per cent, a figure not even reached before the war.

The expanding trade should, of course, have been accompanied by a corresponding rise in the floor space of quay sheds. But, unfortunately, development during 1951 was unfavourable in this respect. Already in the previous year, the city's budgetary position had led to the withdrawal of 19 million DMarks originally earmarked for port reconstruction. In the current fiscal year, too, the actual appropriations of 22.8 million DMarks did not fully meet our wishes and the requirements of the port. For the first time now, a Federal loan has been granted, if only to the moderate amount of 7.5 million DMarks. This figure included, public funds invested in the port by the end of the 1951 fiscal year reached the considerable amount of approximately 184 million RMarks/DMarks. Assuming a pre-war level of utilization of the shed floor space, there would have to be 150 000 square metres of newly built quay sheds during the second stage of port reconstruction (1950—52), or 50 000 sq. metres per year, in order to ensure a smooth working of the planned turnover of 5.6 million tons of piece goods per year half of which is to be handled at quay. In 1950, the target figure was nearly reached, but in the calendar year 1951, not more than nearly 12 000 sq. metres were constructed. Even when all present building projects totalling 55 000 sq. metres will have been finished, we shall still be 37 000 sq. metres short of the target figure by the end of 1952. And this, although the building of quay sheds is the nucleus of port reconstruction. Even during the first 5 months of 1951, an average of 12.4 per cent of the liners calling on the port could not be properly worked. Fortunately,

this figure dropped to 7 per cent for the second half of the year, and it would have been even lower if it were not for the disturbances that were created in some parts of the port in October. The turnover figures for the last two months, at 1.4 and 1.3 million tons respectively, are evidence in itself. The willingness to work and the unceasing industry of the dockers, along with the modernization and rationalization of port facilities and services, raised the turnover coefficient per person employed in the port from 870 tons in 1949 to 1050 tons in 1951.

The number of incoming ships which amounted to 9763 units in 1949 and 11 454 units in 1950, exceeded the 13 000 mark in 1951. With 17.2 per cent of the aggregate net tonnage, the German flag is again holding second place; in the case of actual turnover of goods, the young German fleet is far ahead of all others, having turned over 4.5 million tons of which 3 million tons were in foreign trade. Moreover, the German fleet was increasingly engaged in liner shipping — for 60 per cent of the fleet, Hamburg is the home port. Of the 186 regular lines serving the port, 60 routes with 206 sailings per month are being operated by German shipping companies. Since the beginning of 1951, our ship yards have constructed 79 800 GRT which is more than twice the production figure for 1950. The total value of all units completed by the Hamburg ship yards during 1951 is put at 172 million DMarks. New constructions which accounted for 105 million DMarks rose by twice the previous figure, and repairs which totalled 67.5 million DMarks rose by three fifths as against 1950; repairs for foreign orders absorbed about one half (33.3 million DMarks) of the entire repair business.

An enumeration of all the forces actively engaged in the port must not omit to make special mention of the performance of the Deutsche Bundesbahn (the German State Railways) and its contribution to the despatch and reception of goods. The Bundesbahn's share in the transportation of export goods into the port rose by one sixth over the figure of the previous year, now covering nearly two thirds of all exports. In the handling of imported goods, too, the Railways increased their share during the year and are now heading the list before any of the other means of transportation. The extent to which Hamburg depends on railway services, is shown by the very lay-out of the sheds.

Thus, various factors are cooperating in the port of Hamburg, in competition as well as in planning. And this cooperation has brought us a good step forward during 1951. Naturally, there are many difficulties yet to be overcome. There is the task of ensuring that the quay shed construction can be pushed further ahead in 1952; today, the quota of floor space utilization is 8.9 tons per sq. metre per year as against a pre-war annual average of 7.2 tons per sq. metre. Beside building the required quay sheds, we shall also have to deal, during the coming year, with the construction of quay walls which is expensive and rather difficult technically. There are no longer any such constructions which need merely be reconditioned because there was sufficient material which could be reclaimed. From 1952 onwards, extensive new constructions of quay walls will become necessary. To construct a stretch of 100 metres of quay wall, capital to the amount of roughly 1 million DMarks would be required. For several years to come, the investments

required in the port will not yet drop to below 40—50 million DMarks; moreover, reconstruction and new investments cannot much longer be granted such a priority over current repairs and reclamation which had been stopped during recent years and now amount to some 35 million DMarks.

From these statements, the problems may be gathered which we are facing at the start of the year 1952.

There are no signs that the financial position of our city should become less strained. This means that, if the port is to be further developed and planfully expanded in accordance with its importance for the Federal Republic and for German relations with overseas, Federal loans (or a general capital market respectively) would be required in much greater amounts than have been available during 1951.

## Coal and Steel Union Before the German Federal Parliament

### *The Atmosphere of the Debate on the Division*

#### **By a Supporter:**

The expression, "the historic hour", so often used in inappropriate contexts, really fits the occasion for once. By ratifying the Schuman plan, Germany has abdicated forever an important part of her sovereign rights in favour of the union of the European peoples, for the treaty's duration of fifty years is tantamount to an indefinite space of time. The rights which we have given up are important ones. To permanently abjure the use of tariff barriers for iron and steel products and the right to make reprisals in trade with our European neighbours through cutting off coal deliveries, may have serious repercussions on our national economy in times of coal shortage or steel surplus. The surprisingly favourable outcome of the division underlined the importance of the step which has now been taken.

The same parties which cast their votes in favour of the Federal government's proposals, however, have also endorsed its misgivings. What was the nature of these misgivings, which were, after all, so considerable that the Social Democrats believed they could not accept the plan?

#### **The Saar Question**

The Social Democrats have accused the government of betraying the population of the Saar. In the course of the debate, all parties gave expression to their regret that Germany and France had not yet settled the Saar question. In recognition of the psychological difficulties with which the French government would have had to contend, the Federal government demanded, and declared itself to be satisfied with, a declaration appended to the treaty and stating that Germany's acceptance of the Schuman plan does not imply assent to the present regime of the Saar.

Should the Federal government have done more? Should it, in particular, have made the ratification of the plan dependent on the previous solution of the Saar question? The debate in the French Chamber of Deputies showed that Schuman and Plevin had to overcome great difficulties with the plan in its present form. It would have been impossible for Schuman — who also has to contend with a resolute opposition, much preoccupied with the past — to achieve simultaneously the long overdue settlement of the Saar question in favour of Germany. To do this would have meant to wreck the Schuman plan. The Federal government, moreover, did not wish to give up this measure and acted on the right assumption that, if progress were achieved in the integration of Europe, this would advance a settlement of the Saar question and, at the same time, render impossible a heightening of national tensions.

#### **Berlin and Eastern Germany**

Those who opposed the plan claimed that its acceptance would be tantamount to the abdication of all claims on Eastern Germany and would jeopardize the position of Berlin. It is difficult to grant the seriousness of this argument. Berlin's senate, under its social democratic mayor, Herr Reuter, has demanded that the plan be ratified. The Germans in the Soviet occupied zone are officially dumb. What we hear from thousands of refugees, however, is the injunction that Western Germany should strengthen herself. The wish that Western Germany, in alliance with Western Europe and America, should bring about the liberation of the Soviet occupied zone by actually taking aggressive measures is certainly merely the expression of despair; it is, however, symptomatic of the desires of these fellow citizens of ours.

#### **Decartelization**

The ratification of the plan has been preceded by years of Allied interference with the structure of the German coal and iron industry. Whether, and to what extent, these interventions will damage the economy of the coal and iron industry, only the future will show. Certainly, it is thanks to the hard bargaining on the part of the Germans that it has been possible to thwart on decisive issues the Morgenthau policy followed by the occupation powers. It is equally certain that without a determined German foreign policy working towards European federation, those forces in the councils of the occupying powers which are hostile towards us would alone dominate the situation in Germany today. It is only through the foreign policy of the Federal government that it has at all become possible to discuss such matters. It is certain, moreover, that the ratification of the Schuman plan will bring to an end all interference with the German economy, on the part of the Allies, whether through the agency of the military security office, decartelization or the Ruhr authority. Those who hold that this is a desirable outcome must give their blessing to the plan.

#### **Problems of Integration**

The opposition's strongest criticisms were directed towards the fact that we would allow the European signatories of the plan unimpeded access to German coal and steel. During the debate in the French Chamber of Deputies, those who defended the plan against the attacks of its numerous opponents from France's heavy industry had pointed out that, under the plan, Germany would lose the possibility to keep its steel production from the French automobile industry in order possibly to allocate it to the Volkswagen works. This cannot be

denied, but the other countries which are signatories to the treaty also lose this possibility. Precisely where coal and steel are concerned, access to the French production may prove to be at least as important to us as the access of French purchasers to the German production. — As far as the coal industry is concerned, however, the situation is undoubtedly of quite a different nature. One can really ask whether the Schuman plan would have come into existence if the French had not seen in the present coal shortage the spectre of future drastic cuts in German deliveries to other countries. But will this shortage last for ever? The European coal market is, over longer periods of time, characterized not by shortage, but by surplus. Only extraordinary disturbances, such as wars, produce in a normal economy shortages of longer duration. Coal is lying in the earth in unlimited quantities and, in a balanced economy, can be produced in amounts sufficient to meet all needs. As far as this question is concerned, French longings for economic security and Socialist desires for a planned economy have been fused in the strangest fashion. A planned economy does not, indeed, know a surplus of goods, for the consumption is planned too. The experience of the last few years has clearly shown that a planned economy is rather characterized by a situation in which production actually lags behind demand. It is, therefore, impossible for the planners to imagine that they may have to give up the privilege of "misplanning" the economic goods produced in their self-contained sphere. Those who believe in free enterprise see in shortages only temporary disturbances, which can be overcome by the exercise of energy and industry. Therefore, whoever believes that the time when there will be a European surplus in coal must inevitably come, must be interested in securing free access to the European coal markets. This is also precisely why the German industry advocates the Schuman plan, whereas the French industry rejects it.

The opponents of the Schuman plan have impressively conjured up in the Federal Parliament the danger that Germany may be outvoted in the bodies responsible for the execution of the plan. This is undeniably true. However, this risk must be run upon becoming

a member of any community. If one believes that the advantages of European union outweigh its disadvantages, then one must take the risk of being outvoted in one's stride. As for those who hold that the creation of a European union within a very short time represents the last chance for Europe to survive in face of the Russian danger, they must agree to the plan even if it implies serious disadvantages.

The Federal government has been sharply criticized because, during the debate, it conjured up the vision of a greater Europe on numerous occasions and thus simultaneously covered up those defects whose existence it would be the last to deny. But should one refuse to take a decision at a time when extraordinary circumstances prevail, on the pretext that it is directed to a great aim? Are there any small measures still at our disposal today in order to save the well-nigh hopeless situation of Europe on the edge of the Russian continent? — One can support without a moment's hesitation the opposition's demand that, if one wants to achieve the integration of Europe at all, then the Schuman plan should be only the first step as well as its assertion that the structure which has begun to be erected will merely collapse if other "plans" do not immediately follow.

#### *Democratic Discipline*

The debate in the Federal Parliament gives one an impressive picture of the resurrection of the democratic functions. Government and opposition stated their point of view with restraint, but also with firmness. Both groups showed exemplary discipline. The exchange of views between the Chancellor and Herr Ollenhauer (who spoke for the Opposition, in Herr Schumacher's absence) concerning the necessity for, and possibilities of, a common foreign policy will have fruitful consequences.

It is certain that the opposition will loyally cooperate after the plan has been ratified. It is justified, therefore, in claiming adequate representation on the executive bodies of the plan. (lc.)

#### **By an Opponent:**

Even the fixing of a date for the debate on the Schuman plan was the subject of sharp disagreement. The Chancellor wished to wrest Parliament's approval in special sessions to be held before Christ-

mas and to follow immediately upon the committee stage; he would, then, have been able to present Germany's agreement to the coal and steel union at the European Army conference which took place in Paris on December 27th, 1951.

Had the parliamentary debate taken place before Christmas, no time would have been left for the members to order and evaluate the arguments and considerations brought forward during the committee stage. Thanks to their specialized knowledge, the civil service experts would have been masters of the situation, and the political aspects of the question would not have received sufficient consideration. In addition, the importance which was attached to the fixing of a date revealed that the coal and steel union was closely inter-connected with the European rearmament treaties which are being prepared.

After some hesitation, Parliament decided to postpone the debate to January 9th—11th, 1952, when it was conducted with a thoroughness which the Federal Parliament had never known before. The sober debate was characterized by the fierce onslaught of 12 social democratic speakers on all aspects of the treaty; speakers from the coalition and smaller parties alternated with the Social Democrats. Nevertheless, the result of the voting was not in doubt for a single moment, for the coalition fought the issue on two platforms. For instance, Herr Stegner, a Free Democrat, agreed with most of the factual arguments brought forward by the opposition, but he believed in Europe and, for this sake, was prepared to accept the obvious disadvantages and risks involved in the treaty. Thus the struggle became unequal, because faith is not to be shaken by arguments since it rises above the world of facts; on the other hand, however, faith itself becomes a factor to be reckoned with in the dealings of the world.

