

PREFACE.

Henry Morgenthau is right: "Germany is our problem." As victors it is our privilege to determine the future of the vanquished. As members of the Allied Control Council we exercise a part of sovereignty in Germany. By establishing a Military Government in our zone we assumed responsibility for the course of Germany. Even if we would want to get rid of our liabilities once assumed, we could not. The spirit in which the actual work in Germany is done is best stated by the following words of the Commander in Chief of the British zone, Field Marshal B. L. Montgomery, addressed to his Military Government officers:

***"For five months we have been clearing the ground, and the task of sweeping clean is still proceeding. As we approach its completion we shall be entering, in concert with our Allies, the second stage, the stage of reconstruction. Much of the responsibility for guiding and supervising this reconstruction rests with you. The defeated enemy must be made to put his house in order. He must learn to feed himself. Also he must be made to pay for the war which was of his making. At present he cannot sustain himself, far less repay what he owes. First he must be raised to his feet, and then made to work in such a way that he will not only be able to liquidate his debts but finally find his own salvation. We shall try to be wise conquerors. As we were strong in battle so we shall be just in peace.

You are here in Germany to help with the administration and reconstruction of the most ravaged country the world has known. On you will depend the shape of the future Germany." ***

This paper reports personal experiences and impressions. It may ~~perfectly~~ well be that most of the section chiefs of the Industry Division, Economic Branch of Military Government with whom I worked have similar experiences and impressions. However I alone am responsible for this report.

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1. Description of Assignment. On July 28, 1945 the War Department, Office of Chief of Ordnance, with the consent of the Department of Justice, Antitrust Division, gave me the order to leave Washington for Paris. I left by plane on August 2nd and arrived in Paris on August 3rd where I reported the next day to Headquarters Theater Service Forces, European Theater, Office of the Theater Chief of Ordnance.

This office, (part of G-4) was entrusted with production control in Germany in a limited field of industry (for instance, machine tools, automotive, optical and fertilizer (phosphate) industries). I was assigned to the Chief of the Office, Colonel D. Martin. The opportunity was given to me to study all memoranda and files compiled since April 29, 1945, the day of the establishment of production control. The first two problems assigned to me were the preparation of a memorandum ^{FOR} to Colonel Boyd, in ~~charge~~ of the entire G-4 Production Control, ^{ON THE EFFECT OF THE POTSDAM DECLARATION ON PRODUCTION CONTROL} and the examination of ~~the effectiveness~~ of patents of firms situated in the Russian zone ^{EU} on industrial activities in our zone.

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2. Local Scope of Observation. The problem of German agencies required trips to the entire U.S. zone (Württemberg, especially Stuttgart; Bavaria, especially Augsburg, Munich, Regensburg, Nurnberg, Fuerth, Wuersburg; Baden, especially Heidelberg, Mannheim, Karlsruhe; Hessen, especially Darmstadt, Frankfurt, Wiesbaden.

The continuously progressing merger between Military Government in the U.S. zone (USFET) and U.S. Group Control in Berlin made ^{it} necessary that I ^{to} went to Berlin and ^{kept} ~~kept~~ close contact with our office there. Every weekend was devoted to a study of conditions in other zones; French zone (Coblentz, Andernach); British zone (Goslar and Osterode). All trips including those to Paris and Frankfurt were made in cars, almost always in jeeps. That gave me an opportunity

Berlin in the Russian zone.

3. The Human Scope of Observation. My work brought me in continuous contact with the present public officials of South Germany, leading industrialists (managers of the Metallgesellschaft (Petersen and Euler); Brown-Boveri Co. (Schnetzler and Rechel); Siemens (Dr. von Siemens); Henkel (Dr. Petersen); Giulini (Dr. Giulini); Jahr, Philip Frank and Kiehl of Deutsche Bank, Veit of Hardy, Berlin); lawyers (Geiler, Zutt, Anders of Baden, Augrecht of Württemberg); Managers of Chambers of Commerce (Hilbert of Frankfurt, Vogel of Augsburg, Kloepper of Munich, etc); leaders of labor (Minister Rosshaupter of Munich, Stetter of Stuttgart and Binder of Wiesbaden); professors (Boehm and Alfred Weber)).

