

Franz Blücher, Service to Germany and Europe

Caption: In 1953, Franz Blücher, West German Minister for the Marshall Plan, assesses his Government's use of the material aid supplied by the United States in order to revive the economy of the Federal Republic of Germany.

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Service to Germany and Europe

When we formed the Federal Government in 1949, we decided to set up a special Federal Ministry for the Marshall Plan in order to take equal account of the need for and importance of the reconstruction work that would be made possible by American Marshall Aid and furthered by cooperation in the Organisation for European Economic Cooperation. In view of the significance of that task for foreign and domestic as well as economic and social policy, it was thought appropriate for the Ministry to be headed by the Vice-Chancellor of the Federal Republic.

The Federal Government was aware that the acceptance of Marshall Aid entailed an obligation not just to develop its own reconstruction capabilities but, at the same time, to work for Europe. If it was to fulfil that obligation, the Federal Republic first had to win back the world's trust and respect, after all that had happened since 1933, before it could cooperate on an equal basis. It also had to ensure, through its own economic policy, that it once again became a useful part of the European economy and, hence, a welcome partner for the other countries. The work for Germany and for Europe thus seemed to be inextricably linked. It essentially covered three areas:

recovery of Germany's own viability, the development of a responsible domestic and foreign economic policy and collaboration in the development of effective methods of European economic cooperation.

The end of the German Bundestag's first legislative period is a particularly appropriate time to take a retrospective look, since the close collaboration between the ERP Committee of the Bundestag (the lower house of Parliament) and the Federal Government was one of the main requirements for a successful policy in this area.

Restoration of viability

When the Federal Government was formed, it took over the role of the military commanders in the arrangement with the United States Government in regard to the Marshall Plan, and in the Organisation for European Economic Cooperation it was an equal partner with the other participants in European reconstruction measures. The conclusion of the American economic aid agreement of 15 December 1949 and the appearance of a German Minister in the Organisation for European Economic Cooperation were the *first two foreign policy developments of fundamental importance* for the new Federal Republic. The Federal Minister for the Marshall Plan was the Federal Republic's direct representative in his field, both vis-à-vis the United States and in the Organisation for European Economic Cooperation. From the outset, he had the difficult task of providing the partners with *as realistic a picture as possible of the actual economic situation*, the specific factors underlying it and the development possibilities that it created in the process of restoring Germany's viability. Previous reports on the issues drawn up by agencies of the occupying powers were, as was only to be expected, influenced by political and tactical considerations and subjective opinions. The occupying powers included prominent representatives of particular economic policy concepts who saw an opportunity to put their ideas into practice in the Federal Republic without the parliamentary scrutiny to which they were subject in their own countries.

However convinced they might be of the advantages and effectiveness of these economic policy aims, in the first basic review of its own, the Federal Government nonetheless had to contest many of the ideas that the occupying powers had put forward previously.

Initially, therefore, the memorandum presented by the Federal Government towards the end of 1949, setting out the anticipated development possibilities for the period up to 1952, was strongly criticised by many representatives of the occupying powers and in a number of Opposition circles. In retrospect, it can be seen that, from the outset, the Federal Government linked a realistic assessment of basic economic factors to an economic policy concept that became more visibly successful and internationally recognised as time went by. The memorandum explained, amongst other things, that 'unemployment cannot be fought only with

short-term policy measures, since it does not stem from a deflation crisis but is created by structural shifts caused by millions more people crowding into an area with too little food and insufficient capital provision.'

The available import potential and the volume of investment that could be financed were described as the key factors for future economic development. The need for a relatively low consumption rate in order to maximise investment was particularly emphasised.

The development of an exceptional housing programme and of a scheme to integrate displaced persons into the economy were presented to the international body as *characteristic features* of the economic policy that the Federal Government required.

Particular emphasis was placed on the *links between the economic expansion pursued and growing import needs* and, in relation to the decline in the balance of payments that this had already caused as a result of the inadequacy of currency reserves, attention was drawn to the threat of a critical deterioration of the balance of payments situation.

