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**NATIONAL PLANNING
IN
SELECTED COUNTRIES**

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By
Lewis L. Lorwin

August 1941

This document is one of a series of technical papers supplementing the reports of the National Resources Planning Board. The contents of these papers are the sole responsibility of the authors and do not necessarily bear the endorsement of the National Resources Planning Board.

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**NATIONAL PLANNING
IN
SELECTED COUNTRIES**

August 1941

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NATIONAL PLANNING IN SELECTED COUNTRIES

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P R E F A C E

The four reports included in this volume were prepared for the use of the National Resources Planning Board. In view of the interest expressed in them, it has been decided to give them wider circulation. To this end, the four reports have been revised and collected into one volume, as the second of a series of technical papers supplementing the major reports of the National Resources Planning Board.

The help given by various persons in government departments in the collection of the materials for the several reports is gratefully acknowledged. The author has had the assistance of Mr. Gordon K. Haskell and of Miss Agnes Roman in the preparation of the data for the chapters on Germany and Sweden, and of Mr. Nestor Ortiz in the collection of the materials on the Latin-American countries.

Lewis L. Lorwin

April 1941

PART I

PUBLIC WORKS AND EMPLOYMENT PLANNING IN GERMANY, 1933-39

Introduction

German National Socialism has presented itself to the world as a *Weltanschauung* (a philosophy of life; some would say, a religion), a distinctive political and social system, and as a new method of economic organization. As a philosophy, in line with the voluntaristic and nonrationalistic tendencies in German thought, it stresses the supremacy of will over reason, the transcendental value of "blood" and "race" as against environment progress, the mystic endowment of some especially gifted persons to voice the urge of the "Superior" race towards its world destiny, and the inevitability of force in the racial struggle for survival and supremacy. Translated into political terms, this leads to the assertion of the supremacy of the State over the individual, to the idea of a great "Nordic-German" race-state, to the need for building up a powerful military force, and to the affirmation of the principle of "the Leader" (Der Führer) and of the exclusive political party which can serve as his instrument of national guidance and leadership. In the field of economics, activities must be subordinated to political ends and coordinated in such a way as to exact the maximum of service from both physical and human resources.

In its broadest sense, German planning since 1933 has been concerned with the attainment of ends based on these ideological, political, and social-economic ideas. The ends in themselves have, in the main, varied but little. Their most complete formulation is still embodied in the so-called Twenty-five Points adopted as the platform of the Nazi Party in 1920 and reaffirmed by the Nuremberg Party Conference in 1932. The most important of these points are those which call for the liberation of

Germany from the fetters of the Versailles Treaty, the creation of a greater German Reich, the unification of the Germanic "folk" in that Reich, and the establishment of an economic system free from "interest slavery" and from large concentrations of capitalist power.

It was common knowledge even before 1938, but has been made particularly clear since, that the Nazi Government foresaw that the furtherance of its political aims was bound to lead to war. The center of German planning soon after 1935 had shifted to preparations for war. Economic measures and policies were subordinated to this main purpose to such an extent that German economy between 1935 and 1938 was described and considered as *Wehrwirtschaft*. Nevertheless, it is also true that during these years various policies were pursued which had as their main objective the winning of the German mind to the National-Socialist philosophy, the strengthening of social-economic institutions (land holding, industrial relations, etc.) in accord with the principles of the new regime.

German planning between 1933 and 1938 thus represents an attempt at a comprehensive and thoroughgoing reconstruction of the social-economic life of the country. Owing to its integral character, German planning had been considered and appraised from various angles and points of view. Some students have been interested primarily in the industrial and social policies of Nazi Germany; others have been concerned with its policies of trade control.

A complete analysis and appraisal of German planning in all its phases is not intended here. The scope of this report is determined by the fact that there is a widespread feeling that, whatever our attitude toward Nazi philosophy may be, its economic procedures may carry a lesson for

democratic countries. During 1936-38, when most democratic countries of the world, despite their partial recovery, were struggling with widespread unemployment, Germany was working at full speed and was even complaining of a "shortage of labor." While not envying the Germans their mode of living, many groups in democratic countries were jealous of this particular record and wondered whether it could be equalled, if not excelled, under the democratic way of doing things.