Most Germans who for one or the other reason came to headquarters - scientists of highest reputation on the one side and young boys looking for the proper place to surrender messages on the other (and every type between these two groups) were sent to me for consultation. Among them were Nazis, Communists and those of any other political affiliation. I met many old friends. Some of them were real heroes of the anti-Hitler fight.

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I remained two days in Maria Laach, the old Benedictine monastery, where I discussed the most interesting problems with the venerable Abbas Ildefons Herrwegen and with the prior and monks. The number of workers and young people with whom I talked in plants, streets and at every opportunity ^{WAS CONSIDERABLE.} ~~is very great.~~

Sec. 2. Some Basic Facts Necessary For The Understanding of Problems in Germany.

The reader of any report on Germany of today should keep in mind certain facts:

1. Actual Figures of Residents of Germany:

Germany as of 1937 (before the beginning of the period of conquest) had 71.2 million inhabitants. The ^{DETERMINATION} ~~finding~~ of the actual war losses is a very important pre-condition of any economic discussion. There are very substantial differences between official information, published by Russian sources (which went as high as 12 million) and private publications. The most well-founded answer to my questions on this point was given by Dr. Buergdorfer, president of the Bavarian Statistical Office. He gives the official Bavarian figure as 200,000 soldiers killed, to which figure however, 100,000 unreported soldiers are to be added. ^{Fn.} The Bavarian population is about 10% of the entire German population. ^{I WAS ADVISED BY EXPERTS THAT} Bavarian troops were distributed over the entire German army, ^{ASSUMING} ~~therefore~~ ^{WHEREFORE} ~~fore~~ the estimation is ^{CONSIDERED} ~~justified~~ that the figure of 2 million is correct, to ^{ABLE} which about 1 million missing soldiers are to be added. In regard to the air war losses, the same statistician reports that Bavaria -- in spite of the complete destruction of ^WWurzberg and other cities -- lost 21,200 people. In this regard Bavaria is not typical since the city of Pforzheim lost about 24,000 people in one air attack. However, the Bavarian figure is a warning against exaggeration of air war losses. It is certain that the figure of air war losses does not exceed 1,000,000 persons. That would mean that Germany lost all in all, 3,000,000 people during the war, to which a certain percentage of the 1,000,000 missing are to be added. The surviving Germans will find within their borderlines

1.7 million people from Danzig and Poland, 2.5 million from Czechoslovakia, 800,000 from Hungary, Austria and other Eastern countries. After deduction of the proper number of people killed in the war Germany should have about 72.3 million inhabitants who live in a territory (after cession of the Eastern part) where 52 million people lived before. (*British official figures*).

The process of migration can be felt very much in our zone. Bavaria, which had $7\frac{1}{2}$ million inhabitants, had $8\frac{1}{2}$ million at the end of hostilities and expects to have $10\frac{1}{2}$ by the end of this winter.

2. Feeding and Housing of Germans.

In the American zone Military Government ordered the distribution of
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 the following rations to consumers:

Bread	9,000 grams / period	(28 days)
Meat	800 grams / period	(28 days)
Fats	400 grams / period	(28 days)
Cheese	125 grams / period	(28 days)
Curds	125 grams / period	(28 days)
Potatoes	12,000 grams / period	(28 days)
Skim Milk	1/8 liter day	

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This ration was supposed to give 1550 calories daily. On the basis of this ration, distributed to a population of 15.3 million, there will be the following deficits before the next harvest, provided the next harvest is available on August 1, 1946:

(1) Bread Grains (Rye, wheat, barley)

Gross Hessen	65,000 tons
Bavaria	— "
Wurttemberg	76,000 "
Baden	79,000 "
Total	<u>220,000</u> "

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Gross Hessen	---
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Baden	-2,200 tons
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Deficit Total	-1,711 "

(4) Cheese

Bavaria is the main cheese producing area and cheese production is only sufficient to distribute 62.6 grams of cheese per person per day. An increase of 125 grams per period can only be maintained temporarily.