The Federal Government was particularly anxious to prevent any inflationary trends. Regardless of any possible criticism of domestic policy from the Opposition, it was concerned to warn the international community not to take the external progress that had been achieved as a sign of eventual recovery. 'There is no doubt that, with an undoubtedly better supply basis and increased production levels, the German economy still faces the same task of adapting its structure to the fundamentally altered conditions within Germany and the needs of European integration.' It was made particularly clear then that 'the readiness to save that is needed to secure investment can be expected only if the public finds that *confidence in the stability of economic conditions and the currency* is confirmed by a steady growth in employment and supply. It must be borne in mind that, if the level of production is increased through investment, this leads to a growth in employment and, hence, purchasing power and so, at the same time, requires an increase in the production of consumer goods. If, however, this increased production of consumer goods has to be achieved within narrow limits because of restricted import possibilities, the stability of price and currency policies might be jeopardised ... Measures aimed at expanding the volume of investment without providing sufficient consumer goods lead to rises in the prices of such products that are socially unacceptable ...

'Raising the requisite amount of investment is therefore feasible only if this could be combined with a simultaneous improvement in raw material and food import possibilities.'

It is also emphasised that: 'The structural (German) unemployment right on the border of the Eastern zone under Soviet control represents a serious risk not only to West Germany but to the whole of Western Europe. The integration of these unemployed workers into the economy requires, on the one hand, more capital and, on the other hand, an increase in raw material imports. It would be justifiable to create credit on a larger scale in order to remedy the shortage of capital at the point when the above problems can be overcome by sufficient raw material supplies ... That is the only way in which to combat unemployment effectively without endangering the country's equilibrium and the financial stability of the West German economy.'

The memorandum concluded: 'It would nevertheless be a mistake to see this serious and worrying development as, for instance, a failure of Marshall Aid or of the recovery efforts. It should not, however, be overlooked that, in seeking to achieve viability, the German economy still faces tasks that are quite exceptional in their nature and scale.'

In retrospect, it is understandable that such comments from the Federal Government caused surprise at the end of 1949. In the light of the current state of the German economy, it is fair to say, however, that that assessment and point of view proved accurate and responsible in every respect. By not giving the false impression, through inflationary practices, that employment was higher than was actually the case, the Federal Government avoided the destruction of purchasing power, i.e. a fall in real income which was in itself low as a result of the war. It laid the foundations for a stable domestic economy, for equalising the balance of payments and for stabilising the international value of the German currency, thereby

demonstrating the validity and effectiveness of its economic principles internationally. That it did not, at the same time, neglect the State's responsibility for welfare policy in a period of such difficult structural adjustment is clear from the exceptionally high proportion of welfare expenditure in the government budgets.

However, there was more involved in providing a realistic picture of the German economic situation and developing an appropriate economic policy than simply dealing with these general issues.

It should be particularly emphasised that the Federal Government constantly reminded the American partners and the other members of the Organisation for European Economic Cooperation of the *problems of Germany as a whole and the importance of East-West trade*. 'West Germany cannot become truly viable on its own. That entails restoration of the pan-German economic unit, and, until then, it needs outside encouragement and support.

'Particular foreign trade problems will inevitably arise if, for instance, the western half of the former Third Reich, which evolved in an economy based on the division of labour, is hived off economically and politically and, with the influx of displaced persons, 48.4 million people now have to live in this separate area instead of the previous 39.4 million. It is not just a question of greater population density; the suspension of trade within Germany means in practice that the internal trade that is now no longer possible has to be replaced by equivalent foreign trade. The fact that West Germany's internal trade with the other areas of the former German Reich within the 1937 borders used to be more or less equal in volume to the whole of West Germany's present foreign trade gives some idea of the scale of the adjustment needed here.

'In any consideration of Germany's future economic development, it must not be forgotten that the aim of all the efforts, not just by the Federal Republic but by the whole of the peaceful world, is for Germany to be reunited as soon as possible in peace and freedom ... The immediate adjustment that is needed in the level of consumption calls for appropriate preparatory measures to build up the necessary supplies gradually and is thus an additional task for this geographically restricted economic area. The need to remedy structural damage and to ensure adequate employment opportunities calls for preparatory measures involving the credit system and the demands made on raw material production in the Federal Republic.'

