

June 4, 1946

MEMORANDUM

On March 31, 1946 the Allied Control Council with the obvious approval of some one in the State Department, published the plan for the future structure of German industry. It is a plan against productive capacity and for an utterly restricted totalitarian economy with the complete regulation of production and consumption. It is a plan which pre-supposes the reestablishment of the Nazi economy or of a communistic system in Germany. It is a plan which not only compels Germany to follow this road but which determines the totalitarian future of all of Europe. Is that our war aim? Is that the promised "release from restrictions?" Is this sacrifice of all our ideas necessary to accomplish disarmament of Germany?

The drafters of economic "plans" have a very comfortable position. Public opinion does not like to be bothered with figures and boring economic discussions, and therefore easily taken by their "plans". Should it not be possible to break through this wall of figures and describe what they mean? Should not a few instances be enough to make public opinion understand on which road we actually are?

The only sensible test for the examination of an economic plan for a country is its confrontation with the actual needs of such country. Every one can understand that production of Germany has to be sufficient:

1. To rebuild destroyed cities to the extent absolutely necessary to house 73,000,000 people in the same territory where 58 million lived before. The British government very cleverly excused itself from any responsibility for the plan by making the reservation that England shall only be bound by

the plan if not more than 66.5 million people live in the territory remaining German after separation of the eastern territories ceded to Russia and Poland — while 3 million Sudeten Germans, 800,000 other Volks Deutsche, 1.7 million Germans from Danzig and Poland proper, and 5 to 8 million from "new Poland" are already on the way to Germany to increase the population beyond the figure assumed by the British as the maximum.

2. To feed these people from the fruits of the country which lost 25 to 33% (different in different fields of food stuffs) of its agricultural basis. What cannot be produced in Germany has to be imported and paid for by German industrial production.

3. To clothe and transport these people.

4. To export what is necessary for the payment of imports.

5. To produce machinery necessary to take care of 1-4.

The planners determine that 55% of the pre-war German productive capacity (not including building material industry) will be sufficient. This figure is alleged not to be arbitrary but "scientific". It is based on the 1932 actual German production. Why is this figure of 1932, a year which brought Hitler to power, a year with 11 million unemployed and widespread starvation, the basis? The "planning scholars" came to the conclusion that Germany's standard of living of 1932 was equal to the standard of living of the rest of Europe of 1930-38. Therefore they allege the decrease of German productive capacity to the 1932 actual production would bring Germany and the rest of Europe on the same standard of living as demanded by the Potsdam Declaration. Up to now we have only had experience with plans of an economic upward trend. The Russians successfully planned their way from a technologically backward nation to a

a disarmed nation to a completely armed society. Mistakes in those places could mean delay in the upward trend, mistakes in minimum plans mean misery beyond the prescribed minimum. The Young and Dawes Committee tried to determine on the basis of indices how much taxes could be collected in Germany to pay reparations without making life impossible. The attempt to bring a society downward and to keep it down on the lowest possible level is something entirely different. The previous plans were prepared by sovereign powers who could change the plan whenever they considered it to their advantage. The new plan is imposed by foreign nations. It cannot be changed by peaceful means, even if the impossibility of the plan becomes evident, unless the four leading powers agree. Assuming that the plan can work — the London Times of May 6, 1946 seemed to consider that the most horrifying possibility — Germany would become the first minimum society without the right for social improvement. On the basis of the 1932 experience such minimum would mean: either the killing of about 1/4 of the working population to enable the others to improve the standard of life or the giving of an equal minimum quota in consumption. Russia never made the step to equal consumption, the step from a socialistic to a communistic society. Germany, by the plan agreed to by us, is called on to do this step or to establish a living condition of one part of the population at the expense of another part. Such a system can only be sustained by terror. How could we imagine that a productive capacity decreased to 55% could produce enough for the payment of increased imports of food stuffs not produced in Germany any more? How could 1932 production be sufficient in a society

which has not the stocks of 1932, when Germany, after three years of crisis on the world market, had the largest stocks in its history? How could 1932 production be sufficient in a society which has lost not only a large part of its homes but of every article needed in a civilized household? Theoretically, every minimum can be distributed equally or otherwise. Every productive capacity can be limited and controlled in every step. Where consumption, distribution and production are fixed downward there is a communistic society without the hope which lets communism live -- the faith in the future prosperity for all. This society envisaged for Germany by the planners, is the society of a well-organized jail. Only people who like to deceive themselves can imagine decentralized economic entities in such a society. What is left has to utilize most radical methods of centralization to make the most out of the remaining 55%.