The difference in the points of view adopted in judging this treaty became even greater when the discussion turned from the single pros and cons of the 100 clauses and the equally long supplement, to the general political aims of the treaty. Here, thesis confronted thesis: the government look upon the coal and

steel union as a condition for Franco-German agreement, rendering future wars impossible. They believe an economic discrimination of Germany as against the other partners to be excluded by the existence of the general clause which lays down that no member of the union must be discriminated against. They hold the reunification of Germany to be possible only if the Federal government ally themselves closely to the West and use their strength to induce the Russians to leave.

Finally, the Chancellor accused the Social Democrats in sharp language of having hurt the feelings of the Western peoples with their arguments, inasmuch as they had frequently interpreted the previous debate of the French Chamber of Deputies as indicating that the French wanted, by means of the union, to achieve an expansion of their heavy industry and to perpetuate their political position as conquerors as far as Germany and the Saar were concerned.

The deputy leader of the opposition, Herr Ollenhauer, explained that the frequent references to the debate of the French Chamber of Deputies were meant to serve the purpose of demonstrating the different points of view involved; had they been covered up, they might have wrecked the union later. His strongest objections were directed at the omission of the German delegation to clarify questions concerning the Eastern zone, Berlin and the Saar. It was dis-

astrous, he said, that the treaty made trade relations with the Eastern zone dependent on the approval of the High Authority; before the negotiations were opened, one should have demanded recognition of the principle that the Federal government spoke on behalf of the whole of Germany. He did not reject European co-operation as such, but merely the

specific form of the treaty now being discussed, which was going in the wrong direction.

Should the parliaments of the other countries involved also ratify the treaty, then the latter will sharply affect the national economies. The foundations for Germany's policy within the framework of this treaty were laid during this debate. (tz)

## Old and New Clouds

The result of the division on the ratification of the Coal and Steel Union Act, which came out to be so favourable to the Federal government, has by no means swept away all thunder-clouds from the parliamentary sky. Quite the contrary, fairly dangerous clouds are anew piling up on the horizon overshadowing any hope that the government coalition and the opposition might agree on a joint course of foreign policy.

It might have been advisable to use the brief space of relaxation which seemed to evolve after the end of the generally objective debate on the Schuman Plan, for a joint action for all-German elections and for an early re-unification of the zonal states. And an attempt in this direction appears to have been made by a ready amendment of the bill on such elections. Unfortunately, it seems that the good atmosphere will be spoiled too early by granting priority to the defence problem.

The faith in Europe has led the Schuman Plan to victory within the Federal Republic. And this faith in Europe, or in the fact that the creation of a European community is essential to us, is upheld both by the government coalition and the opposition — although their respective conceptions are diverging.

Things are different with the issues of universal conscription and of the defence contribution, problems which are affecting principal and much more deep-seated contrasts. In other member countries, matters concerning the defence of Europe are approached with very great reservation. Such reservation, we should also observe; for we cannot afford to create grave conflicts of home policy on behalf of a conception of foreign policy which is as yet fictitious. It is this question more than anything else which calls for a solution on which both sides may be able to agree. (sk)

## The Schuman-Plan and Inter-European Trade

### BRITAIN: Developing Own Resources First!

#### *From Our London Correspondent*

Iron and coal have become bottlenecks in the British economy. The coal output is not high enough to supply the traditional export markets even if cuts are made in household coal at home. The iron gap is so wide that the licensing system of the war years had to be reintroduced. For the first time in her history, Britain is forced to import coal, and valuable hard currency markets for British industrial products are neglected because steel is in short supply.

Under these circumstances, Britain is naturally taking a vivid interest in availing herself of any

opportunity on an international level to increase her coal and iron supplies. This being the position, how is it, then, that the Schuman Plan can arouse so little enthusiasm in Great Britain — among politicians as well as in industry? The main objection no doubt is of a political nature: Britain will not and cannot place her key industries under the authority of a supranational body whose policy might be determined by factors yet unknown; the less so as her certainly reasonable requests for previous technical deliberations had been bluntly refused by the French at that time. Moreover, it is doubted

in British industrial circles that even a close cooperation with the Continental heavy industries could succeed in solving the existing problems of supply. Experiences gained in the supplies of steel from Belgium and of scrap from Germany have been disappointing for London. It is feared also that cooperation among the Schuman Plan countries would lead to increased exports of semi-finished products, thereby reducing exports of finished goods and adversely affecting British hard currency earnings for the benefit of countries with lower wages in the finishing industries.

When it is suggested to establish a permanent British delegation to the Schuman Plan Administration

as was the latest British proposal at the present stage of negotiations, political circles would think of a form of diplomatic representation while industrial circles would rather intend a sort of informal and uncompromising liaison such as the British steel industry had maintained at times — fairly successfully, at that — with the International Crude Steel Community; incidentally, it is by no means thought impossible to have this delegation later develop into a British Section of the Schuman Plan Administration after some practical experience has been gained. Although all efforts at international cooperation in the mining industry have been unsatisfactory so far, it is not intended to bar out any chance of profitable cooperation. That is why "association" is wanted rather than "participation".

At present, all endeavours by the British coal and steel industry are aimed at increasing production as well as imports. Unfortunately, hopes for an increase of coal output have not been realized so far although at least a negative progress can be reported in that output did not drop through the continued migration of miners away from the pits. In the steel industry, too, it is only with difficulty that a

substantial drop in production can be prevented; the plant and manpower required for increasing production are well available, but raw materials are in short supply, above all scrap. Joining the coal and steel union could solve neither the manpower problem in the coal pits nor the raw materials problem in the steel industry.

British industrial experts hold the opinion that, in the long run, the supply of coal and steel may be increased by a planned development of the production resources at home rather than by subjecting British interests to an international authority. It is also thought in Britain that the Schuman Plan negotiations of the past would not seem to justify the assumption that at a later date, when marketing problems may again be more important, the coal and steel union could be capable of a policy suppressing national interests and pursuing a common cause. The post-war experiences of the British mining and foundry industries reveal that normalcy on the markets can be only achieved by a planned and troublesome modernization, rationalization and expansion of production plants, but not by an organizational construction, be it ever so genial. (A.)

the Schuman Plan which it thinks could not properly function at all unless there was a continually promoted expansion of production.

Hence, French misgivings are limited to the home market, i. e. they concern the possibility of increased imports from Belgium and Germany after the coal and steel union was established. So far, import duties and differences in the freight charges have been affording a solid protection, leave alone the quotas. When the customs barriers will have been torn down, Germany will be in a position — even at the same prices off factory — to supply certain districts in France with cheaper steel and cheaper coal than could the country's own industry. This goes not least for regions which from within France can only be supplied by rail while for supplies from Germany the cheaper waterway transport can be used. Steel works in Northern France, on their part, are worried by their Belgian competitors who hold so favourable positions geographically, but they never made any mention of the German danger which is so often cited by the works in Lorraine. The last attempt which the entrepreneurs made prior to the ratification of the Schuman Plan by the French parliament, was therefore aimed at having customs duties reduced only gradually, i. e. at delaying the realization of a uniform market for several years.

It must be said, however, that there has always been more than one opinion on the Schuman Plan amongst French industrialists. The solidarity of enterprise is merely for the outside observer. The steel-consuming industries by no means agree with the fear which the Lothringian heavy industry has of competition, and behind the scenes they accuse it in rather plain language of defending the customs barriers for the only reason that they may go on supplying the French market at conditions more profitable than those at which they are supplying their foreign customers. An independent member of the French Economic Council (a University Professor of Economics) went as far as to maintain that, during the last 50 years, the French economy had been financing a periodically recurring export dumping by the French steel industry.

As France is at present forced to import coal from the United

## FRANCE: Rivalry Behind the Scenes

*From Our Paris Correspondent*

When French trading circles consider the repercussions that the Schuman Plan might have on the foreign trade in steel and coal, their greatest concern obviously is that imports might increase. France has never been a coal-exporting country. For steel, things are different, and home production considerably exceeds the capacity of the home market including overseas territories. And yet, during all the lengthy debates on the Schuman Plan nobody in France — not even the people from the steel industry — expressed the fear that the coal and steel union might badly affect French steel exports in future. The reason for this may be sought partly in the knowledge that the wording of the treaty will allow the steel works — over and above the uniform market — further freedom of action and competition as regards exports to third countries, and partly in the special position of French steel exports which, in the past, were marketed in other

Schuman Plan countries in negligible quantities only and the greater part of which went to South America, the British Dominions, and since recently to the USA.

Although the French steel industry went any length to fight the Schuman Plan and although it brought forward every argument that could even slightly serve its purpose, at heart it is so strongly convinced of its own dynamics and its possibilities for development that it does not consider the coal and steel union to be of any danger to its policy of expanding its own production and exports; at the same time, it does not speculate, by any mental reservation, on an eventual discrimination against its German competitors by suitable majority decisions — the relations of the French steel industry with its Belgian or even its Italian competitors are definitely not better than those with Germany — but the reason for its optimism for the future can be traced back to its conception of the true essence of



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States, the value attaching to estimations and considerations by the national coal mines is primarily theoretical. Lorraine need not fear the competition of the Ruhr, nor do the basins in Middle and Southern France which are favourably located from the transport point of view. For the coal pits in Northern France, there exists no doubt a structural inequality which is to be somewhat balanced by suitable measures of modernization by 1955. Even in the event of Western Europe producing surplus coal, the Ruhr would only be capable of selling France 2 or 3 million tons of coal more than it is now, that is after deducting additional French supplies to Southern Germany. At the present consumption of from 70 to 75 million tons, that is a negligible quantity and this is admitted by all the responsible industrial circles in France. As regards crude steel, only factories with a capacity of less than 100 000 tons have anything to fear from German competition. At worst, 6500 workers and 3.7 per cent of French steel production will be concerned. For cast iron, the figures are 1400 wor-

kers and 13 per cent of production, and for rolling mills, finally, 6000 workers and 10 per cent of production. Even without the Schuman Plan, these rather inefficient works would get into trouble as their production is not exportable and as, on the home market, the big works would choke them at the slightest recession. It is the opinion of independent observers that all other French iron and steel works have to fear no encroachment on their vitality by the Schuman Plan, but only the destruction of their cartel-like monopoly position on the French home market.

There is no doubt that the French economy does not like the exemption of steel from customs duties being extended to the overseas territories of the French Union which, then, can be supplied for the first time by other European countries under the same conditions as by the French competitors. This provision in the Schuman Plan must certainly be regarded as a concession France is making to her partners, for, things being as they are, French steel works will have to face a decline in sales. (fr.)

ally effective, she will sooner or later come to terms with it, as in 1935. At any rate, Italy's raw material resources are poor and her steel industry is producing at costs which are 30 per cent and more up on, say, the French or the German industry and the country cannot afford the luxury of freely competing with the big production community which is coming into existence in the northwestern part of central Europe. To protect her own industry from ruin by surrounding herself with a wall of high-protective duties, would have the same effect as a further increase in Italian production costs and a substantial rise of consumer prices. In consequence, Italy really had no other choice if she was to protect her interests.

The problem presenting itself with strong urgency today, is that of modernizing the production plant which is inadequate, antiquated, and worn out, and of raising the necessary capital from public funds. The government are aware that private means of investment do not exist and that crediting by financing institutes must be ruled out not only because of the prohibitive rates of interest, but also because of the impossibility to redeem even long-term loans out of current production; they are also aware, however, that in this sector the required investments must no longer be delayed. It is pointed out that, in France, the big works have been nationalized and, hence, are operating under State protection and that, in that country, roughly 115 thousand million francs had been raised even by the end of 1950 to increase iron and steel production, and a further 130 thousand million francs are to be appropriated for the same purpose. This is compared by the big Italian works who apparently cannot but organize for closer cooperation, with the advantages that the steel union will offer by regulating the allocation of raw materials and the marketing of their products. But, as in France,

### ITALY Had No Other Choice

#### *Report From Rome*

When Italy declared herself a party to the Schuman Plan, she accepted — in a sense — the rôle of the lame who has to try and keep pace with robust sprinters. When she did this, she was apparently convinced that she was choosing the lesser evil in order to prevent a greater one. The government have collected advice and have conducted lengthy deliberations before they could force themselves to pass a decision.

When this decision finally came out to be a positive one, it was presumably believed that the coal and steel union can be rated an important contribution to the realization of a European Union which Italy is wholeheartedly supporting.

And it was probably intended to prevent the Italian iron and steel industry from sliding back into the position it had been holding at the time of the International Crude Steel Community. For, also the Schuman Plan is lastly heading for cartelization and, hence, for the protection of the participating production areas.

In Italy, the conviction soon prevailed, and this was shared by big industry, that to stand aside would mean to frivolously play with risks. It was not overlooked that Britain had again avoided binding herself — as she had done in 1926 and 1933 — but it is believed in Italian industrial quarters that, after the European coal and steel union having become practic-



the innumerable small and middle-sized firms are more worried by the prospects of the future.