The memorandum concludes: 'The Federal Republic's foreign trade situation is undoubtedly exacerbated by the virtual stoppage of East-West trade. Whereas, in 1938, the Federal Republic secured 17.3 % of its food of vegetable origin from the countries to the east of the Iron Curtain and 21.4 % from the dollar area, the proportion of supplies from the Eastern bloc fell to 3.3 % in 1951, whilst, at the same time, essential imports of food of vegetable origin from the dollar area rose to 41.2 %.'

ERP Special Funds

The counterpart funds flowing into the Federal Ministry for the Marshall Plan from American aid to the Federal Republic created an opportunity for the Federal Republic, one which was particularly important in view of the weak capital market, to *deploy funds to finance investment*. Whereas it could be assumed, at the start of the recovery process, that investment of any kind was useful to the national economy and had a beneficial effect on employment levels, under the Federal Minister for the Marshall Plan, selection became increasingly stringent as time went by, and emphasis was placed on the bottleneck areas that emerged as the economy developed. That is particularly true of the energy sector, including water, transport, the raw materials industry, housing, assistance to displaced persons and the investment aid for Berlin, which was important not least for political reasons. The provident use of these funds was crucial for the launch of the German iron and coal industries in the European Coal and Steel Community, and it was in no small part due to this planned investment policy and the international agreement on investment projects under the Organisation for European Economic Cooperation, for which the Federal Ministry for the Marshall Plan was responsible, that the Allies' objections to the rebuilding of the Thyssen steelworks and the Watenstedt-Salzgitter plants were overcome.

However, this investment policy did not simply take account of the need for structural adjustment. At the

same time, it had in mind the impact that the volume of investment might have on the growth of the national product as a whole and on both internal and external financial stability. Nor was it possible to ignore the *links between long-term investment financing and the provision of adequate working capital*. The fact that the ERP Special Funds were also used for that purpose at an early stage must be seen as a major contribution to reconstruction and the expansion of the national product. This applied chiefly to help in financing orders for Berlin, as well as the fundamental decision that investment in the export goods industry made it necessary at the same time to secure financing for long-term export transactions. That means a contribution not simply to rebuilding the German economy but also to the reconstruction of other national economies, especially those that were increasingly proving to be structural debtor countries in the European Payments Union.

Responsible economic policy

The debate sparked off by the Federal Republic's basic memorandum at the beginning of 1950 gave rise to further assessments which emphasised Germany's unique situation particularly forcefully. In that context, the close link between economic expansion and the rise in import requirements was stressed once again. The Federal Government, however, took the view that, apart from combating structural unemployment in 1949, allowance also had to be made for an additional influx of Germans from the Soviet-occupied zone and an above-average number of young people looking for work. The definition of the task that this entailed was that, until structural unemployment had been totally eliminated, the employment figure at the start of the Marshall Plan needed to be increased by about 2.2 million and that that alone would require additional annual imports to the value of over DM 1 000 million.

To date, the number of people in employment has actually risen by a total of 2.26 million. In other words, it has grown more, in absolute terms, than the total population in that period. That is evidence of *one of the greatest achievements of decisive economic policy* even if, despite the record level of house building, a sizeable number of unemployed people could still not be found jobs in suitable areas. The volume of imports continued to increase substantially, since the rise in the employment figure was accompanied by an increase in workers' individual productivity and a deployment of the labour force, in line with its capabilities and national economic needs, that was better for the national economy, i.e. it increased national productivity.

This could not be achieved without problems developing. In the late autumn of 1950, it led to the Federal Republic being heavily indebted to its trading partners and, temporarily, to a real *balance of payments crisis*. This phenomenon came as no surprise. The Federal Government was able to note to its satisfaction that eminent and internationally respected experts who reviewed the German situation at the Federal Government's request came to the conclusion that the basic trend of the Federal Government's economic policy had not caused the crisis and that the German economy's powers of growth and recovery were strong enough to withstand the destabilisation that was partly structural and partly a result of external factors, such as the outbreak of the Korean crisis and the ensuing rise in world market prices.