(5) Curds.

Because of the general situation of the food supply, the distribution of 125 grams of white cheese per period cannot be effected.

(6) Sugar.

Estimated production	40,000 tons
Distribution to children up to 6 years of age	10,000 tons
To all other consumers (1.5 kg/person)	21,000 tons
For jams and other uses	9,000 tons

According to the best available information under the present stocks available in the U.S. zone only 949 calories per day could be given to every consumer. Therefore everything depends on the scope of import to our zone.

This situation could be improved to a certain extent if the trade between the American, British and French zones could be eased (compare Chapter on Inter-Zone and Foreign Trade). It could be further improved if stocks of the Russian zone

of lack of farm implements removed by the Russians from their zone. The definite loss of the Eastern territories ceded to Poland will be felt more as time goes on. This territory supplied Germany in 1937 with 15% of her wheat, 30% of her rye, 25% of her barley, 28% of potatoes and 21% of sugar beets.

In regard to housing, the information is much more scarce. However, it can be said that the conservative experts consider half of the living space in cities larger than 20,000 people, as destroyed. The rest is seriously affected by lack of glass and windows, which shortages result from the coal deficiency. A typical case is the experience of the Catholic Hospital (Theresean Hospital in Mannheim) where in September the sisters had to go through standing water which had rained in, to reach their patients, and the Military Government Detachment could not help, in spite of most strenuous efforts to do so. Under the present directives this kind of repair work is the only relief Military Government can give, since any kind of reconstruction or rehabilitation is prohibited.

For the time being the most serious aspect of the present housing conditions is the lack of coal available for any heating purposes. The chance to use wood is very limited.

3. Industrial and Working Conditions.

In our zone actual industrial work could only be taken up to a very limited extent. The only reason for this fact is the lack of coal. The production of the principal coal supply sources of western Germany, the Ruhr, in peace time amounted to 380,000 to 400,000 tons weekly. At present the production reaches 175,000 tons weekly. It is ~~expected to accomplish an increase of~~ ^{ANTICIPATED THAT THIS WILL BE INCREASED BY} about 10,000 tons weekly. In the Saar the production amounts to 11,600 tons compared with

6,000,000 tons; however the coal cannot be transported because of lack of transportation equipment and because of the shipping difficulties on the Rhine (destruction of bridges which block the waterways).

The lack of coal itself is one cause interfering with reestablishment of transportation.

The lack of industrial activity did not bring about very far-reaching unemployment, since during the last summer every available person was necessary to harvest the crops. During the fall and early winter every available hand had to help to build up emergency quarters for the people to live in. The people have ^{INFLATIONARY} relatively ~~such~~ ^{large savings} money earned during the war. On the basis of the experiences of the last post-war period they are convinced that this money will be lost, ^{AND IF OR} ~~where~~ ^{THIS REASON} ~~for~~ they prefer to spend it now. Many of them have not returned to work. Even the rule that ration cards shall only be given to people who work did not succeed since many people are living with farmers and are fed there.

4. Currency and Finance.

At the end of hostilities the German Reichsbank had issued 60 billion marks compared with 10 billion at the beginning of the war. The debts of the Reich as of the date of the end of hostilities, amounted to 700 billion marks. The entire German national property at the beginning of the war was estimated at 400 billion marks; at present, considering the destruction but not the removal of industries from the Russian zone, it does not exceed 200 billion marks. That means that every German has lost at least three-fourths of his property.

It is not known how much money has been issued by the Allied governments.