As regards Italy's present supply position which has not much of a foothold in the country's own mining industry, special mention should be made of the increase in the requirements of the iron and steel industry which was largely brought about by the production of finished goods for exports and which is evidenced by the import statistics in a degree ever increasing from year to year, from month to month. As far as is possible, Italy is trying to switch her import requirements to the supply of ore for her blast-furnaces (this ore comes mainly from Algeria, and

that is why the exclusion of that area from the treaty is regretted by Italy). With the realization of the shipbuilding programme and with increasing rearmament requirements, a further and rather substantial increase in iron and steel consumption can be envisaged.

Finally, it may be mentioned that the Italian considerations of the problems connected with the Schuman Plan are based on the assumption that the steel union is a tie between the producing countries and will therefore, contrary to private cartels, grant the (political) interests of the nations priority to the interests of production firms and groups. (st-)

which practically equals the actual amount of ore exports — anticipates the eventual boom in the European iron industry when the steel union comes into operation. It is believed in prominent quarters of Swedish industry that, quite independent from any influences of armament, the world demand for iron ore will rise for a long time to come, and they think that it should more or less go without saying that the impulse to come from the coal and steel union will even reinforce this upward trend.

The same holds true for Scandinavia's fuel supply and for the foreign trade in iron and steel. For all the commodities affected by the steel union, the Scandinavian economies have always been so closely interwoven with the world market or with Europe respectively that Scandinavia can do without foreign supplies as little as the other countries can do without Scandinavian exports. As, moreover, it is one of the major objects of the union to provide for a better and more even supply of the markets, it is believed in Scandinavia that in the long run the consequence of the creation of the coal and steel union can only be an expansion of European foreign trade.

There is, however, one limitation to what has been set out above. The iron industries of all the Scandinavian countries, with Sweden at the head, are being vigorously expanded. Through this development, their dependence on foreign imports of finished goods will gradually diminish. (dt)

## SCANDINAVIA Believes in Expanding Foreign Trade

*From Our Stockholm Correspondent*

If leading circles in the Scandinavian economy have so far been displaying some reservation toward the coal and steel union, it was not because they were still doubtful as to its realization, but because it is known that the execution of this plan which is to lead to European integration in one of the most important spheres of economic activity, will necessarily be accompanied by extreme difficulties. It is believed in Scandinavia that the interests of the member countries of that union will be diverging so greatly that it should be hard to reconcile them all. Yet, this project attracts the attention of the Scandinavian countries for the simple reason that it directly concerns such groups of commodities of their foreign trade as are of great importance to their supply position.

In their demand for fossil fuels, all the Scandinavian countries almost completely depend on foreign supplies. Furthermore, Sweden's exports of high-quality iron ore will — or can — be decisively influenced by the steel union. And Scandinavia's foreign trade in iron and steel must also be seen in this light although in quantity it is of much less importance. In normal times, Scandinavian imports of coal and coke amount to an average annual volume of about 15 million tons. It need not be considered that present imports of fuel are substantially lower since that is only a temporary phenomenon as far as can be seen. With an annual average of approx. 12 million tons

during recent years, Swedish ore exports hold second place in the country's foreign trade statistics.

For judging the effects of the Schuman Plan first on the Scandinavian, but then also on the European foreign trade, it is symptomatic that the Swedish Minister of Finance recently tabled a motion to raise the so-called right of transportation of the leading ore-mining company, the Loussavaara-Kiirunavaara A/B (Grängesberg trust), from 12 million to 15 million tons. In the first line, the motion was certainly prompted by the world shortage of iron ore and the improved prospects of marketing which this entails for Sweden. At the same time, however, one has the impression that the motion to raise the right of transportation —

## BELGIUM: Between Doubt and Rejection

*From Our Correspondent in Brussels*

There are economic, social and political reasons for the Belgian attitude which is hesitant between doubt and rejection.

As regards the economic aspect of the matter, it is said in mining quarters that the Plan will result in a gradual reduction of the Belgian potential — the figure for this is put at 4 million tons of coal — while the German collieries will be able, through financial assistance, to raise their output. Hence, the Federation of Belgian Collieries, for one, fears that the Belgian market will be flooded with cheap German coal and that neither the High Authority of the Schuman Plan nor the Belgian

government will be able to stop it. Furthermore, a very important person from the General Directorate of the Collieries has stated that the uniform market would lead to the closing-down of most of the pits producing bituminous coal as well as of some pits mining sub-bituminous coal. It is pointed out in this connection that a decline in production by 3 per cent would increase the unemployment figure by 25 000.

Finally, it is feared that the coal supply to industry will become irregular. For, in times of coal shortage nobody would be in a position to stop the coal-producing countries from granting priority to their own industries. In the event



of depending on foreign supplies, Belgian industrial output would consequently go down. The Federation points out that even a shift in production which can at best be expected, would seriously upset Belgium's economic structure since the country's mining industry accounts for 18 per cent of the national product as compared with 9 per cent in Western Germany and 6 per cent in the case of France. At the time of a boom, Belgium might be forced as a result of the Plan to have to purchase 10 million tons of coal for which payment would have to be effected in foreign currency.

The social objections to the Schuman Plan are directed against the differences in wages and social contributions which, it is claimed, are about 40 per cent higher in Belgium than they are in Germany. The Paris negotiations had shown, it is said, that for the sake of national interests the other countries were not prepared to level off these differences. In social-minded quarters, an important rôle must naturally be attributed to the fear that a participation in the Plan will bring about unemployment among the miners.

Belgium's foreign trade position largely depends on the German

customer, as goes also for the other Benelux countries. If it now came to Germany even dominating the inland coal market, it is argued here, there would be nothing to stop an eventual German pressure on the economy, and hence the policy, of the country. And these political misgivings can be refuted neither by the High Authority nor by the Statutes of the Schuman Plan, for they do not possess political power nor would they be capable of opposing the economic reality of a German position of domination, particularly so since Britain is not an economic or political partner in this respect. (an)

## *Decentralization as a Principle?*

### *The German Coal Marketing Board to be Liquidated*

#### **From the Ruhr:**

The policy of the Allies vis-à-vis the Federal Republic is characterized by strange discords which time and again surprise the Federal government as well as people in industry. At second thought, however, it is obvious that we ought not to let ourselves be surprised if we are aware of the motivating forces behind the Allied attitude towards Germany. But we are apt to forget this at times and our opportunistic hopes make us neglect that critical reservation which would keep us from disappointments.

The desire for increased productivity of the West German industry as a part of the defence efforts is still opposed by the fear of concentrations of economic power which has survived from the era of the Morgenthau Plan. There is no doubt that the coal shortage is one of the most dangerous hurdles checking the further development not only of the German, but of the European industry as a whole. An increase of the coal output depends on pre-conditions which to fulfill requires some considerable length of time. Within the limits of what is feasible, a rational distribution of coal is the only means of sparing the key industries as many as possible of the harmful effects of the shortage. And then, there is more than one type of coal. The immense differentiation of requirements and offers calls for a system of distribution which will at all times

allow to choose from among the many types of coal at the utmost economy. The centralization effected by the German Coal Marketing Board ensured a supply to the coal consumers with a minimum of economic friction.

Under the influence of the American ideology of decartelization which meets the intentions of German utopians of competition, the Sales Syndicate for Ruhr coal — which, for 60 years, proved to be an excellent thing — is to be liquidated, and the marketing of the coal to be split up between at least six sales groups. The permitted joint organization of all the Ruhr collieries which is to have only advisory functions, but none of direction, is likely to constitute nothing but a time-consuming intermediate office since any decision not agreed on would be taken to higher level, viz. the Coal Board to be established with the Federal government. What this means in a sphere so important as coal mining, every entrepreneur knows when he remembers the existing uncertainty and the delays of administrative decisions. The said re-organization is to be effected although coal consumers at home and abroad, mining companies as well as trade unions have been recommending, for reasons of economic common sense, to retain a central marketing organization.

Let me enumerate only a few objections to this absurd re-organization: the multitude of institutions to be newly established in the course of decentralization action —

which would be without trained personnel — would make smooth working difficult, the more so as they will have to apply to the Coal Board for any direction to be issued. The problems that can arise in the coal industry are manifold, often they are very aggravating and must be overcome quickly. They may be the results of various causes: sudden drops in production, shortages of some types of coal, stoppages in the distribution, sudden rises of demand, mistakes in estimate, so that re-dispositions are often required on a great scale. After a decentralization of coal marketing, such re-dispositions can only be effected by ultimate consumers, traders, and all the institutions of the coal mining industry carrying the matter through several channels of administration until they finally reach agreement, or even by referring it to the highest level, the Coal Board, for decision. Naturally, when differences of opinion arise, it will invariably be tried to force the issue to the final stage.

A particular trouble created by the decentralization will be the problem of types, primarily when one sales group attempts to withhold such coal as is distributed by it, but in short supply, from those plants which can also work on a type distributed by another sales group.

The decentralization of the Ruhr coal marketing board creates the danger of collieries increasingly returning to the practice of building up their own trade organiz-

ations so that, at times of surplus coal, they may have good firms among their customers; a rational distribution would thus be rendered impossible.

Should such regulation which all the economic partners reject a priori, really be forced upon them for the benefit of an inanimate principle, or should it not rather be asked whether or not there are other means of avoiding the dangers of hyper-cartelization? (b)

### The Consumer's Opinion:

The demand to liquidate the German Coal Marketing Board (the Deutscher Kohlenverkauf) is only one part of the huge wave of decartelization which was produced, on the one hand, by the American conception that economic policy in Western Germany should be limited in power and, on the other hand, by the missionary idea of "Ordo" as originating from the Freiburg school of thought. This fact must be borne in mind when the demand is considered. For, that a relatively uniform sales organization, perhaps a coal syndicate or two (say one for the private companies and one for the State collieries) would be more efficient than if sales are split up between each of the existing collieries, is not doubted by any one having acquired more knowledge about the multitude of types of coal, and of the requirements for coal and coke, than can be easily learnt from text books. To raise only one problem: who is to produce the mixtures of several types which at times are necessary from the technological point, if there is no liaison at least between groups of coal mines?

If the coal mining industry were entirely nationalized, the question of liquidating a joint coal sales organization would probably have never cropped up. Hence, there would remain one way out to

preserve the German Coal Marketing Board, namely that of complete nationalization! Great Britain has taken this step and has been paying for it ever since by getting less and dearer coal.

Things look a little different, however, in view of the nearly completed decartelization of the processing industries. Now, a Coal Sales Syndicate which would remain untouched as the only compulsory cartel yet in operation, would appear as a giant compared with the poor dwarfs the consumers. One remembers well enough the paralyzation of favourable geographical locations through the policy of instituting certain bases from which all freight rates were calculated so that, to cite just one example, a simple piece of paper imposed on the foundries at Aachen a fictitious distance of coal transports. True, it is considered to establish a Coal Council as a corrective to the dictatorship of supply; but the experiences gained with such mostly clumsy bodies make it doubtful that appreciable practical results should be forthcoming; for who would have the courage to offer independent advice when even a Federal Minister of the Economy must not voice heterodox ideas? Now, the demand for splitting up the Marketing Board must not only be opposed from the objective technical point of view, but there is also the objection which cannot be talked away that this would mean self-victimization on the part of the consumers.

One should look for an optimal way out of the situation created by the demand for liquidation and the concessions made in this respect. There are many ways offering: e. g. to newly permit and generously promote the establishment of coal wholesale organizations for entire branches or regions on the principle "force contra force",

which would be a re-organization of the coal trade as the second stage following the syndicate at the highest level — incidentally, it is surprising how little attention, and probably how little thought, has been given to this possibility — furthermore, to establish fair, and fair in the long run, competitive conditions in respect of imported fuels, which would also include fuel oils; or to truly desist from demanding every colliery to be a compulsory member of the Sales Syndicate. The very history of the Ruhr Coal Syndicate of the years prior to 1934 is an instructive lecture on competition inside and outside private cartels; I am referring to the chapters on the great outsiders, Wurm and Inde and the de Wendel collieries.

If all this is not what is really wanted, the generally propagated Productivity Drive should not lead one to break up historic development by an abrupt liquidation and to split up the Coal Marketing Board simply on principle. It would be acting like a school kid if, because of the breakage that has been produced out of the agreements of the processing industries, one would now make it a point to also produce breakage with the basic group of industries. Fractures are known to be producing crises. Although it is admitted that the Coal Marketing Board is handling the lion's share of the coal output — opinions vary only as to the amount of this share — it remains a fact that at present the smooth functioning of the general distribution of coal depends on it. The big, privileged consumers are getting their coal at least relatively without troubles, if only after demonstrations at times. And, up to date, those groups which are called upon to sacrifice have always been helped by the Coal Marketing Board if their forges were really about to run out of coal. (H.)

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## 1952 - A Year of Investments

By Dr. Clodwig Kapferer, Hamburg

In the long run, economic life follows causal necessities. Within brief spaces of time, however — and the period of one year with which we are concerned here, is such brief space — politics and the prevailing system of economic policy can overlap economic law and can weaken, or temporarily interrupt, its effectiveness. To discriminate between the normal and the abnormal, to weigh their heterogenous effects against one another and to prognosticate them in the future, is a task to be put to economic research at the beginning of a new year.