Since 1939, two other aspects of German planning have become of increasing interest and concern. The first is the war planning of Nazi Germany. How is Germany carrying on the war industrially, economically, and socially? What changes, if any, have been made in industrial organization and in labor and social policy to maintain or speed production for the war? How is the war being financed? What are its effects upon consumption? What methods of rationing have been adopted? What price policy has been adopted? Many similar questions are important to an evaluation of the German war economy and have suggestive value for other countries.

Even more important is the German plan for postwar world reorganization. As the war proceeds, Germany is effecting territorial and political changes in Europe which are fraught with great economic consequences for the entire world. It is known that the Nazi Government is sponsoring the preparation of plans for a "New Europe" under German political and economic control which would also bring the economic life of overseas countries (such as Latin America) under German guidance, if not domination. While the details of these plans are not known and may not as yet have been elaborated, what information has found its way into the press about them indicates their far-reaching potential effects on world trade and world economy.

There are, therefore, three phases of German planning of interest to the United States: first, the social-economic plan-

ning of 1933-1938 by which Nazi Germany eliminated unemployment and built its war machine; second, the war planning since September 1939; and third, the various plans for a postwar world. These three aspects of the German planning movement deserve careful consideration not only for what lesson they may carry for economic theory and action but especially for their bearing on American foreign policy.

The main question to be considered first is: How did Germany plan and execute its program of work creation and reemployment after the Nazi Government came into power? This general question implies specific questions as to the nature of the work supplied, the methods by which it was financed, the results it achieved, and its effects on social and economic life.

Pre-Nazi Programs of "Work Creation"

As the historical perspective lengthens, it becomes clearer that many of the innovations introduced by the Nazis had roots in pre-existing conditions and institutions.¹ This is particularly true of work creation and reemployment planning. Most students of the subject have stressed the fact that in this field the Nazi Government "continued and enlarged the plans which had been initiated already by earlier governments to deal with this desperate position, to absorb unemployment, and give an impetus to economic activity."²

German public opinion, deeply influenced by memories of the inflation of 1921-23, prevailingly favored deflationary measures for dealing with the depression of 1929 and after. The Socialist parties and the trade unions of Germany shared this point of view. However, under the increasing stress

¹Gustav Stolper, *German Economy (1870-1940)*, New York, 1940. Mr. Stolper writes in the preface to his book: "Without the preparatory work of their predecessors, Hitler and National Socialism would not have been possible. The totalitarian regime of the Nazis is merely the climax of the expansionist tendencies and responsibilities of governmental power over the destinies of the German people."

²Th. Balogh, "The National Economy of Germany," *The Economic Journal*, September 1938, p. 462.

of the depression, a breach in this attitude was made, and the two successive pre-Hitler governments in power during 1932-33 (those of Brüning and of von Papen) took the first steps towards a reflationary reemployment program.

The measures taken by the German Government during this period may be grouped as follows:

1. *Relieving the Pressure on the Labor Market.*—This was done by creating "substitute" employment to which workers were shifted from regular industrial occupations. An important form of such "substitute" employment had been developed during the course of the preceding years in the shape of a *voluntary labor service*, which had first received legal recognition in 1931. It was much expanded in 1932, and by the end of 1932 there were some 250,000 young men engaged in this form of service. The funds were provided partly out of the Reich Budget but mainly from the resources of the Unemployment Insurance Fund.