The western European economy, in spite of all borderlines, tariff walls, etc., is one inseparable structure. A "jail" economy in Germany makes full and free exploitation of productive capacity in France, Holland, Belgium, Italy, etc. impossible. They have to forget about exports to Germany beyond the minimum figure, while after the first post-war years they have to find in the overseas market the results of industrial self-sufficiency of the Dominions and Latin America and of increased export interest in the United States and Great Britain. The European countries surrounding Germany, interested more than any one else in European peace, have to make space in their market for German imports by which imports into Germany are paid for. That can only be accomplished by quota cartels, and other restrictive measures. It never happened

before that destruction of one economy proved to be a definite advantage to other nations. The reader of the State Department "Proposals for Extension of World Trade and Employment" must doubt whether its drafters had ever heard of the preparation of the plan for Germany. There we read:

"Science and technology have enormously increased the productive powers of man. Limits upon human welfare are imposed today not by the ultimate poverty of nature's resources, but by failure to use human powers to the full. Among the factors which obstruct our march toward the goal of freedom from want are excessive restrictions on exchange and distribution. Progress requires release from these restrictions."

The Allied plan makes free and expansive economy in Europe impossible.

The drafters of a minimum plan under which a defeated country is supposed to live for many years assume a terrific responsibility, since their mistakes are bound to lead to a sub-minimum society. That means permanent starvation. It is shocking to realize very serious mistakes in the Allied Control Council plan. Again a few references are enough to show the point: the whole balance of the plan is based on a need for about  $1\frac{1}{2}$  billion dollars worth of food stuffs. This figure indirectly determines the most important factor of the export necessary for the payment of the imported food stuffs. Furthermore, this figure indirectly provides for the quantity of the production, since production and export are inseparable.

In 1936 Germany imported 1,485,000,000 dollars worth of food stuffs. In 1936 Germany had, as already pointed out, about one-third more agricultural territory than it has now, even if no change of the western frontier takes place. Germany has a population very substantially larger than it had in 1936. The remaining German soil is deeply affected by lack of fertilizer, especially

natural phosphate, which cannot be substituted by any synthetic product. The sustaining of the 1936 import figure pre-supposed keeping the Germans on a continuous level of less than 2,000 calories per person per day. The adopted plan makes starvation the rule rather than the exception, which tragic irony is to be seen in the fact that now we substantially restrict the food supply of our own nation to meet the demands of starving people in Europe, while at the same time we are participating in a plan to make starvation a permanent institution, on the principle that Germany's capacity has to be limited to the amount of the actual production of 1932. Most of the figures are based on the prices of 1932. In fact the 1932 prices were the lowest prices Germany ever experienced. Therefore the effect of the plan will bring Germany on a productive capacity even below the 1932 production. I have already mentioned the fact that the 1932 production can only be considered as a factor of the determination of the quantity of products available for German consumption if considered together with the German stocks existing in 1932. If that would be done even the 1932 figures would look quite different than they look now.

The actual permitted steel production in Germany is determined to be 5.8 million tons while the productive capacity shall be 7.5 million tons. The actual production of steel will be about 50% of the pre-war figure. The plan does not bring this steel figure in correspondence with the provision of the plan that production of building material and agricultural machinery shall be fostered. The steel production is absolutely the cornerstone of the restricted minimum economy. Therefore it determines the actual outcome of the entire plan.