~~However, a very deplorable condition of black markets developed from the fact~~

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Russians have issued very substantial amounts of marks and distributed them to their soldiers. They purchase watches and rings from our soldiers for tremendous prices. These marks are sent to the U.S. Treasury which finally pays the bill. How much of these marks remain an additional German debt remains to be seen. For the time being the German farmer accepts the mark. The price and wage level ^{is} not seriously changed, however, ^{BUT} it is to be expected that ^{THEY} ^{ARE} ^{AFFECTED} ~~that~~ will be different very soon.

5. Communication and Transportation. The mail service within our zone is getting under way very slowly. However, inter-zone communication develops even slower, ~~if at all~~. Telephone and telegraph service is not available. The German agencies, even if working directly for our interests, are under a very serious handicap.

Railroad transportation is coming under way very slowly. There is no railroad transportation between the Russian and the western zone. Between the French and British zones interruptions of many hours are commonplace.

Fuel for travelling purposes is very rare.

6. Schools.

In our zone the opening of the schools is developing very slowly. Schools which have been opened operate only for one or two hours a day. The reason for this ^{DEPLORABLE} ~~deplorable~~ fact, ~~which brings children living among ruins in a very dan-
gerous situation~~ is the difficulty of finding teachers who meet all requirements of the de-Nazification rules. In the purely Catholic part of Bavaria the situation is much better since the priests take care of the schools and almost none of them was a member of the Nazi Party or of any organization affiliated with it. Universities are practically all closed. The University of Heidelberg is giving some courses in medicine.

operate only as administrative agencies preparing future plans.

7. Newspapers and Public Information.

Adult education, publication of magazines, etc., is in a most deplorable state. The only source of information is the radio and the newspaper licensed for one district. No exchange of newspapers between districts takes place. It is sufficient to refer to the fact that even the highest German officials have never heard of the contents of the Potsdam declaration, to show the "efficiency" of the present information service.

I am very much indebted to all the people under whom and with whom I worked in Germany - Frederick Devereaux, Deputy Chief, Economic Branch; Colonel Boyd, Chief of Industry Division; Mr. Hoglund, Deputy Chief of Industry Division; Lt. Col. Gottlieb and Major Eugene Clay, Special Advisors to the Chief of Economic Branch, and to my assistant, Captain Kermit Myers.

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"*For five months we have been clearing the ground, and the task of sweeping clean is still proceeding. As we approach its completion we shall be entering, in concert with our Allies, the second stage, the stage of reconstruction. Much of the responsibility for guiding and supervising this reconstruction rests with you. The defeated enemy must be made to put his house in order. He must learn to feed himself. Also he must be made to pay for the war which was of his making. At present he cannot sustain himself, far less repay what he owes. First he must be raised to his feet, and then made to work in such a way that he will not only be able to liquidate his debts but finally find his own salvation. We shall try to be wise conquerors. As we were strong in battle so we shall be just in peace.

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The process of migration can be felt very much in our zone. Bavaria, which had 7½ million inhabitants, had 8½ million at the end of hostilities and expects to have 10½ by the end of this winter.

2. Feeding and Housing of Germans.

In the American zone Military Government ordered the distribution of the following rations to consumers:

Bread	9,000 grams / period	(28 days)
Meat	800 grams / period	(28 days)
Fats	400 grams / period	(28 days)
Cheese	125 grams / period	(28 days)
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This ration was supposed to give 1550 calories daily. On the basis of this ration, distributed to a population of 15.3 million, there will be the following deficits before the next harvest, provided the next harvest is available on August 1, 1946:

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Bavaria is the main cheese producing area and cheese production is only sufficient to distribute 62.6 grams of cheese per person per day. An increase of 125 grams per period can only be maintained temporarily.

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Distribution to children up to 6 years of age	10,000 tons
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According to the best available information under the present stocks available in the U.S. zone only 949 calories per day could be given to every consumer. Therefore everything depends on the scope of import to our zone.