2. *Remission of Taxes as a Means of Stimulating Private Investment.*—The government issued two kinds of tax remission bills (*Steuer Gutscheine*) which were to serve two distinct purposes:

a. *Tax Remission Certificates.*—These were issued by the government to taxpayers in respect to their tax payments for the financial year 1932-33. "The taxpayer received a certificate representing from 75 to 100 percent of his actual payments on account of a number of the most important taxes for which he was liable. He, or any holder, was entitled to use the certificates to meet future liabilities for taxation in any of the years, 1934-35 to 1938-39, while the government pledged itself to redeem the certificates at the rate of one-fifth of the issued amount in each of the years 1934 to 1938, together with interest at 4%.³ The immediate and direct relief to the taxpayer arose from the fact that he could sell these certifi-

cates on the Stock Exchange (they were exempt from stamp duty) and could use the proceeds in his business or for any other purpose. At the time of their issue there was no other short-dated investment on the market which was free from risk of capital depreciation, and so the tax remission certificates were a very acceptable investment for the banks and money market."⁴ It was contemplated that 1.5 billion Reichsmarks would be issued under these provisions.

b. *Bonus Tax Certificates.*—The Minister of Finance was empowered to issue tax certificates directly to any employer who could show that he had increased the number of his workers as compared with the number he was employing before the scheme came into operation. The certificates were to be granted at the rate of 100 RM quarterly for each additional worker. The total amount to be issued was estimated at 700 million RM. The employment bonuses, however, were not claimed to anything like the extent that had originally been anticipated. The practical application of the system—more especially the prevention of abuses—proved difficult. "A further objection to the scheme was that the bonuses tended to penalize employers who had previously done their best to keep on as many workers as possible when employment was falling, and to reward those who had shown less sense of social responsibility and had dismissed their staff when business first began to fall off. For these various reasons the system of employment bonuses was abandoned in April 1933."⁵

3. *Subsidies for the Reconstruction and Repair of Dwellings, 1932-1933.*—Two sums of 50 million RM each were allocated for this purpose out of the Reich Budget by Orders of 4 September 1932 and 24 January 1933. A further sum of 100 million RM was also earmarked to guarantee private loans for the

⁴C. W. Guillebaud, *The Economic Recovery of Germany*, p. 33.

⁵Leo Grebler, "Work Creation Policy in Germany," *International Labor Review*, March 1937, p. 333. He quotes *Institut für Konjunkturforschung, Vierteljahrsheft*, 9th Year, 1934, No. 3, pt. A, p. 111, for above figure.

³This obligation has in fact been carried out.

same purpose, but no data are available as to the use made of this facility.⁶

4. *Public Works in the More Special Sense of the Term.*—The program of public works was developed in several stages on the basis of the following acts and decrees:

a. *Work Creation Programme of 1932, First Installment* (known as the "Brüning Programme").—Legal basis: Emergency Order of 14 June 1932. Provided for public works, to the amount of 165 million RM.

b. *Work Creation Programme of 1932, Second Installment.*—Legal basis: Emergency Order of 4 September 1932. This programme provided for public works to a value of 182 million RM; this programme was subsequently merged with (a) above, and called the "von Papen Programme."

c. *Work Creation Programme of January 1933* (The Immediate, "Sofort," Programme).—Legal basis: Orders of 15 December 1932, 6 January 1933, and 28 January 1933. 500 million RM were appropriated for this program to be spent on roads, housing, public utilities, and inland water transport.⁷

Altogether, over one billion RM were appropriated for the public works schemes and about one and one-half billion RM were issued in tax certificates. In terms of the German monetary and credit system and in relation to the German national income at the time, this was not an inconsiderable sum.

It was also the von Papen government that devised the method of financing the public works program which attracted so much attention as the most original element in the entire scheme. The method consisted of the so-called Work Creation Bill (or employment creation bill) which was a way of putting short-term bank credit at the service of the government for its public works program. The German Government was forced to have

⁶ Ibid.

⁷ As may be seen from the date, the decree relating to the "Immediate" or "Urgency" program was issued on January 28, 1933, two days before the Nazis took over the government. The appropriation for these public works was increased to 600 million RM on July 13, 1933.

recourse to this form of credit for the reason that in 1932 the possibilities of raising revenue by taxation⁸ were exhausted and that the disorganization of the capital market made it impossible to issue long-term loans.