Mr. Ernest Bevin, whose expert knowledge no one can deny, in the House of Commons discussion of June 4, 1946, pointed out:

"Germany should be allowed to produce 11 million tons of steel for rehabilitation and as a yardstick for determining the level of her industry. I believe that was the unanimous decision among us, after months and months of weary study. We were first offered 5,800,000 tons of steel (by whom?). That amount produced in Germany would mean 100 million pounds expenditure on our budget subsidising Germany, because the steel production determines the level of practically all other industries of the country. Therefore I had to fight very hard and finally it was settled at 7,500,000 tons steel capacity. I accepted this with great misgivings."

The best experts in planning among the Allies, the Russians, seem to consider the plan as an impossibility. That can be seen from the following indications. While the plan prohibits every production of synthetic gasoline and oil in Germany, the Russian Military Government on July 28, 1945 gave a continuous order to Leuna for the supply of synthetic gasoline. The production increased from month to month.

The destruction of 54% of the industrial capacity of Germany is supposed to take place partly by the removal of German industry into other countries. For this purpose the Russians were entitled under the Potsdam agreement, to request a certain percentage of productive capacity in the western zone. The Russians were given the right to determine the removal of the famous Schweinfurt ball bearing plant, S.K.F. and Kugel-Fischer. In accordance to British newspaper reports the Russians have taken these plants out of our zone and rebuilt them in their zone, where these plants are reported to be in full operation. The British further expressed their dislike for the plan. Is it not so

that we have been talked into the adoption of an impossible plan which was supposed to lead to anarchy in our zone, while a resurrection in the Russian zone induces the Germans to adopt a pro-Russian line?

There can be no doubt: the plan of the Allied Control Council for the future German industrial capacity is to be revoked. A complete change of policy is necessary if we want to serve the peace. The first step in this direction may be the temporary interruption of the transfer of industry from the western Zone to Russia but that is not more than a very first step. Certainly whoever dares to attack a plan of such magnitude has to make positive and constructive suggestions what should be done. As a matter of fact, final economic decisions are impossible and worthless as long as the basic political position of the future of Europe, especially of western Europe, are not reached. Under the present conditions any positive suggestion depends on whether continuance of the Bismarck Reich as an economic entity will prove to be possible or not. For the time being our adherence to the idea of a German economic entity is beyond doubt. If it remains so no one knows. So much can be said: if the political organization of the present Germany should remain in existence the necessary transformation of the war-like Germany into a peaceful Germany should follow the following lines: Germany shall be prohibited from building weapons and airplanes. In addition thereto we may agree on a few strategic materials without which war cannot be prepared for. The production of these few strategic materials may be excluded. A sound economic balance cannot be built up if the country is not permitted to make aluminum, nitrogen and all the other articles which may be used for war, since under the new technological conditions everything is of some strategic importance. But it is enough to agree that certain products,

for instance, aluminum, magnesium and nitrogen (other than calcium nitrogen) shall not be produced, while in every other respect production is free. Such a decision would be consistent with the basic principles of American policy: the protection of human industrial capacity. Hand in hand with this process of a sensible disarmament, dissolution of the artificial German measures for the building up of an unjustified high industrial capacity should be undertaken. While Allied adoption of Nazi philosophy suggested by the Control plan is to be considered untenable, just as untenable is the sustainment of German measures which had a similar effect on the economies of other countries. In this line we find certain aspects of German tariff, tax, cartel and corporation practice. A very fine Swiss economist suggested that the decisive step in the direction of a German disarmament is the imposing of an actual open trade on Germany. Such a policy would permit a decentralisation of the economic and political monopolistic position. It would enable the German independent business man to reestablish a basis on which a democracy can exist.

In the American legal periodicals there is a discussion going on to what extent the President can bind the United States by executive agreement without the advice or consent of the Senate. The machinery of the Allied Control Council is binding our country far beyond anything ever considered as a possible part of an executive agreement. It is high time that the Senate begins to look into the activities of the Allied Control Council and our representative there. Plans such as the plan in issue here are not of temporary significance. They are the actual basis of the peace treaty with Germany or her successor states. Besides the plan as suggested here usual peace treaty provisions are nothing

but formalities without substance. Let us hope that the Foreign Affairs  
Committee of the Senate during the summer vacation of the Senate finds time  
to make a thorough investigation of this outrageous plan.