The Federal Government decided to combat the critical tensions essentially through appropriate *budgetary, tax and credit policy measures* and adopted certain administrative remedies only to cover the period until those measures could actually take effect. In its efforts to stabilise prices as much as possible and safeguard the further economic growth that was needed, the Federal Government decided not to suspend import liberalisation for the time being and only to combat excessive growth trends. In particular, it decided, in full agreement with the view of the international experts, to reject any idea of devaluing the mark and to maintain its exchange-rate value. The Federal Government's foreign trading partners trusted and agreed with its policy, and it must be seen not just as a considerable economic and foreign policy achievement for the Federal Government but also as a widely visible precedent for the European solidarity that had now become a reality and for confidence in the German economy that the Member States of the Organisation for European Economic Cooperation were prepared to give the Federal Republic a DM 500 million *foreign loan* to tide it over during its temporary difficulties. As Federal Minister for the Marshall Plan, when representing the Federal Government on the Organisation for European Economic Cooperation, I had also warned successfully against regarding the German trend as sensational or catastrophic. It will be clear after the event that, when the Germans nonetheless temporarily stopped liberalisation in early 1951, this solution did help

the other German measures to become effective, but, in the end, it was not applied until the critical destabilisation had already been overcome in the natural course of events. With its measures to resolve the balance of payments crisis and the steps it soon took to reintroduce liberalisation, the Federal Government encouraged the requisite healthy growth its own economy and, at the same time, the further development of European trade. Conscious of the rightness of its economic policy ideas and its responsibility to its own people and to Europe, it set a crucially important precedent for the *further economic integration of Europe*. In so doing, it had the satisfaction of knowing that, in the Organisation for European Economic Cooperation's comprehensive report of November 1951 on financial stability and combating inflation in the participating countries, principles that bore out Germany's essential view of the relationship between economic expansion, internal financial stability and balance of payments equilibrium won general recognition.

These experiences first became of practical relevance when, in the late summer of 1951, the Organisation for European Economic Cooperation decided that, through individual efforts and joint action by all participants, *the national product should be increased by 25 % within five years*. This meant making the extra efforts called for by the deteriorating international situation to secure peace and freedom, without undermining internal financial stability and without a tangible decline in living standards.

At the Organisation for European Economic Cooperation ministerial meeting in Paris on 29 August 1951, I made the following remarks on that point:

'The Federal Government has noted with particular satisfaction that it is proposed to extend production in such a way that the efforts required for defence will in no way jeopardise the task of economic and social reconstruction and that the burdens entailed are to be divided equally amongst all those involved. In fact, nothing would be more dangerous for the Federal Republic than to disappoint the hopes of millions of Germans who, until now, have been unable to participate sufficiently in the general economic progress. It is therefore important to link the *policy of economic expansion to securing financial stability*, both internally and externally. By setting itself that objective, the European economic organisation shows that it means to survive. The firmer the common determination to preserve and enhance the benefits achieved to date, the greater will be our peoples' confidence in the future' (see minutes of Council meeting C M 51/35).

The following March, when the Council discussed the detailed economic expansion plans that had by then been formulated, the German representative said:

'The German Government, too, sees increasingly close *coordination and integration of European economic forces* as prerequisites for the achievement of the 25 % rise in production. It hopes that, when the expansion programme is being implemented, it will be possible to improve the proposed methods and that the cooperation between the forces and economic policy measures of Member States can be further stepped up and improved as the work proceeds. We sincerely hope that the work initiated here will be put into effect as quickly and as widely as possible, so that increased production creates the right conditions for the efforts that are needed to ensure peace and freedom, whilst maintaining and, subsequently, raising the standard of living even further.'

In agreement with the other participating governments, the German spokesman also expressed the view that, given the limited funds available to finance investment, the desired increase in gross national product called for a significant rise in per capita output. In other words, appropriate measures needed to be taken to *step up productivity*. However, improved productivity also seemed necessary in order to achieve an increase in purchasing power that was not simply nominal, without triggering off inflationary trends. At the same time, the idea that cooperation by all participants in the economy with the aim of improving productivity could

help accentuate the fact that all the parties had common interests was important to social policy. I therefore approved the following Organisation for European Economic Cooperation resolution on a productivity programme on behalf of the Federal Government, in agreement with the representatives of the other 17 Member States.