How the situation was met has been described as follows: "There remained only the Reichsbank as the ultimate repository of the supply of money and credit. The Reichsbank in turn was bound by its own statutes; it could not pursue an active open-market policy, nor could it discount bills on behalf of the government. It could, however, discount commercial bills without limit, and the problem would be solved if the works to be undertaken under the officially sponsored program could be financed by a type of paper which the Reichsbank could discount. Accordingly, municipalities and other public and semipublic bodies were encouraged to place orders for new houses, roads, etc., incurring in the process a debt which was to be repaid by them over periods ranging up to 25 years, according to the probable length of life of the investment. The orders were given to the ordinary firms engaged in this type of business. The contractors in turn drew bills of exchange for the amounts of the contracts (i.e. cost including profits). These bills were then accepted by certain special financial institutions, notably the *Deutsche Gesellschaft für Öffentliche Arbeiten (Oeffa)*, and *Deutsche Bau- und Bodenbank*, and the *Deutsche Rentenbank Kreditanstalt*. Once the bills had been accepted, they were discountable by any of the ordinary banks or the Reichsbank and, if discounted by a commercial bank, were rediscountable with the Reichsbank.

"The employment creation bills (as they came to be called) had a nominal currency of three months, but could be prolonged indefinitely until it was convenient for them to be redeemed or consolidated. The contractor was given a large bundle of

⁸ Aside from the fact that the financing of public works by taxation would have been a questionable procedure.

Table 1.—Employment, Production, and National Income in Germany, 1929-32

Year	Number employed	Number unemployed	Index of production, 1928 = 100			National income (RM)
			Total	Consumption goods industries	Production goods industries	
1929	17,869,000	1,892,000	100.9	98.5	103.2	75,900,000,000
1930	16,515,000	3,076,000	85.1	95.4	85.5	—
1931	14,336,000	4,520,000	66.9	90.6	61.0	—
1932	12,518,000	5,575,000	58.7	78.1	45.7	45,200,000,000

Source: Institut für Konjunkturforschung, *Statistik des In- und Auslands*. Also Reports of the Reichskreditgesellschaft.

bills, and when each fell due he would detach the bill bearing the next serial number in the same series and forward that in replacement of the one which was just reaching its term. As a rule the bills were drawn by the contractors or the public body which had placed the contract, and then accepted by one of the special banking institutions mentioned above; but it was also not uncommon for the contractor to draw directly on *Oeffa* or the *Bau- und Bodenbank*, etc. In any case the management of the long-term loan side of the operation—the fixing of interest and sinking fund rates to be paid by the borrower—was in the hands of the acceptance houses."⁹

What effects did the above measures have on the German economy? In the second half of the year 1932, and very definitely by May 1933, an improvement in Germany's economic situation was noticeable. It can, however, hardly be attributed to the above measures. The direct and positive effects of the latter were small. "From the moment of initiation of a public works' programme to its actual execution a considerable time must necessarily elapse, and in fact only an insignificant part of the funds allocated for public works had been carried out by May 1933. Of greater importance was the issue of tax certificates, the circulation of which rose from 263 million RM in December 1932 to 644 million RM in May 1933. Their chief contribution was to bring about a much-needed improvement in the state of liquidity of the business world. Their main use was to diminish the indebtedness to the banks and to lessen the pressure to

reduce stocks still further, but not to finance new investment."¹⁰

The indirect effects of the Brüning and von Papen programs, however, were considerable. "The deliberate abandonment of the policy of deflation, which was implied by the adoption of these schemes, had an important effect on business psychology, even in spite of the unfavorable political situation in the latter part of 1932. The more positive results of these early measures were experienced later in 1933 and 1934, when they redounded to the credit of the National Socialist Government."¹¹

The First Four-Year Plan (1933-1936)

When Hitler took power on January 30, 1933, the German economic situation, though showing some signs of improvement, was still extremely serious. Production was low, national income was less than two-thirds of what it had been in 1929, and over 5 million workers were unemployed. (See table 1.)