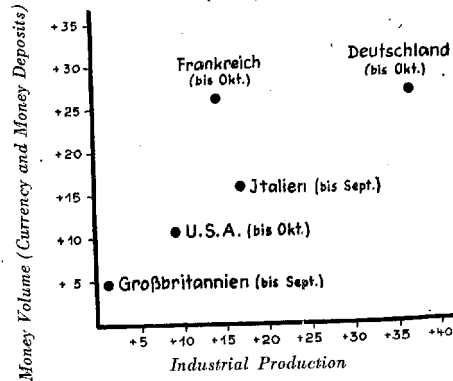
### Foreign Financial Aids and National Policy

The influence of political events on the world economy, and hence on the economy of the Federal Republic, was particularly deeply felt when the boom of an exaggerated demand on the world markets which had started developing quite some time ago and which had been predicted at long notice, was topped — at the outbreak of the Korean conflict — by another boom which threatened to upset the equilibrium between supply and demand. The efforts made by the USA. to prepare their territory, and that of the West-European countries, for defence prompted Western Europe to now make a powerful effort of its own in the same direction. Thus, the latent threat of war had been banished for the time being. What remained, however, was a state of cold war, and under its influence rearmament which has been generally decided on will continue and will encroach lastingly upon the economic life of all concerned.

This international cooperation is being closely related to the problem of foreign financial aids which for ten years has been playing an important part in international politics in the shape of lend and lease, Marshall plan and armament assistance payments. We may well say today that the Federal Republic has put the means allocated under the Marshall plan to better use than have some other countries to whom American policy has been far more generous in its allocations. But we may also say that we have not failed to actively cooperate in achieving as great as possible an efficiency in that we have rebuilt our production plant by way of financial means raised from the economy's own sources which was only made possible by broad masses of the population partly foregoing consumption, and in that we have endeavoured to make up for the inadequate supply of our money and capital markets by increasing the velocity of cash and book money circulation. This latter thing, we had to do simply because the money volume did not keep pace with the growth of industrial production. The following diagrams are to illustrate the position which the Federal Republic occupies in these respects in relation to other industrial countries of the Western world. Fig. I compares the development of the volumes of money and industrial production, Fig. II that of the velocity of money and new investments in the Federal Republic and some of the major industrial countries.

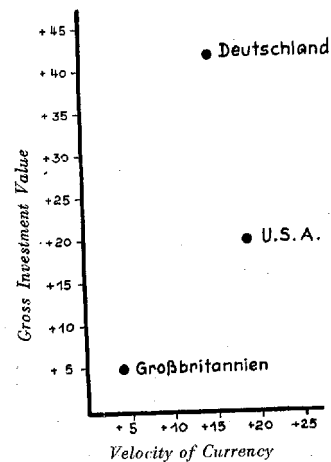
It is to be asked, however, in how far economic policy can unhesitatingly base its long-term dispositions on the granting of foreign aid. Foreign financial aids which are prompted by political considerations — as is the case with the American capital exports — contain a high degree of un-

Increase in Money Volume and Increase in Industrial Production Since June 1950 (in %)



certainty as to their duration, and some day it may happen that the provisions determining their use cease to synchronize with the political objects of the receiving countries. This insight must not lead us to underestimate the great importance which the Ameri-

Increase in Gross Value of Capital Investments and Increase in Velocity of Currency, 2nd Quarter 1950 to 3rd Quarter 1951 (in %)



can assistance has had to our reconstruction, or even to fail to pay it the tribute it deserves; for it was this very assistance which enabled us to achieve the economic success. Also, we need in no way be prejudiced against its continuation under different aspects, at present in the armaments sector and later, perhaps, within the range of the Point Four Programme for the development of backward areas. It is all the easier for us to adopt this attitude as the Allied policy of restricting our production is still holding our economic energies in check: by dismantling and

decartelization, by freezing investment capital in the counterpart funds, by liquidating the German Coal Marketing Board and prohibiting the reconstruction of essential dismantled plant, by our unfavourable initial position in the steel union, by the prevention of free prices for coal exports from the Ruhr, by the maintenance of production ceilings for the chemical industries, electronics, machine tools and shipbuilding, and by the restrictions on civil aviation and technical-scientific research. But the principal misgivings remaining against political financial assistance from abroad, should lead us to concern ourselves with finally overcoming the dangers arising from the dollar gap of the European economy. Above anything else, this would call for a positive attitude towards a greater European economic area.

**Investments In Competition With Private Consumption**

At first, the Korean war had led to a speculative exaggeration of the demand for consumer goods. This demand increased the production of consumer goods over and above the incomes of the consumers so that the resulting saturation of demand was necessarily followed by a recession which, in turn, curtailed the production of consumer goods. Thus, the soil was prepared for an increased production of capital goods. In any national economy, the quota for investments is competing with the quota for consumption, but it can be said that the expenditure for private consumption is a more constant quantity than the rate of investments.

The volume of the national product, meaning the creation of values by all the branches of a national economy, determines the amount of private consumption on the one hand and of the necessary investments on the other. This way of looking at things raises the following questions:

1. What will the national product be like in future?
2. What part of the national product will be absorbed by private consumption?
3. What means will be available for investment purposes?

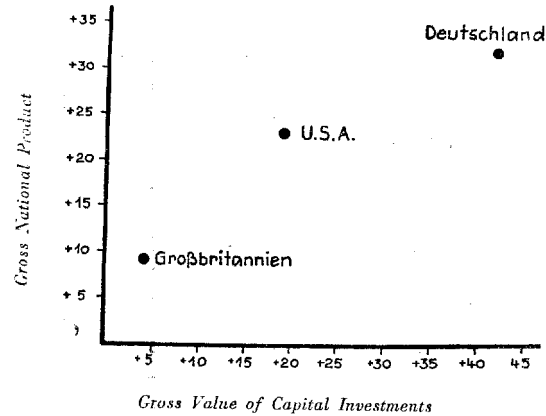
There are practically no possibilities of financing investments other than out of the investments quota of the national product, that is if one excludes the possibility of an influx of foreign capital goods or that of inflationary crediting at home.

Since the currency reform, the national product of the Federal Republic has followed a steep upward trend, and it can already be foreseen that this trend will last for some time to come after technical as well as manpower resources as yet unused will have been mobilized.

Fig. III shows the development of the investment quota of the national product, while Fig. IV shows in what proportions to the overall industrial production the various industrial countries of the Western world have increased their production of capital goods since the outbreak of the Korean war. The last-mentioned diagram illustrates the degree in which the USA., Germany, and Belgium are in advance, in this respect, of the United Kingdom and France where the increase of capital goods production is lagging behind the development of overall production. In the majority of the West European countries, the transition to armaments production was started by

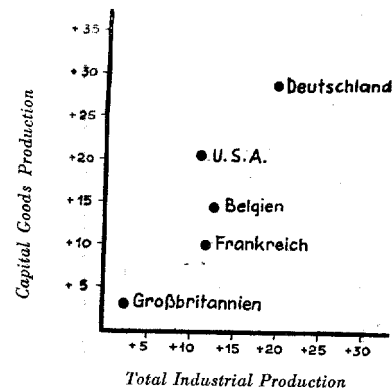
a curtailment of consumption. This was effected partly by increased taxation, partly by open or temporarily repressed inflation for which Great Britain and France may be cited as examples. In Great Britain, the requirements of rearmament became prevalent at a juncture when the production capacity was already fully utilized and when the manpower resources were exhausted.

**Increase in Gross Value of Capital Investments and Increase in Gross National Product, 2nd Quarter 1950 to 3rd Quarter 1951 (in %)**



Conditions were completely different in the USA. itself where the armaments production could be got under way without any substantial new investments since there were adequate production capacities which had been "canned" at the end of the war and could now be reincorporated in the economic process. In

**Increase in Capital Goods Production<sup>1)</sup> and Increase in Total Industrial Production, 2nd Quarter 1950 to 3rd Quarter 1951 (in %)**



<sup>1)</sup> Metal manufacturing and machinery.

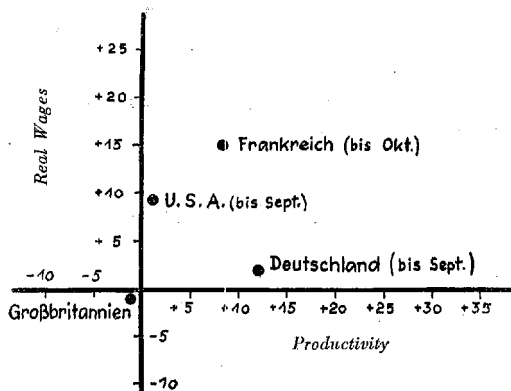
addition, the beginning rearmament absorbed the available manpower resources. Incomes and the standard of living went up again. The expansion of production made the tax yield swell up to the amount of additional expenditure required for financing the rearmament drive so that there was at first no fresh straining of the budget. Moreover, the USA.'s rising demand for raw materials sent prices up in the countries supplying such materials so that there the purchasing power increased and sales prospects were created which largely benefitted the non-American industrial countries.

Since the policy of rearmament will go on favouring the production of capital goods, one may rightly assume that, in all probability, the saturation of the demand for consumer goods will gradually become increasingly difficult and that the more durable consumer goods (such as dwellings, motor cars, furniture, household appliances and the like) will be hit harder by this development than will the short-lived commodities (footwear, textiles etc.) since the basic materials and the production apparatus required for producing the first-mentioned category are at the same time essential to the armaments industry. For the sake of maintaining social peace at home, the Federal government will have to ensure that rearmament is not effected at an excessive tempo, but rather gradually and that the Federal Republic's share in the total defence expenditure of the Western world is fixed in such proportion to her national product as would have due regard to her peculiar geographical position between East and West, to the special situation of Berlin which necessitates expenditure of a particular nature, and to the great social burden as created by the refugee population.

#### Price and Wage Trends

The absolute volume and the distribution of the national product are not the only criteria determining its development; these two factors have to be regarded in conjunction with the development of prices and wages. Since the time that the currency reform put economic conditions in the Federal Republic back to normalcy, wage increases have not only been effected out of profits or out of an increase in consumer prices, but they were accompanied by a substantial improvement in the productivity of labour. Since

Increase in Real Wages<sup>1)</sup> and Increase in Productivity<sup>2)</sup>  
Since June 1950  
(in %)



<sup>1)</sup> Wage Index  
Cost of Living Index.

<sup>2)</sup> Industrial Production Index.  
Employment Index.

the currency reform until the outbreak of the Korean war, the price index for industrial products in the Federal Republic has declined while at the same time the index of hourly wages has gone up. From mid-1950 to mid-1951, the price level for industrial products as well as the hourly wages rose in about the same ratio. In other words: industry could not only cover the wage increases out of the profits made but, in addition to that, it was capable of making extensive investments for expansions and improvements of plant.

Fig. V. compares the development of real wages in some of the major countries with the development of productivity.

It was only these rises in productivity which enabled industry to afford the wage increases. The fact that the employment figure of the West German industry has gone up from year to year in spite of sometimes considerable wage increases, is evidence that the wage claims have been reasonable economically. If this had not been so, the wage increases would have led to greater price increases for finished products than they really did, moreover they would have resulted in greater unemployment and, possibly, in a large-scale closing-down of industrial plant.

The armament boom sets in when the industrial countries of the West are in a state in the neighbourhood of full employment where there are narrow limits to an expansion of production while in the Federal Republic, and to a certain extent in Italy, such expansion can fall back on existing reserves and, hence, can be more efficient. In 1938, when the pre-war armament boom set in, the percentage of unemployment in the USA. was 20 % as against slightly more than 5 % in the middle of 1950, in Great Britain it was nearly 10 % against 1.5 %; in the Federal Republic, however, the corresponding figures are 0.5 % for 1938 and 5.3 % for April 1951, and in Italy, 4.2 % as against 7.9 % today. That is exactly why, e. g. in Great Britain and the USA., the tempo of the expansion of industrial production is slowing down noticeably. Compared with 1950, this expansion amounted to between 1 and 2 per cent in the USA. while, in the Marshall Plan countries, a recent publication by OEEC. estimates it at 5 per cent for 1952 as against 14 per cent in the previous year.

#### Overcoming the Bottlenecks

On the other hand, the relatively great impulses existing in the Federal Republic are checked by the structural handicap of bottlenecks in the basic industries and in housing construction. This handicap prevents the favourable circumstances prevailing in the Federal Republic in the shape of unused resources of technical production capacity and of manpower, from becoming fully effective. Hence, the pace of future developments will depend on the period of time that will elapse before these bottlenecks will have been overcome by an expansion of present production or an increase of imports.

The main problems are the difficulties in the coal supply position which developed into an acute crisis on account of strongly increased industrial consumption and of exports ordered by the International Ruhr Authority; it was not until autumn 1951 that this crisis was somewhat mitigated by a vigorous drive to raise the coal output, by additional though uneconomical imports from the USA., and by the utilization of the output of small collieries and single-shaft pits. There is no doubt that, after the long-term investment programme has become effective in the mining industry, it will be possible to saturate the demand at home and to meet the requirements of mandatory export orders. — Conditions are similar in the iron industry where investment activity also lagged substantially behind the demand and where, although somewhat more slowly, adequate supply can already be foreseen.