This recommended that the governments of the Member States should:

‘(a) continue and extend scientific and technical research, market research and advisory services for industry in their countries and make full use of the opportunities for an exchange of experience with other countries, particularly the United States, through the organisation or by other means;

(b) promote “productivity awareness” in all sections of the population;

(c) promote the introduction of payment methods in industry that gave workers an incentive to increase productivity;

(d) pay particular attention to the principle of fair distribution of the profits generated by higher productivity among employers, employees and consumers;

(e) shape their tax policies in such a way as to encourage greater productivity within the limits consistent with domestic financial stability;

(f) ensure optimum relationships between employers and employees by improved personnel management methods and the creation of joint committees.’

The Federal Government has worked consistently on the gradual implementation of that productivity programme. The Federal Minister for the Marshall Plan set aside well over DM 100 million for that purpose, partly as non-refundable grants and partly in the form of loans. The trend in the Federal Republic’s gross national product between 1951 and 1953 already shows an 11.5 % increase, so it may be assumed that the Federal Republic’s economy is going to be able to contribute fully to the achievement of the common economic goal.

The more the German economy continued to prove itself an important member of the European and world economy as it developed, in spite of the particular constraints under which it continued to exist, the more significant Germany became as a market for the other countries, the more German economic policy was seen to be the right way to achieve the objectives set and the more useful and fruitful cooperation in the Organisation for European Economic Cooperation turned out to be.

On 29 March 1952, in no small part at the instigation of the Germans, the Council of Ministers decided to set up a special working party of seven internationally respected economists, including a German expert, to look at the domestic financial situations of the Member States and their relevance to balance of payments equilibrium. It came to the conclusion that the financial policies of individual states were of crucial importance in combating inflation, but that they needed to be supplemented by appropriate credit and monetary policy measures. These could, in turn, be all the more effective once *currency convertibility*, in the sense of International Monetary Fund status, had been restored. The working party made it quite clear that certain *preconditions* had to be met before that could be achieved. In particular, it pointed out that it was imperative to eliminate the following disruptive factors:

insufficient coordination of advice policy,

instability of international short-term indebtedness,

incorrect exchange rates,

competition-distorting trade policy practices, in particular discrimination, subsidisation and restriction,

inadequate currency reserves of the central banks.

The Federal Government was justified in seeing these findings by the working party as corroboration of its own economic policy views.

Economic cooperation in Europe

Fully aware of the caution required by the foreign policy situation and by its own economic weakness, the Federal Government nevertheless felt obliged to take full advantage of the independence granted to it by the occupying authorities in 1949 to cooperate in the Organisation for European Economic Cooperation in the interests of encouraging European economic integration. As early as the ministerial meeting of 1 February 1950, I made the following statement on the Federal Government's basic position:

‘A common market in Europe can function only if all barriers to trade are removed on the basis of genuine and unrestricted reciprocity. It is obvious that such free trade is possible only if the convertibility problem is resolved.’

The Federal Government was already able to contribute its own proposals for the *organisation of the European Payments Union*, whose implementation the Council of Ministers was negotiating at the time, and these have proved, with time, to be entirely well-founded. That is particularly true of the reference to the shortcomings that would soon be demonstrated by the restricted area of the Payments Union. Either the participants would be forced to try and equalise the balance of payments with other Member States by restricting foreign trade, or there would be a risk of high-level bilateralism between the Payments Union area and the other monetary areas. This would inevitably disrupt efforts to bring about an international division of labour and partially exclude certain countries or groups of countries from the world market. It was necessary to find a way of linking the overall balance of payments of the individual countries to the Payments Union's settlement system. From that consideration, the German representative emphasised the need for a suitably high proportion of gold and dollar payments in the settlement system and, in later years, too, constantly pressed for a gradual increase in this ‘cash proportion’ in preparation for the transition to convertibility.

Even in the consultations on 1 February 1950, the German representative stressed the need to ensure domestic financial stability as an essential requirement for the functioning of the new payment plan and, in conjunction with that, to continue with the liberalisation and coordination of the participating countries' national financial and economic policies and a certain degree of harmonisation in the interests of closer economic and financial cooperation (minutes of 86th Council meeting, 31 January and 1 February 1950, C M (50)/4).