The most urgent problem was that of unemployment. On May 1, 1933, Hitler outlined a Four-Year Plan "for the rescue of the German peasant, to maintain the Nation's food supply, and to rescue the German worker by a powerful attack on unemployment." The plan was given effect by the *Law for the Reduction of Unemployment* passed June 2, 1933, which inaugurated the so-called "Battle Against Unemployment." This law was supplemented by a series of decrees

¹⁰ Ibid, pp. 44-45.

¹¹ Ibid, p. 45.

⁹ Guillebaud, op. cit., pp. 34-36.

between July and November of the same year.

There is disagreement among writers on the subject as to whether or not the Nazi attack on unemployment was carried out in accordance with previously laid plans. The evidence would seem to indicate that the reemployment policies pursued by the Nazi Government were inspired in part only by general Nazi ideas. Gottfried Feder, who was Hitler's trusted economic adviser in the early days of the movement, had unorthodox ideas on monetary policy and advocated proposals that residential construction and other public works be financed by issuing "construction money" (*Baugeld*) which was to be secured by the value of the construction so financed. The idea of this so-called "Feder-money," while not officially incorporated in the party program, certainly predisposed the Nazis to expansionist policies.¹² On the other hand, the Nazi party was far from homogeneous in its ideas and attitudes, and there was considerable friction between the "left" and "right" wings of the party as to what was to be done. This inner party struggle centered around the larger issues of policy such as the nationalization of the trusts and the abolition of "interest-slavery," but it also affected ideas on the character and scope of public works. Also, the Hitler government, on taking power, had at its command tools already prepared by the preceding governments. By further developing these methods and by modifying measures, as experience indicated, the Nazis may be said to have developed their plans as they went along. Their plans grew clearer as they planned.¹³

¹² When Hitler became Chancellor, he appointed Dr. Hjalmar Schacht his adviser in monetary matters. Schacht devised an inflationist system of "work creation" within the framework of a currency technically and legally based on a gold standard. See Stolper, *op. cit.*, p. 239.

¹³ " * * * the fundamental economic problems of planning, as conceived by economists trained along the lines of liberal economics, have received relatively little attention in National Socialist literature." See Fritz Ermarth, *The New Germany*, 1936, p. 83.

As a matter of fact, under the stress of changing circumstances and of its own effects, the *First Four-Year Plan* underwent considerable modifications before it was half completed. Its development can be best considered as falling into two periods of 2 years each: (1) from May 1933 to the end of 1934 and (2) from January 1935 to the end of 1936. These two phases throw light on the different aspects of a public works policy in relation to economic recovery.

The First Phase of the First Four-Year Plan, 1933-1934

In considering the first phase of the "Battle Against Unemployment" it should be kept in mind that this was also the period of the basic institutional reorganization of the Third Reich. Between September and December 1933 the Reich Hereditary Farm Act (*Reichserbhofgesetz*) was passed, the Reich Agricultural Estate (*Reichsnährstand*) was established, and the Measures for the Market and Price Regulation of Agricultural Products were adopted.¹⁴ On July 15, 1933, the Act for the Formation of Compulsory Cartels was passed, and on February 27, 1934, the Act for the Preparation of the Organic Structure of the German National Economy was adopted, which set up the present organization of industry and trade in Germany. In the course of 1933 several regulations on labor organizations were passed which prepared the ground for the establishment of the German Labor Front by the law of January 20, 1934.

It was in the midst of this process of economic and social reorganization that the first phase of the "Battle Against Unemployment" had its course. The "Battle" was fought to a large extent with weapons that lay at hand. The particular measures for reducing unemployment were formulated in the provisions of the law of June 1933,

¹⁴ The Act for the Creation of a New German Peasantry was adopted on July 14, 1933.

and of subsequent decrees referred to above, and may be considered under the two main headings of (1) indirect and (2) direct work creation measures.