As for the long-lived consumer goods, the construction of housing accommodation is a top-ranking problem. But the demand for dwelling space is not the only factor determining the employment position in the building business, it is rather competing with other requirements. It was learnt from experience that there is a constant relation between building activity and investment activity; the share which the building trade has in total investments, is following a fairly uniform trend and came to about 60 per cent before the war. There exists a similar constant percentage for the share of living accommodation in the total building investments, and this is from one quarter to one third.

#### *Financial Stability*

Any policy of rearmament entails the danger that the expansion of the national product cannot keep pace with a demand swollen by armament expenditure and hence, that the price level will go up. In all the West European countries, therefore, the concern about how to maintain financial stability has become the cardinal problem of financial and economic policy. If this stability cannot be maintained, and the inflationary tendencies not checked, the danger arises that the now prevailing will of defence may be exhausted by the inevitable tensions and may then revert to its opposite.

In its efforts to neutralize inflationary tendencies, the finance and credit policy of a country will be successful inasmuch as it can prevent the price level from rising and as it can keep the value of money stable. To this end, it must maintain an equilibrium between supply and demand, and it can fall back on quite a number of means of policy from which it may select the one or the other or even a combination of them. I shall only mention: increasing taxation, cutting government expenditure for the civil demand, promoting savings activity, delaying less urgent investments, raising the standards for the granting of credits which would increase consumption, etc. So far, Great Britain and France have not succeeded in keeping stable the money value at home, while Switzerland has been most successful of all in this respect. The USA. has avoided inflation by expanding

production and by reducing stocks of raw material for civil production; Belgium and Western Germany have been able to check inflationary tendencies by deliberately and energetically restricting credit facilities.

The Finance Ministers of all the West European countries are faced with the question what possibilities there are to raise means, other than out of the tax yield, to meet the financial requirements of the defence efforts to the extent considered essential by America. Unless there is still room for tax increases, all countries are depending, above all, on increasing the production and the efficiency of their economies, but as has already been shown above, the prospects of development in this respect will be varying in each individual case.

At any rate, it is the task of credit and finance policy not to exceed the legitimate requirements of an expanding economy. Therefore, the central and the commercial banks of the Federal Republic will have to go on, in their future credit policy, to observe their present tactics of carefulness and reservation if they do not want to create, by way of crediting, a demand exceeding the production potential. Deflationary credit policy is the necessary counterpoise to economic expansion in an armament boom.

For the selection of methods to be applied in fighting inflationary tendencies, it is essential to appreciate the fact that national efforts, if they are to have lasting effect, should be accompanied by a willingness for international cooperation. International cooperation in the fight against inflation will have to follow the direction as set out in the late OEEC-Report:

1. Distribution of raw materials with a view to maintaining as great as possible a stability of the price level;
2. Promotion of price reductions by way of increasing international competition which can only be established through a further expansion of inter-European trade;
3. Consideration, in the selection of means of policy, of the effects which the measures adopted will have on the other European countries and on inter-European trade.

## Germany's Distressed Areas: A Task of Regional Policy

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The task of putting Germany's distressed areas on their feet again can be broadly divided into two parts, one structural and the other regional. The first question to be decided is how the distressed areas are to be incorporated in the fabric of the German economy. The second is, what regional centres are to be created and what backward areas developed. The first decision concerns general social and economic policy, while the second is one of regional organization, or rather of regional policy. The two complex problems are closely bound up with one another, and though we have just spoken of a first decision and a second decision, this does not imply that one is more important than the other. The one problem and its solution cannot be considered apart from the other. Structural questions are influenced by regional considerations, and vice versa.

#### REGIONAL AND STRUCTURAL DISEQUILIBRIUM IN THE FEDERAL REPUBLIC

The above statements as such have no general application. It is quite possible, and not so very long since it was the case in Germany, for the recovery of distressed areas to be a peripheral phenomenon of social and economic policy. Although much was written about the problems connected with the abolition of distressed areas in the 'thirties, this must not blind us to the fact that the base of the German social and economic order stood firm, and all that was needed was a certain amount of repair work. Today no structural and regional equilibrium exists. The economy of the Federal Republic is an artificial structure so long as German unity is lacking. Though to achieve structural balance must be our endeavour, it is plain that when the approach to this task has

to be made in presence of the hard fact of the separate existence of the Federal Republic, and hedged round with a thousand and one reservations, no final and satisfactory solution is possible. But the stump on which the new order will have to be built up reveals deep-seated changes compared with before the war; it is mutilated and over-populated as a result of the influx of around 9 million refugees. And finally it finds itself in the midst of greatly changed general political and economic world conditions. All these factors make the task of constructing a new social and economic order exceedingly difficult, and mean from the outset that it can only be temporary and fragmentary. The same is true also of the special task of rehabilitating the distressed areas.

For the structural disequilibrium is matched by great regional disequilibrium. This too is a serious burden which was unknown in this form to pre-war Germany. It is precisely because the Federal Republic in its present frontiers is only a part of the old Reich that the differences between areas which may be described, with certain reservations, as economically favourably situated and the distressed areas are so great. There are indeed a few regions where the scales are balanced, but in economic dynamics they are overshadowed by the extremes. As against certain productive, wealthy key areas, the chief of which are North Rhine-Westphalia, Württemberg, the Rhine-Main region and some south German industrial islands, we get a wide border zone, beginning on the coast of the North Sea, but running along the Iron Curtain, right from east of Flensburg to Passau, of areas where economic and social distress is very great. They are mainly agricultural areas, some of which, like the Bavarian Forest, were in a bad way long before the war. The special feature of these border zones with their stricken areas is the heaviness of the burdens imposed by the last war and its effects: masses of refugees, war damage, and the disastrous consequences resulting from the zonal frontier. The combination has turned many regions once thriving into distressed areas.

This very distinct belt of depression bordering on the Iron Curtain has what is more or less a parallel in some frontier areas on the Western border of the Republic, such as the "Rote Zone" (on the Western frontier), which have been severely hit by the effects of the war. The Ems region is in a special position. But running from East to West between the two frontier zones following the course of the central mountain chain (the "Mittelgebirge"), is a series of old depressed areas: the Rhön, the Vogelsberg, the Westerwald, the Hunsrück and the Eifel.

Even this short survey of the main centres of social and economic depression in Federal Germany shows that they cover a considerable area and that, in view of their situation, potential tensions and dangers are liable to be extremely serious. This means that the problem which confronts Germany's economic and regional policy, i. e. social and economic recovery in the shape of structural and regional coordination, is also a very serious political one. The individual Länder affected cannot possibly deal with a task on a scale such as this. How could Schleswig-Holstein, the whole of which is a distressed area, achieve recovery by her own efforts? Problems which are the result of the war generally — and most of them are

due to the war — can only be brought nearer to a solution by the community, that is to say by the Federal Government.

#### CHARACTERISTICS OF THE DEPRESSED AREAS

The diversity of the distressed areas and the structural factors have added a number of new symptoms to the classic characteristics of distress. In one of the first reports published by the former Reich Working Community for Regional Research, for instance, we read that the depressed areas are regions where the density of population was below the average for Germany, which can only maintain this thin population at a sub-standard level and are unable, therefore, to support an increase in their population corresponding to its numbers, keep these people in the area and find employment for them, and which, for all these reasons, were for years supported by the charity of the Reich and by welfare measures. This was the definition of the characteristics of the backward mountainous districts in the West, the Hunsrück and the Eifel, attempted as recently as 1938. The departments of the Federal Government which are now dealing with the matter have drawn up the following list of the characteristic features of depressed areas:

- a) Natural disadvantages such as the constant threat of swollen rivers, storm-floods and droughts;
- b) Technical and material disadvantages such as bad communications, poor living conditions, backwardness in industry and agriculture;
- c) Economic disabilities such as over-population generally, but also low yield per worker, low incomes and high rate of structural unemployment;
- d) Social handicaps such as a large non-propertied population with nothing to fall back on in times of crisis;
- e) Special disabilities which can in certain circumstances pervade all the main departments of life in the area, such as disease and vice, acute political differences, the creation of centres of social unrest, and disadvantages due to proximity to frontiers, cultural backwardness, etc.

Definitions such as these can serve one useful purpose, and this was indeed their intention; they can enable lines of demarcation to be drawn around the distressed areas. It remains for future discussion to decide which of the characteristics can be isolated with sufficient sharpness to be put into statistical form and serve as the basis for concrete delimitation, whether statistics of agricultural values, unemployment, taxable capacity, etc., are to be included, and how great the value of the statistical evidence is. These practical questions, important though they are, are less interesting when we come to consider the more fundamental aspects; here it is more important that we should try to classify the causes of distress which are really the crucial factors in determining the structural and regional tasks to be accomplished. For if we are seriously aiming at bettering conditions, we are not concerned with removing the symptoms but the causes. The Government departments have divided the distressed areas into:

- a) Areas over-populated as a result of the war ("new distressed areas");
- b) Areas whose functions have been crippled by war damage, where the standard of living is very low;
- c) The older over-populated backward agricultural areas ("old distressed areas").



Some of these types of distress are due to a single cause, while others are of mixed origin. Thus, the older depressed areas have become still more overpopulated owing to the war, so that the causes of the distress have been cumulative. Life is constantly mixing up the separate causes and giving the simple-sounding term "distressed" new meanings. If the term does not appear to correspond to any reality, it can only have arisen historically, i. e. it refers in each case to special non-recurring circumstances. With all these considerations in mind, the Government's representatives have designated the following as distressed areas, to be the object of relief measures:

1. The Bavarian and Upper-Palatine Forests.
2. The Frankenwald and the Bavarian part of the Thuringian Forest.
3. The Hochrhön.
4. The Vogelsberg.
5. Parts of North Hesse.
6. The Upper Harz.
7. The whole of Watenstedt-Salzgitter.
8. Elbe-Jetzel.
9. All of Schleswig-Holstein.
10. Wesermarsch, Wilhelmshaven, Friesland.
11. The Eifel.
12. The Hunsrück.
13. Other war-devastated agricultural areas on the Western frontier (the "Rote Zone").
14. The Hotzenwald.

The classification is by districts, the idea being always to include the actual centres of distress; in the Eifel, for instance, the rural districts of Prüm and Daun and parts of the districts of Bitburg, Ahrweiler and Mayen, in the Hunsrück the district of Birkenfeld, and so forth. In its "Reports" for 1951, the Institute for Regional Research gives information about a number of individual distressed areas, to which the reader is referred.

#### CHOICE AND APPLICATION OF REMEDIES

It is obvious that in view of the diversity and the novelty of the individual causes of the distress it cannot be overcome by the old remedies alone. The choice of the means to be employed is a matter in the first place of the prevailing economic order. A free economy guided by a State with a light hand cannot make use of the methods at the command of a police State. Quite apart from the fact that in a police State the case of the distressed areas has quite a different emphasis. But they exist even there, and a Land like Mecklenburg (in the Soviet zone) probably presents many points of resemblance with Schleswig-Holstein. One of the most notable features connected with the possibilities of recovery is that, irrespective of the prevailing economic order, substitute remedies can be found for distress in a particular area. Social distress can be abolished by economic recovery, agricultural distress by industrial expansion, industrial backwardness by improved transport facilities, etc. This substitute relief is made possible by the fact that the nature of the distress in each area is attributable to structural defects, that is, to causes which react on the whole and its different parts in the same way and are not isolated and do not have to be combatted as isolated phenomena. And the fact that the general consequences of the war are important factors in the formation of new distressed areas means a regional exchange of possi-

bilities of recovery on a scale hitherto unknown. Distress in one area could certainly be abolished by developing a suitable neighbouring area or even a neighbouring town which afforded openings for new industries. But conditions after the second world war have led to recovery at long range. This is something new in Germany. It is possible to relieve or even abolish distress in one area by investments in an entirely different Land not near it and not included amongst the distressed areas, or, to put it baldly, to restore prosperity in Schleswig-Holstein by building houses in North Rhine-Westphalia. We will revert to this problem in detail later. Speaking quite generally, it is a matter of alleviating social and economic distress in deficiency areas by deliberately promoting industry in prosperous ones. Because the recovery of Germany's distressed areas is the task of a structurally reconstructed German economy, the nature of the remedies and their application are structurally and regionally determined by the problem as a whole and are not localized.