At the Council of Ministers meeting on 6 and 7 October that year, I again emphasised the need for international *coordination and harmonisation of domestic financial and economic policy* if members of the Organisation for European Economic Cooperation did not wish to run the risk of serious balance of payments problems. I repeated the proposal already put forward on 1 February 1950 that a permanent body be set up to monitor and coordinate national finance and credit policy and welcomed the fact that, to some extent, that suggestion was now being adopted. Logically enough, as the efforts to develop a really efficient

system for the exchange of goods and services and international payments continued, the German representative also called in 1951 for the principles of non-discrimination and multilateral trade and the *abolition of restrictions to be applied to exports as well as imports*. Even then we urged that administrative influence over exports should not be allowed to distort natural conditions of competition, with particular regard to important but scarce raw materials.

On 31 August 1952, at the opening of the Frankfurt Autumn Fair, I presented to the public a balanced *programme for the further development of international cooperation*. I called for greater stability in the scale of liberalisation, stricter conditions for its limitation, clarification of the issue of export subsidies, consideration of the overall balance of payments in the European Payments Union's settlement mechanism, joint efforts to increase currency reserves, restoration of realistic exchange rates, dismantling of excessive customs duties and international cooperation to ensure internal and external financial stability.

I reiterated those calls at the ministerial meeting of the Organisation for European Economic Cooperation on 20 and 21 October that year, pointing out, amongst other things, that the European Payments Union had convincingly demonstrated the advantages of a multilateral payments system. However, the opportunities and techniques that this offered were only an *initial stage*, which needed to be developed. The next step should be *a return to convertibility* between the European currencies and with other currencies. Only then would it be possible to achieve the ultimate goal of the joint efforts, which was to *establish an integrated European market*. This required concerted action in the financial and monetary policies of the various European countries. It was my opinion that national financial stability had to be maintained if the ideas of coordinating economic and financial policy and stepping up reciprocal trade were to be put into practice. My view was that the call to ensure national financial stability meant an appeal to each government to play fair in the international economy.

I also pointed out that the different economic structures would undoubtedly make it advisable for the governments to apply individual measures but that there had to be agreement on the objective.

The Federal Government welcomed the fact that the extensive decisions taken by the ministerial meeting in March 1953 took account of the basic German view.

Following intensive cooperation between the Bundestag, represented by its ERP Committee, and the Federal Government, represented by the Federal Minister for the Marshall Plan, we may say that the successful rebuilding of the Germany economy simultaneously furthered European economic relations and that the application of an economic policy responsible both to the German people and to its economic partners in the rest of the world also promoted the concept of the economic policy principles of European cooperation. The basic position of the Federal Government in its activities in the Organisation for European Economic Cooperation was also of benefit to the European Coal and Steel Community, facilitating its establishment and making it more effective. The Federal Government also expressed the view that the promotion of cooperation under the Organisation for European Economic Cooperation and, in particular, the progressive abolition of trade barriers of all kinds, as well as the steady improvement in multilateral payments, forms the basis for further European economic integration.

The Federal Government can undoubtedly see it as a corroboration of its own work in the Organisation for European Economic Cooperation when the report by the European Coal and Steel Community Assembly's Committee on Common Market Affairs, adopted unanimously at the sitting of 9 June 1953, says, *inter alia*:

'However, the committee considers it important to point out that both the establishment of a common market and the coordination of separate markets can be achieved either by setting up a supranational or international authority or through a system of parallel legislation, i.e. through similar decisions taken simultaneously by each of the authorities responsible for the areas concerned ... The unification of the European economy is so desirable that no legal form can be ruled out in advance.'

In the practical implementation of economic policy principles at home and in its cooperation with its partners, the Federal Government has helped to promote the development of its own economy, and, at the same time, gain international recognition of the internal and external conditions for restoring convertibility — realistic exchange rates, stabilisation of purchasing power, removal of distortions of competition, increased international division of labour aimed at a general improvement in living standards — as a common objective of European cooperation.