Indirect Work Creation Measures

These measures included the provision of tax reductions and exemptions, other forms of relief and special subsidies to stimulate private investment, to increase consumption, and to remove workers from the industrial market. The following measures may be specifically mentioned:

Tax Relief Measures

The tax reductions and exemptions which were allowed were expected to stimulate the automobile industry, housing, and the reequipping of industrial plants generally. These provisions included:

1. The exemption of all newly licensed private motor cars and motorcycles from the tax on motor vehicles.

2. Permission to owners of old cars to compound for the annual tax by paying a lump sum.¹⁵

3. Exemption from taxation of newly built dwelling houses.

4. Exemption from specified taxes in respect to replacements of machinery and equipment effected within 1½ years (later extended to 2½ years).

5. Reduction of income and corporation taxes in respect to repairs and extensions of industrial buildings within 1½ years (later extended to 2½ years).

6. Remission of arrears in taxation on condition that the taxpayer spend an equivalent sum on replacements, repairs, and extensions.¹⁶

7. Exemption from taxation of new business enterprises, provided their product

met a recognized vital need of the national economy.¹⁷

Subsidies for Housing Repairs

A sum of 500 million RM was allocated from the Budget of the Reich for the conversion of houses into smaller dwellings and for repairs and extensions, in continuation of the schemes introduced in 1932. In addition, house owners were granted *interest subsidies* at the rate of 4 percent for 6 years to help them in obtaining capital, either from their own resources or by borrowing, for that part of the cost which was not covered by the state subsidy. The original outlay for work creation amounted to 667 million RM in capital subsidies and 332 million RM in interest subsidies, making a total of nearly 1,000 million RM. It resulted in a total expenditure of 2,936 million RM, or nearly three times as much.¹⁸

Other Forms of Subsidy

Among the various other measures, the granting of *marriage loans* was original. These loans, up to 1,000 RM, were made to women who had been in employment during a specified period. The loans were to be used by their recipients chiefly to equip their homes. The loans were not in cash but in the form of vouchers for goods which were accepted in payment by tradesmen. The loans were made repayable at the rate of 1 percent per month; one quarter of the sum was remitted for each child born of the marriage. The loans were financed by a special tax on all unmarried persons (this special tax was later incorporated in the general income and wage tax).¹⁹

¹⁷Grebler, op. cit., pp. 333-334.

¹⁸Ibid., pp. 334-335.

¹⁹Until the end of 1934 the total number of marriage loans granted under the law was 366,178. The total number of marriages in 1934 increased to 740,000 as compared with 631,000 in 1933 (an increase of 109,000). It is, of course, difficult to say to what extent this increase was due to the subsidy system. It is interesting that, according to the data published by the Sickness Insurance Fund, the total number of women workers increased in 1934. It was 4,442,000 in January 1934, and 5,008,000 in November 1934. But the rate of increase of employed women was smaller than that of men. In November 1934 the number of employed women was 6.5 percent higher than the year before; that of employed men increased 12.4 percent during the same period.

¹⁵This provision brought in payments amounting to 55 million RM.

¹⁶Under this provision tax arrears in the amount of 200 million RM were remitted, thus enabling this sum to be invested in industrial improvements.

Measures for Reducing the Supply of Industrial Labor

Among these measures were the following:²⁰

1. The organization of the *Voluntary Labor Service*. This Service occupied between 200,000 and 250,000 young men between the ages of 18 and 25. These young men were employed on community projects and works which would probably not have been carried on otherwise.

2. The formation of the *Land-Help Organization (Land-Hilfe)*. This had the purpose of shifting young workers from the industrial areas to the farms as additional farm help during certain periods. They were usually placed on small and medium-sized farms. For 1934-35 the number of these helpers was fixed at 160,000.

3. The organization of the *Land-Year (Landjahr)* in February 1934. This was similar in some respects to the *Land-Hilfe*, but larger educational and social aims were claimed to be involved. About 20,000 young men and girls were engaged in this enterprise.