If we are fully alive to these possibilities, the oversimplified alternatives presented to the public, namely whether in the recovery process the men should be brought to the work or the work to the men, can never rank as the crucial factor in the decisions taken. This problem is not a new one. It was debated in just the same primitive and extreme fashion, for instance, in the 'thirties and again at the beginning of the second world war when the issue was where the new armament works and their supplying works were to be put up or allowed to remain. To take a concrete example, the question was asked whether man-power should be taken away from the Erzgebirge and established in the Central-German industrial areas so that the entire process could be combined in one place, or whether the different processes should be kept separate and the workers left where they were. It was not possible to come to an entirely unequivocal decision in favour of either alternative even at that time, when these problems could be solved with the assistance of arbitrary employment contracts and other means of economic compulsion. And today the alternatives present themselves in quite a different form, particularly when it comes to deciding between re-settlement or industrialization in the over-populated areas. For a long time re-settlement was favoured, but now that re-settlement has proved difficult and slow to produce the desired results, the question of economic expansion, that is to say the industrialization of the distressed areas, has moved up to first place in debates and in economic planning. Now it is true that it is an elementary proposition in economics that in order to produce, capital and labour and the productive factor nature belong together. But we should be adopting very primitive methods, and methods which, particularly in view of the diversity of the tasks which present themselves in real life, would be doomed to failure, if we were to try to regulate this joint operation by such simple fundamental rules. The men and the work must be brought together; where this is to be done is a factual question which comprises many different elements. Hence, the two alternatives are really wrongly stated, and only lead us astray. It is to be regretted that they have had unfortunate consequences. For the original bias in favour of re-settlement caused industrial opportunities to be missed.

which at that time were more frequent than they are now. If people were too ready some time ago to hope for recovery through resettlement — for the disappointment felt today about the lack of progress made in re-settlement is due principally to an underestimation of the magnitude of the task — there is a danger now of their oversimplifying the possibilities offered by industrial settlement and glossing over the difficulties by talking glibly about redirecting labour to the "Mittelgebirge". As many of the distressed areas, particularly the older ones, are situated in "Mittelgebirge" such as the Bavarian and Upper Palatine Forests, the Frankenwald, the Rhön, the Vogelsberg, the Westerwald, the Hunsrück, the Eifel and the Black Forest, great importance is attached to the argument of the direction of labour to these industries. And yet an expert on this subject like Johannes Müller sounded a note of warning long ago against underestimating the importance of objective local factors in the German Mittelgebirge. He came to what was doubtless the correct conclusion when he said that the Erzgebirge and the Thuringian Forest, which are usually claimed to be characteristic examples of the industrial life of the German Mittelgebirge, are quite the opposite of characteristic, and are indeed in a class by themselves. He did not mean by this that they were unlike the other mountain regions, but that their industrialization represented as it were the ideal type, and that the other German Mittelgebirge lagged some way behind them, many of them in fact so far behind as to make conditions there completely different. In any case, industry in the German Mittelgebirge, from the historical aspect, is built up on objective local factors, and these factors still continue to play a significant role. We shall have cause to revert to this point later.

#### REDISTRIBUTION OF POPULATION

Now there is no doubt that of all the measures aimed at the general betterment of economic and social conditions in the Federal Republic, the most important is the achievement of a satisfactory redistribution of population. This is realized, moreover, as we have already shown, by the Federal Government departments. But redistribution of population cannot be taken as meaning that the density of population per square kilometre would necessarily be the same everywhere. There will always be areas of industrial concentration, and they will have much greater importance in the Federal Republic than they had in the Reich. For it is precisely to the fact that the Federal Republic possesses the most important concentrations of industry in Europe in the Ruhr that its regional disequilibrium is due. As re-settlement in the process of the redistribution of the population will divert population from what are mainly agricultural districts, it will inevitably enhance the importance of the industrial concentrations. We may not like this, but there is no getting away from it.

The Institute for Regional Research has expressed its views in various memoranda, opinions and other publications both on the question of the redistribution of the population and on its most important constituent factor, the shifting of refugees. It is not disputed that this task, which is probably the greatest single task in the reconstruction of the German social and economic order, devolves upon the Government. And it will be realized nowadays, especially after

the failure of the various attempts at officially directed regional resettlement, that the trend of free internal migration must be taken as the guiding principle, that is to say that the official measures too must be adjusted to the general movement from the over-burdened deficiency areas to the big prosperous ones.

Applied to the special position of the distressed areas, the meaning of the general lessons which emerge from the process and the results of free internal migration and officially directed re-settlement up to the present is this: officially directed re-settlement cannot aim at transferring refugees from one distressed area to another. Which means, in concrete terms, from Schleswig-Holstein to the Eifel. If the ideas outlined above are acted upon, directed re-settlement can only be effected by regions following free migration, that is to say from deficiency areas to prosperous ones, and not from Land A to Land B. The danger of re-settling refugees in other distressed areas can only be avoided by breaking away from the Land principle in the technical carrying-out of the re-settlement and by adopting the regional principle. The re-settlement schemes undertaken up to the present have erred in this respect. The fact that they have now been corrected as far as possible by free internal migration is an advantage for which we have to thank the free economy.

As these questions are of especial importance where the distressed area of Schleswig-Holstein is concerned, it behoves us at this point to describe the peculiar position in which this Land finds itself. Schleswig-Holstein's former industrial prosperity has been undermined by the war. It was founded on actual armament industries and their supplying works. About 130,000 jobs in industry were lost owing to war damage and dismantling. On the other hand a mighty stream of refugees poured into Schleswig-Holstein. Its population rose from about 1.6 million in 1939 to about 2.6 million in 1946, and amounted on January 1st 1950 to 2.7 million. Widespread permanent structural unemployment and social distress on an unimaginable scale were the inevitable consequences. Now as Schleswig-Holstein, in spite of its incursions into industry, has remained an agricultural Land, it does not possess the recuperative powers displayed, for instance, by the industrial concentration areas, where economic energy was only temporarily quenched by wartime destruction and dismantling. As soon as the bottled-up stores of energy were released these areas cast off their temporary rôle of distressed areas and have become the most important producing areas in the Federal Republic. It was impossible that Schleswig-Holstein should have possessed the same resilience.

Before 1939, it would have been unthinkable to rank Schleswig-Holstein as anything approaching a distressed area. It was a thriving agricultural region, resembling Denmark in this respect, though its agriculture was not so intensive as Denmark's. Seen from the angle of today, agrarian policy could certainly have served Schleswig-Holstein better. The very fact that its agriculture lagged behind Danish agriculture, which was carried on in the same natural conditions, shows what could have been done, certainly in agriculture in Holstein. This international change of direction should have been allowed to take place, as the attraction of the nearest large German concentration and agricultural marketing area in Rhineland-Westphalia as such had been diverted elsewhere and

was no longer directed to Schleswig-Holstein. The reason why this political change of front could not be carried out in the economic situation prevailing at the time, however, was because of the tenacity of the agrarian interests East of the Elbe, which could not be reconciled with what were known to be the interests of Schleswig-Holstein. East of the Elbe the aim was protective duties and withdrawal from the world market, not free trade.

Both factors, industrial dismantling and a not entirely fortunate agrarian policy, have accentuated the depression which set in in Schleswig-Holstein with the influx of the refugees. It is true that agricultural conditions there have changed under the pressure of these events. Schleswig-Holstein has been trying to support an agricultural population which has swollen since 1939, and has succeeded in doing so by effecting changes in its agriculture. The number of workers employed in agriculture has risen more in Schleswig-Holstein than in any of the other Länder since before the war, partly owing to more intensive vegetable-growing, which requires a great deal of labour. But the possibilities it affords are very limited. Relief on any material scale can only come from industrial reconstruction and expansion. But it is impossible to look to industrialization for a short-term solution of Schleswig-Holstein's refugee problem and with it the removal of the crucial cause of the distress there. Only re-settlement remains as the chief way out of the impasse. And here omissions of the past few years are making themselves felt.

As the result of free migration and directed re-settlement the population of Schleswig-Holstein had declined by the middle of last year from 2.2 million to some 2.5 million. It is thus below the level recorded at the 1946 census, but still far higher than in 1939. According to calculations of the Institute for Regional Research, a further approximately 630,000 people should still be removed from Schleswig-Holstein to other places, partly by officially directed re-settlement and partly by free emigration. The Institute's investigations have also shown that the chief difficulties connected with official re-settlement are that most of the active elements amongst the refugees have left the Land, partly by official re-settlement and partly by free emigration, and that the groups now to be re-settled consist of people rendered immobile by social, economic and psychological factors. But it is precisely these groups which give the distress in Schleswig-Holstein its special character and will, if they remain there, make it a permanency. People of low or restricted earning power, juveniles, broken-up families — to indicate some of the typical groups we are concerned with here — have much better chances of employment and training in an area where many different and highly-developed industries are concentrated than Schleswig-Holstein can offer them in breadth, even if industry is expanded to the utmost. It is general knowledge that in North Rhine-Westphalia opportunities exist for such groups, but that the whole scheme depends on whether or not housing can be provided for them. Only when new houses have been built in the prosperous areas to lodge the immigrants, will it be possible for them to take full advantage of their chances of obtaining employment, and for this purpose, again, the investment of funds in housing in the reception areas is necessary. It is in this sense that what we said above about the recovery

of Schleswig-Holstein depending on housing construction in North Rhine-Westphalia is to be understood.

Migration and housing construction are consequently inseparable, and this must be borne in mind in all measures aiming at the recovery of the distressed areas insofar as they concern the redistribution of population. The fact that the necessary coordination has often been lacking both materially and in point of time, is the chief reason why better results have not been obtained from re-settlement so far; though we must not, of course, demand the impossible from it. Many of the criticisms now being heard are unjust and without objective foundation. Re-settlement denotes not only a change of domicile but genuine incorporation, which in itself shows that it must inevitably be a long process of amalgamation. Furthermore, the annual quotas the nonfulfilment of which is receiving publicity are political ones. They were originally fixed at a time when no one could possibly have had any experience of what could be expected every year from officially directed re-settlement, and they were also fixed later politically. The information showing what free migration has actually taken place, by which, if it is to be successful, official re-settlement must be guided, could not be obtained and made available in the form of official statistics until later. And finally the criticisms often overlook the time factor and do not make allowance, in the unfulfilled quota for 1951, for the numbers left over from 1950 and actually settled in 1951.

But re-settlement is an important factor in the recovery not only of Schleswig-Holstein but also of other distressed areas such as the Bavarian Forest, the Rhön and North Hesse, to mention only a few particularly outstanding examples. This would of course involve re-settlement on a different scale. But the Bavarian Forest, which could only provide an adequate livelihood for some two-thirds of its population in 1939, and whose population rose by 33% owing to the influx of refugees after 1945, can only be relieved by resettling part of its surplus inhabitants, industrial expansion notwithstanding. These are measures many of which can be planned and carried out by the Länder independently, possibly on the lines of the much talked-of Hesse Plan aimed at internal recovery by means of an exchange of population from the distressed area of North Hesse to the industrial concentration area of Frankfurt-Wiesbaden. To what extent Government funds are required is another matter. But whether it be Schleswig-Holstein, the Bavarian Forest or North Hesse, in every case we shall get what we have called regional substitution of recovery possibilities. Furthermore, prosperous areas are helping by receiving the excess population which the distressed areas have no possible means of supporting. It should be noted further that the question of the industrial stocking-up of prosperous areas, possibly in the South-West of the Federal Republic, should also be considered from this angle. A fillip to industry in Baden would not only benefit that Land but would also, because of the arrangements that would have to be made for receiving refugees, help to restore healthier conditions in the far-away distressed areas on the coast. He who earnestly desires a return to prosperity for his own Land or his own distressed area must not keep his eyes fixed on what is happening inside its frontiers and believe that all

the funds that are available ought to be invested only in the area itself. An outlook as narrow as this may even do harm to that area.

#### INCREASING PRODUCTIVE CAPACITY

The various aspects of the tasks connected with re-settlement have been intentionally given first place here. It is these tasks which are the primary aim of all policy which has as its object the recovery of the distressed areas. And they are the more modern tasks, which did not figure to the same extent in earlier projects. All measures which set out to restore prosperity to the distressed areas by increasing their economic capacity are an old story. As the great majority of the distressed areas are agricultural ones, it is obvious that reconstruction schemes should begin by trying to raise their productivity. The very limited scale on which this is possible in a case like that of Schleswig-Holstein has already been described. There are some areas, however, where the chances of success for the whole area are greater. The distressed areas have often been called agricultural areas with a small agricultural marketable output. There are many quite different reasons for this; where the Rhön is concerned, for instance, they are: the flat stony land, the repeated parcelling-out of the land as the result of division of inheritance, bad farming methods and the unduly high cost of the land owing to the land hunger of the population. Emigration to America from the Rhön is very common, and the emigrants, the "Americans", eventually come back and buy themselves a plot of land with their savings. This sends up the price of land. Before the last world war it was nothing unusual for a hectare of land in the Rhön to change hands at from 5,000 to 6,000 Reichmarks, the value per unit having been somewhere near 500 Reichmarks. Needless to say, in such circumstances there is no question of making a profit on it in normal times. The result has been that these farms are encumbered with colossal debts. A sampling survey conducted in 1932 disclosed indebtedness amounting to 1,326 Reichsmarks per hectare of land under cultivation in the Rhön compared with an average for Bavaria of 537 Reichsmarks. Conditions are similar among the mountain farmers in the other Southern and Western distressed areas in West Germany, and almost all recovery projects begin by demanding that the question of the land shall be put on a sounder basis, because it is the essential precondition for all further measures such as improvements, better opening-up of plots, effective steps to counter the danger of erosion, freedom from debt, and a revision of credit conditions. Where the North-German distressed areas are concerned other tasks are more urgent: the cultivation of new moorland and fallow land, construction of water-protection systems and dykes, land reclamation, plant for protection from wind, settlement by refugee farmers, the introduction of new cultures, etc.