This situation could be improved to a certain extent if the trade between the American, British and French zones could be eased (compare Chapter on Inter-Zone and Foreign Trade). It could be further improved if stocks of the Russian zone would be made available. However, this is dependent on...

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In regard to housing, the information is much more scarce. However, it can be said that the conservative experts consider half of the living space in cities larger than 20,000 people, as destroyed. The rest is seriously affected by lack of glass and windows, which shortages result from the coal deficiency. A typical case is the experience of the Catholic Hospital (Theresean Hospital in Mannheim) where in September the sisters had to go through standing water which had rained in, to reach their patients, and the Military Government Detachment could not help, in spite of most strenuous efforts to do so. Under the present directives this kind of repair work is the only relief Military Government can give, since any kind of reconstruction or rehabilitation is prohibited.

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6,000,000 tons; however the coal cannot be transported because of lack of transportation equipment and because of the shipping difficulties on the Rhine (destruction of bridges which block the waterways).

The lack of coal itself is one cause interfering with reestablishment of transportation.

The lack of industrial activity did not bring about very far-reaching unemployment, since during the last summer every available person was necessary to harvest the crops. During the fall and early winter every available hand had to help to build up emergency quarters for the people to live in. The people have ^{LARGE SAVINGS} ~~relatively much~~ money earned during the war. On the basis of the ^{INFLATIONARY} experiences of the last post-war period they are convinced that this money will be lost, ^{AND IF OR} ~~therefore~~ ^{THIS REASON} they prefer to spend it now. Many of them have not returned to work. Even the rule that ration cards shall only be given to people who work did not succeed since many people are living with farmers and are fed there.

4. Currency and Finance.

At the end of hostilities the German Reichsbank had issued 60 billion marks compared with 10 billion at the beginning of the war. The debts of the Reich as of the date of the end of hostilities, amounted to 700 billion marks. The entire German national property at the beginning of the war was estimated at 400 billion marks; at present, considering the destruction but not the removal of industries from the Russian zone, it does not exceed 200 billion marks. That means that every German has lost at least three-fourths of his property.

It is not known how much money has been issued by the Allied governments. ~~However, a very despicable condition of black markets developed from the fact~~

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Russians have issued very substantial amounts of marks and distributed them to their soldiers. They purchase watches and rings from our soldiers for tremendous prices. These marks are sent to the U.S. Treasury which finally pays the bill. How much of these marks remain an additional German debt remains to be seen. For the time being the German farmer accepts the mark. The price and wage level ^{IS} not seriously changed, however, ^{BUT} it is to be expected that ~~that~~ ^{THEY} will be ^{AFFECTED} different very soon.

5. Communication and Transportation. The mail service within our zone is getting under way very slowly. However, inter-zone communication develops even slower, ~~if at all~~. Telephone and telegraph service is not available. The German agencies, even if working directly for our interests, are under a very serious handicap.

Railroad transportation is coming under way very slowly. There is no railroad transportation between the Russian and the western zone. Between the French and British zones interruptions of many hours are commonplace.

Fuel for travelling purposes is very rare.

6. Schools.

In our zone the opening of the schools is developing very slowly. Schools which have been opened operate only for one or two hours a day. The reason for this ^{DEPLORABLE} ~~deplorable~~ fact, ~~which brings children living among ruins in a very dangerous~~ is the difficulty of finding teachers who meet all requirements of the de-Nazification rules. In the purely Catholic part of Bavaria the situation is much better since the priests take care of the schools and almost none of them was a member of the Nazi Party or of any organization affiliated with it. Universities are practically all closed. The University of Heidelberg is giving some courses in medicine.

operate only as administrative agencies preparing future plans.

7. Newspapers and Public Information.

Adult education, publication of magazines, etc., is in a most deplorable state. The only source of information is the radio and the newspaper licensed for one district. No exchange of newspapers between districts takes place. It is sufficient to refer to the fact that even the highest German officials have never heard of the contents of the Potsdam declaration, to show the "efficiency" of the present information service.

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