But even in the former debates on the older distressed areas in the farmland in the Mittelgebirge, it was generally accepted that the measures taken in the agricultural sector would have to be accompanied by others in the industrial sphere, either in order to provide the farm workers with an additional source of income or to drain off the surplus agricultural population into industry and thereby relieve agriculture of its redundant personnel. For at that time industrialization was regarded as the only way of lessening to any appreciable extent the burden of

excess population, and today it ranks second after the redistribution of population in reconstruction measures. Today, however, we shall have to consider the industrialization of the distressed areas as having a very close connection indeed with the redistribution of population, particularly with officially directed re-settlement. Unfortunately, as we have said, it was not clearly realized right from the start that the two measures must run parallel and be coordinated, and no proper care was taken when the re-settlement was effected to see that the entrepreneurs and specialized workers needed for the setting-up of new industries were left behind in the distressed areas in sufficient numbers. Hence, in many cases the distressed areas parted with all their specialized workers and were left with the others, the immobile, the tired, the people of low or restricted earning capacity. The distressed areas have lost the pioneers, who are not so vitally important to the concentration areas, whereas the less employable people who have been left behind could still have been usefully employed in the concentration areas. This is more or less a description, albeit a highly-coloured one, of actual events. The homes proposed for the new industries are first the Mittelgebirge and then the coastal areas. An important consideration here is the absence of a vital factor in industrial concentration, namely of large coalfields. We are therefore forced to proceed on the assumption that the industries to be set up will have to be ones for which the immediate proximity of coal is not essential. As, furthermore, the chief object is to provide employment for additional population, the new industries should be ones in which the emphasis is on labour and not so much on capital, as capital is in general dear and not easily come by. We can get some tips from concerns which were moved during the war. In this connection an interesting example is provided by what has been done in the Rhön by the Siemens concern, who already have works at Bad Neustadt-on-Saale and are now building another at Bad Brückenau. But the psychological moment for a successful industrial re-settlement in the Mittelgebirge was when the refugees first arrived. It would have been the obvious thing to transfer them as it were from one "Mittelgebirge" to another and let them get on with the jobs they had already been doing in similar surroundings in their old homes. But one "Mittelgebirge" is not the same as another, and Johannes Müller who was so emphatic about the special position of the Erzgebirge and the Thuringian Forest, stresses the fact that industrial activity in the Mittelgebirge has become most intensive where particularly outstanding industrial ability has been faced with problems of not more than average difficulty, as in the Erzgebirge, the Thuringian Forest and the South Westphalian mountains. Conditions in the Rhön, the Eifel and the Bavarian Forest are not like this, however. Perhaps the Sudeten Germans have had conditions more like those in the Saxon Erzgebirge and the Thuringian Forest. In any case they have made the acquaintance of quite different "Mittelgebirge" in Federal Germany. But leaving aside all these considerations, it is too late to do much about it now. Considerable sections of the refugee industries have established themselves in other areas, not a few in prosperous ones like Württemberg and North Rhine-Westphalia. By no means all of them, moreover, have gone into the country, and many have made for the large towns. In North Rhine-Westphalia, for instance,

the refugees industries are definitely centred in the large towns, and though in Bavaria they are to be found mainly in small towns of up to 10,000 inhabitants, this is not to say that these refugee concerns would have settled in Bavarian distressed areas for preference. They would most certainly not have done so. At all events, the great majority of the refugee industries are no longer floating industries which still have to find homes for themselves. They already have homes and will not part with them lightly. Hence, some incentive will have to be offered them if they are to be induced to go to the distressed areas as pioneers in industry. But this makes it all the more necessary for vigorous steps to be taken to find out what industries started by refugees in distressed areas are already in difficulties, possibly in the Bavarian Forest, but will have to be supported in the interests of the economic development of the area. In finding the answer to this question the opportunities on the world markets of the industries concerned must not be overlooked.

#### PLANNING AND IMAGINATION

In these, as in all other cases involving the setting-up of new concerns in distressed areas or the supporting of existing ones, careful planning will be necessary, but it must be done with a grain of imagination and not stick too much to outworn formulae. The industrial development of Wilhelmshaven is a highly instructive example of what can be done in breaking new ground. Versatility, the exploitation of all the special local possibilities and adjustment to opportunities on the world markets are demanded of the new industries, which should concentrate on producing high-grade export goods.

The speeding-up of industry and re-settlement are the two crucial factors in the rehabilitation of the distress-

ed areas. If they are to achieve it they will have to be supported by other measures. What housing construction is to re-settlement, increased transport facilities are to industrialization. All the different plans and proposals show that the chief requirement here is an expansion of the road system. The question of the construction of new railway lines does crop up now and then in the plans, but on the whole, where the railways are concerned, in this case once more it is not so much a matter of constructing new lines as of cutting rates. It is important, on the other hand, that new roads should be built so as to make it possible for new industries to be set up or for existing ones to expand and to bring the workers from their distant villages. Considerable shuttle traffic will often be unavoidable in the distressed areas. In this matter of shuttle traffic, too, public opinion has frequently been unduly prejudiced. The part played by this traffic as a criterion of prevailing conditions is often similar to that played by home industries, which are also a phenomenon frequently met with in distressed areas. There have been times when home industries have been regarded as the last word in social degradation, and the same thing sometimes happens in the case of shuttle traffic, so that its better aspects are lost sight of because of this unfortunate background.

It has only been possible to deal in broad outline here with the tasks and the possibilities presented by the rehabilitation of the distressed areas. And only the essential remedies have been indicated, measures whose aim it is to provide properly paid, permanent jobs. For relief measures which only set out to give employment to the unemployed "to keep them off the street" do not constitute recovery. They are often ill-spent capital.

## Do Branded Goods Require Price Maintenance?

By Prof. Karl Christian Behrens and Wolf Dieter Becker, Berlin

Neutral observers who have followed the discussions which have been going on for years about the merits and demerits of branded goods, will have been struck by the fact that the protagonists and the critics of such goods almost always use the term "branded" as it is defined in the statutes of the Trade Mark Association. We also find the Association's definition adopted in trade journals. The rule is departed from by Schäfer<sup>1)</sup> and H. Fischer<sup>2)</sup>, who analyse the functions of branded goods, but still take as their point of departure the concept of the "classical" branded article corresponding to the Trade Mark Association's definition.

According to that definition, branded goods are "Products of the same kind regularly put on the market in the same quality and presented in the same way, an identifying device of the maker (a mark — either the name of a firm or a picture or a word mark) indicating its connection with a specific place of origin being visible on the goods or on the package, and for which the makers have fixed a selling price valid for the whole of Germany which must be maintained by the trade"<sup>3)</sup>.

<sup>1)</sup> Zur Analyse des Markenwesens. Die Deutsche Fertigware, Stuttgart 1935.

<sup>2)</sup> Produzent und Markenwesen, Berlin 1939.

<sup>3)</sup> Quoted from: Bergler, Der Markenartikel im Rahmen der industriellen Absatzwirtschaft, in "Marktwirtschaft und Wirtschaftswissenschaft", Festschrift für W. Verhoben, Berlin 1939, p. 240.

Although decades ago there may have been justification for adopting this concept as a scientific working expedient, the time has come to reconsider the advisability of continuing to use this formula. Its inadequacy is demonstrated by the fact that certain articles which we automatically call branded goods are not included in it because they lack one characteristic, e. g. price maintenance. We cannot but agree with Bergler when he calls the Association's definition "mechanistic" and says that it "misses the point"<sup>4)</sup>.

The definition of the Trade Mark Association requires that branded goods shall possess three characteristics:

1. The same brand and the same presentation;
2. Be of the same kind and quality;
3. The same price, a maintained one.

Let us see whether these attributes are really typical of the branded goods of today.

#### BRANDING AND PRESENTATION

"Branded goods" originally came into being sponsored by the trademark, the most impressive identifying device. It shows the origin of the article and also constitutes a guarantee on the part of the makers or the dealers. The "guarantee" is addressed — generally via several stages of production and distribution —

<sup>4)</sup> Op. cit., p. 247.

direct to the consumer with the assurance that the goods for which the trademark stands are a high-class type of a certain kind.

It is this direct approach to the consumer which is the fundamental difference between branded goods and goods bearing no name and which constitutes the chief function of the trademark. Without the label there is usually nothing to tell the consumer whether the goods are really high-grade ones, as he has no means of subjecting them to a technical examination. The trademark therefore passes on the guarantee of quality direct to the consumer. It helps, moreover, to make the goods more widely known, hence it also performs a propaganda function. The necessity for the outward form of the trademark to remain unchanged as far as possible is so obvious as to require no further comment.

On the other hand the requirement that the packaging shall remain the same as a precaution against the goods being changed after they leave the factory is more open to criticism. In the years after 1945 many of the manufacturers improved the packaging of their branded goods without any question being raised of the quality having been changed, let alone lowered. The Sunlight Company, on the other hand, recently decided not to put up their prices to meet the big increase in the cost of paper, and are now offering their article on the market unwrapped. They say: "Even without the externals the housewife will ... remain loyal to us. At the same time we feel that by taking this step we have proved that urgent problems of the hour can be solved by unconventional action ...".<sup>5)</sup> The fact that so important a firm has had the courage to take this step, which is regarded by all the text-books as a very doubtful proceeding<sup>6)</sup> makes it look as though more importance has been attached hitherto to the use of the same packaging than was really necessary.

Where a branded article has given steady, genuine service for many years and has thereby become an indispensable part of the consumer's daily life, its presentation will not be as important as it is generally thought to be. Much depends, too, on whether the article is used daily or periodically. Changes in the presentation of articles of daily use will probably be accepted more quickly than when they are used periodically.

Hence, the trademark is the "guarantee transmitter" in the system, whereas uniform presentation is only an additional identifying device.

#### UNIFORMITY OF KIND AND QUALITY

The requirement that branded goods put on the market shall be of the same kind and quality means that the trademark is a token of quality. Besides guaranteeing the quality of the product (practical use-value, durability, etc.), in many cases it also indicates its dimensions, its type, etc., in the same way as the DIN. standards do. Indications of quality make for better understanding between the parties to the transaction and are an important aid to rationalization. It therefore behoves manufacturers of mass-consumption goods to lay still more stress on the sign-of-quality aspect of branded goods than they have done hitherto. But what do we find in reality?

Where the goods are harvested products, no such guarantee can be given with certainty. But no one

<sup>5)</sup> "Der Kontakt", the journal of the Sunlight A. G., 1951, No. 3, p. 4.

<sup>6)</sup> Cf. inter alia Bergler, op. cit., p. 252.



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will deny the many high-grade articles on the food and luxury markets their right to the name of branded goods on that account. The fluctuations in quality would have to be very noticeable to make the consumer give up buying the brand of his — often irrational — fancy and change to another one. Consumers are not as a rule concerned with slight changes. What matters to them is that the quality shall be habitually high.

But the "standard" function of the trademark system is discounted in another way, namely by the number of similar "high-grade goods" appearing on the market in the guise of branded goods. The consumer cannot detect the usually slight technical differences between them and authentic branded goods, for with the help of costly advertising small points can often be made to look like being vitally important.

This behaviour has still more harmful consequences when articles which have long since become mass-consumption goods are kept on the market as "artificial specialties". Here the tendency to rationalization of selling and consumption inherent in the system defeats its own object. The numerous "artificial" specialties masquerading as branded goods lead to unjustifiably high prices for many mass-consumption goods, the result being a depression of the consumer's standard of living.

It is reported<sup>7)</sup> that an American store once displayed for sale two piles of exactly similar towels, one of which was labelled "branded goods". When sales were checked up after a certain time, it was found

<sup>7)</sup> Weidmann-Lauter, "Der Markenartikel", two lectures, Zurich 1932.

that of all the towels sold, 80% were from the "branded" pile. This goes to illustrate the inexperience of consumers.

"Our economic system cannot give proof of its inherent strength", says an American expert<sup>8)</sup>, "if the manner in which extensive consumer markets are catered for, amounts to exploitation of ignorance and confusion." As a remedy for this state of affairs he suggests standardization of mass-consumption goods, which will help "to keep our free competitive economy sound, strong and efficient".

The trademark should stand for what is agreed by the consensus of economic opinion to represent a real advance in quality (and in value). If we aspire to this genuine efficiency competition, the individual branded article can only occupy a position of preference for a time; until, that is to say, the bulk of the products competing with it have caught up with it in quality.

The individual consumer cannot tell whether the goods offered him as branded goods are "artificial specialties", "pseudo-brands" or authentic branded goods. Mass suggestion by large-scale advertising has blunted the perceptions of the consumer to such an extent that many branded goods enjoy an opinion monopoly. It would therefore be to the interest of the makers of authentic branded goods to return to real efficiency competition so that everyone can recognize the difference between real and quasi-branded goods.

#### QUALITY MARK PLUS TRADEMARK

One way in which this could be achieved would be by the introduction of quality marks for mass-consumption goods. There was a strong bias in favour of this "collective confirmation of the quality of the goods" amongst manufacturers, dealers and consumers before the second world war<sup>9)</sup>, and if certain consumer goods were compulsorily subjected to uniform tests there would be no danger of a quality mark (control number) affecting the position of individual brands<sup>10)</sup>. The introduction of obligatory quality marks would not only make the public become attached to brands which may otherwise be brought into disrepute by "pseudo-brands". The quality mark would guarantee a minimum habitual standard of quality and would give the members of the Trade Mark Association valuable protection against the makers of pseudo-branded goods.

In this matter we should do well to copy the successful experiments carried out in the USA. in the quality grading of consumer goods<sup>11)</sup>. The quality grading is done there by official, semi-official and private organizations who have their own special laboratories. Every article to be tested is given the record number of the control station. In view of the dislike felt — understandably — in Germany for Government controls, voluntary organizations should be set up which would carry out the quality tests and put a quality label on the groups of goods tested. In agriculture we still have a comparable institution in the butter market dating from pre-war days. Another interesting point is that the American consumer organizations examine branded goods privately in

<sup>8)</sup> C. W. Moffet, quoted from Coles in "Standards and Labels for Consumers' Goods", the Ronald Press Co., New York 1949, p. 158.

<sup>9)</sup> H. Fischer, op. cit., p. 13.

<sup>10)</sup> Cf. H. Fischer, op. cit., p. 13.

<sup>11)</sup> In this connection see Behrens, "Standardisierung in Amerika", Rationalisierung, 1st annual issue, No. II, 1950, and "Standardisierung und Sortenbeschränkung", Zeitschrift für Betriebswirtschaft, 20th year of issue, 1950, p. 582 et seq.

their laboratories and divide them into three categories (recommended, fair to middling, not recommended). The goods also have quality marks (identifying labels) affixed to them after testing. Their use is voluntary; they guarantee the customer a relatively constant quality and give customers who buy "over the counter" the advantages enjoyed by wholesale buyers with experienced buying agents and laboratories of their own. Nor would buyers of finished or consumer goods be the only ones to benefit by quality grading. We also meet with the marks of the makers on raw materials ("basic standards"). An example of this in Germany is Nino-Flex branded poplin, which is supplied to more than 300 manufacturers. In the USA., the US. Steel Corporation's mark is to be found as a guarantee of the quality of the steel on many manufactures, from children's toys to railway bridges<sup>12)</sup>.

The practice of quality grading of consumer goods and raw materials benefits consumer and manufacturer alike.

#### FIXED SELLING PRICES (PRICE MAINTENANCE)

We must begin by explaining the term "price maintenance". Price maintenance may mean two things: uniformity of prices and stability of prices. We can interpret uniformity of prices in the first place as meaning that the prices of certain goods in a certain district are the same everywhere at a given moment. If we are referring to prices in one place, then uniformity of prices means that the price of each unit is the same to each buyer of the commodity. In this case we call this a "fixed" price, that is to say there can be no "beating down". Stability of prices includes the time factor. It means that the price of the article remains unchanged for an unstipulated length of time. Stability of prices may be absolute, i. e. independent of the fluctuations in the value of money and the level of prices. It may also mean, however, that the "maintained" prices rise or fall in harmony with the ups and downs of the general price index. In this case there is a "sliding scale" for each branded article the price of which is maintained.

When we examine price maintenance for branded articles we find that it is a question of regional uniformity, "fixed" prices, and stability of prices, linked with the general price level. The distinction between the three aspects of resale price maintenance — which some people would like to see introduced again — is important inasmuch as its advocates and critics frequently select one of them and on its basis pass judgement on the whole complicated question of price maintenance. It must be remembered that the peculiarities which have characterized the practice of price maintenance up to the present, have been due precisely to the joint operation of the three factors.

Regional uniformity of prices affects chiefly the calculation of transport costs. Assuming trade margins on branded goods to be "standardized", two courses are possible: either the transport costs are calculated by the manufacturers, or the trade margin must be fixed at a level which allows of their being calculated by the wholesale and retail dealers. In the first case the manufacturer establishes a total transport costs account. He uses the surpluses resulting from moderate transport charges on the one hand

<sup>12)</sup> Cf. Hundhausen, "Die betriebswirtschaftliche Bedeutung des Markenartikels", IndustrieKurier No. 81, 13. 5. 51.



to offset deficiencies of other buyers. The transport costs, which are originally genuine individual costs, now become general costs, with all the problems which this raises. The result is that the dealers nearest the production end are prejudiced for benefit of the others. It is also possible for the manufacturer to fix uniform trade margins by zones (freight basis); however, this does not alter the principle.

While the individual dealer has little say in the matter of transport costs, he has it in his power to decide the amount of the other trading costs. Uniformity of selling prices means the freezing of trading costs. In theory, of course, when selling prices are maintained the prospect of a higher share in the profits acts as an incentive to lower costs. But the technical effort and the organization required to bring costs down calls for initiative, and so long as there is no compulsion to reduce costs dealers will be reluctant to tackle problems of this kind. Compulsion to reduce costs only exists, where prices are free and competitive. Fixed prices stifle the commercial ability of the trader, particularly that of the retailer.

The fact that the trade itself wants resale price maintenance, thereby shirking its commercial functions, has nothing surprising about it while the dealers' rebate on branded goods remains relatively high (25—40%). The opponents of free competition see nothing inconsistent in their refusal to countenance the free operation of supply and demand in the case of branded goods. "The majority of independent traders want to remain free, but they do not want the price mechanism of the free economy. In their opinion, a free economy means leaving them free to make money."<sup>18)</sup> Can it be that the underlying reason for the resistance to free competitive prices for branded goods is the trade's unwillingness to take risks?

As for stability of prices, this is contrary to the principles of the modern dynamic economy. Artificially maintained stability of prices is uneconomic. It would be better if the prices of branded goods, too, were determined by supply and demand on the market.

All price controls are uneconomic, no matter whether the control is exercised by the State or by private groups. Prices are deprived of their most important function; liaison between production and demand is lost. It seems strange that while price maintenance by the State is opposed, an attempt should be made to create a special reservation for private price-fixing in the field of branded goods under the wing of the prospective Cartel Law, although the economic consequences to the consumer are the same in both cases.

Federal Minister Erhard has expressed the view that price maintenance is admissible on the ground that the efficiency principle is already embodied in the trademark<sup>19)</sup>. His own experience, he said, had shown that there was keen competition amongst the makers of branded goods in the matter of quality, hence the demand for free competition was already being given its full due; and Prof. Nölting thinks fit to call in the "man in the street" to testify to the necessity of fixed prices for branded goods, because they save him the trouble of deciding which goods amongst the confusingly large selection on offer in

<sup>18)</sup> "Der freien Wirtschaft zum Gedächtnis", Köln and Opladen, 1950, p. 55.

<sup>19)</sup> Der Markenartikel, 12th year of issue, 1950, p. 84.

the market represent the best quality and give him the best value for his money<sup>15)</sup>.

If the makers of branded goods really compete keenly with one another as to quality<sup>16)</sup>, then there is no reason why competition should not be extended to prices. And to Prof. Henzler's question<sup>17)</sup> why the makers of branded goods should not offer their goods with prices, since they already advertise their packaging, their quantity and their quality, the answer is: for the sake of freedom of markets, to promote rationalization in commerce and to reduce trade margins for the benefit of the consumer. Price maintenance acts as a curb on efficiency, as it forbids a fair weeding-out.

#### PRICE-CUTTING IN BRANDED GOODS

The price-cutting argument looms particularly large in debates on branded goods. The constant-quality factor is said to determine the position of the branded price in the price fabric<sup>18)</sup>. Any change in prices, particularly any cutting of prices, shatters the confidence of the public and leads to the loss of custom. Kuhr, in an article on "resale price maintenance for branded goods in Germany and the USA."<sup>19)</sup>, points out that in Germany there is no empirical basis on which to assess the effects of price-cutting. The German courts have always protected price maintenance, and according to "Der Markenartikel", even latterly, despite the prohibition of price maintenance by the Allied Cartel Laws<sup>20)</sup>, there has been no "cut-throat" price-cutting. In the USA., where the struggle for the recognition of resale price maintenance still goes on, the results of two inquiries into "cut-throat" price-cutting have been published. The most important of the findings are: 1. The Federal Trade Commission could find no single case of branded goods having been driven off the market as the result of price-cutting. 2. Exhaustive inquiries showed that when "leader" price-cutting is applied, the loss on the "leaders" is not offset by an increase in sales of regular lines, and that total profits are indeed reduced. It is improbable, therefore, that the practice of "leader price-cutting" will become widespread. The US. Supreme Court has given a ruling on the legal position by pronouncing against resale price maintenance. Its decision was arrived at on the ground that horizontal "restraint of trade" may be readily effected by a vertical "agreement" under the terms of the Sherman Act. The "Miller Tydings Resale Price Maintenance Act" of August 17th, 1937, which is always being quoted in Germany is in blatant contrast to the judgment of the Supreme Court and is to be rated — according to Kuhr — as a "surprise success won by persons representing the interests of the dealers". The Miller Tydings Act removes price agreements in inter-State trade from the scope of the prohibition imposed by the Sherman Act when the goods concerned are in "free and open" competition with other goods of the same kind, when the agreements are not horizontal, and when the Federal State concerned permits the agreement<sup>21)</sup>.

<sup>15)</sup> Handelsblatt No. 56, 17. 5. 50.

<sup>16)</sup> The German Committee of Inquiry took quite a different view. Cf. Kuhr, "Preisbindung der zweiten Hand bei Markenwaren in Deutschland und den USA.", Wirtschaftsdienst, 31st year of issue, No. 6, June 1951, p. 28.

<sup>17)</sup> "Der Markenartikel als wirtschaftswissenschaftliches Problem", Der Markenartikel, 13th year of issue, 1951, p. 331.

<sup>18)</sup> Bergler, op. cit., pp. 278 & 268.

<sup>19)</sup> Kuhr, op. cit., p. 27 et seq.

<sup>20)</sup> Cf. Der Markenartikel, 12th year of issue, 1950, p. 207.

<sup>21)</sup> This does not apply in Columbia, Missouri and Texas, where price maintenance is explicitly prohibited.

**SECRET**

Colour is lent to the suspicion that the Miller Tydings Act was a temporary error of policy, by a recent decision of the Supreme Court. Price maintenance in respect of non-contracting dealers was declared to be null and void; the result was an enormous fall in the prices of branded goods in stores not bound by contracts. This episode incidentally showed that the makers of branded goods still had plenty of means of defence against "cut-throat competition" even when the protection of price maintenance was withdrawn. For the articles affected by the fall were quickly sold out, and subsequent deliveries by the manufacturers were delayed so long that a certain stabilization of prices set in again.

#### DOMINATION OF THE MARKET THROUGH PRICE MAINTENANCE

According to Erhard <sup>22)</sup>, the possibility of being able to dispose of the goods concerned at any time at the fixed price points to the existence of a monopoly. The characteristic feature of a monopoly is power. The power may be greater or smaller according to the influence wielded by the monopolist and to the elasticity of the demand. Mass suggestion by advertising creates a "psychological monopoly" (Lisowski), or, to use Nölting's euphemistic phrase, a "voluntary goodwill monopoly". This means reduced elasticity of demand, however, hence a reinforcement of the monopolistic tendency. But it must not be inferred from this that every maker of branded goods is to be written down as a monopolist. Modern economics has shown us the different shades of power, from unrestricted com-

<sup>22)</sup> "Einfluß der Preisbindung und Preisbildung auf die Qualität und die Quantität des Angebots und der Nachfrage", in "Marktwirtschaft und Wirtschaftswissenschaft", Festschrift für W. Vershofen, Berlin 1939, p. 63 et seq.

petition through oli absolute monopoly, all set out in a row like of pearls, and we shall probably not be far if we do not expect to find many markets for branded goods where there is unrestricted competition.

Price maintenance is not an essential characteristic of branded goods. It is impossible to argue away the fact that blocked prices are uneconomic and have the effect of monopolies. The prohibition of price maintenance will not provide a universal remedy which will lead to real efficiency competition in all markets, but it will bring us nearer to a solution of the problems outlined here.

#### DEDUCTIONS

The standard and token-of-quality functions of branded goods must be counted as positive factors from the standpoint of the rationalization of distribution and consumption. Their operation is neutralized at present by "pseudo-brands" and "artificial specialties". An attempt is being made by mass suggestion of consumers in the shape of large-scale advertising to create an opinion monopoly for quasi-branded goods which constitutes a serious threat to free competition. Weeding out by efficiency in the trade, and rationalization of the firms in the trade with the object of lowering costs and prices, is hampered by the fixed ultimate selling price. There is no justification for private price maintenance and its uneconomic consequences. Indeed we must assume that the power motive plays some part in it. The function of the branded goods system, i. e. to educate the consumer and the trade to rational trading and to increase productivity by an improvement in quality, cannot be achieved by this means.

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