4. The withdrawal of women from the industrial labor market to permit the re-employment of men in their place. Special tax rebates were given for the transfer of women workers into domestic service.

5. The control of labor mobility. In May of 1934 a law was passed giving the President of the Reich Unemployment Board wide powers to stop the migration of unemployed workers to the large cities. This measure was applied first to Berlin, Hamburg, and Bremen, where unemployment was particularly acute.

6. The redistribution of jobs ("Sharing the Work"). In August 1934 a decree was issued providing that, in general, employees of both sexes under 25 years of age were to be dismissed and replaced by older persons who were unemployed. This measure did not apply to married persons, and exceptions were made for certain cata-

gories of skilled workers. The decree required every employer to render a return of the ages of his employees. The dismissed workers were to be given priority in being placed in new work on farms. The Reich Unemployment Board was to pay to employers a subsidy of 40 marks per month for re-employed workers over 40 years of age, as compensation for their lower efficiency.²¹

Miscellaneous

A number of measures of a miscellaneous character were also part of the general program: the provisions of 70 million RM for goods vouchers to give direct relief to the indigent, special loans for the building of small houses, subsidies for the Suburban Settlement scheme, guarantees of various kinds, and the *Winter-Hilfe* and other contributions and levies which brought in considerable sums of money for distribution among the needy and unemployed.

Direct Work Creation Program

This program included the public works financed and carried on directly by the government. Under the Act of June 1, 1933, a billion RM was appropriated for the purpose. On June 27, 1933, the National Motor Roads Act was passed, providing for the construction of a national system of roads (*Autostrassen*). The construction and management of this road system was entrusted to a National Motor Roads Company which was formed as a subsidiary of the German National Railways. The total cost was originally placed at 1,400 million RM but was later increased to 3,500 million RM.²² These roads were intended in part to popularize motoring in Germany²³ and to stimulate the automobile industry as a means of

²¹This measure met with much opposition from both employers and workers. Available evidence indicates that it was not an important factor in reducing unemployment.

²²Grebler, op. cit., p. 334.

²³The other purpose was of a military character.

²⁰Reichskreditgesellschaft, *Germany's Economic Situation at the Turn of 1934-35*, p. 25.

providing a large-scale employment program over a number of years.

Other parts of the program included continuation of the construction and repair work on the National Railways and the National Post Office which was begun in 1932. The cost of the railway program was 991 million RM and that of the Post Office 111 million RM. The funds for this part of the program were used up by the end of 1934.

The Organization and Financing of the Program

The organization and financing of the work creation program were in a measure decentralized. The only new central organization formed was the National Motor Roads Company. Otherwise the program was carried forward by the various public authorities (The Reich Government, the states, provinces, municipalities) and by public corporations and enterprises. These public bodies were called the "principals" (*Träger der Arbeit*). The work creation projects proposed by the "principals" had to be approved by various public authorities; with regard to technical and economic considerations (especially with regard to the financial position of the "principals") by the state authorities; with regard to social policy by the state labor departments or the Reich Board for Unemployment Insurance; with regard to general economic and financial policy by the financial institutions which were expected to grant the necessary credits. The final decision lay with the credit committees of these institutions on which the Reich Government was represented.

The financial resources for the program were provided not only by the creation of credit but also from the Reich Budget, new taxation, and from the funds of the Unemployment Insurance Board and the National Railways Company. It is estimated that out of a total of 5,092 million RM allocated for direct work creation measures (between 1933 and 1935) about 1,967 million RM or 40 percent were derived from sources

other than bank credit, and some 3,125 million RM, or 60 percent were obtained through the issue of work creation or employment bills.²⁴ The budgetary resources were used chiefly to pay nonrepayable subsidies, while the proceeds from credit operations went for the granting of loans.

Following the precedent described above, the Nazi Government used "employment creation bills" for financing the main part of its public works program. The chief merit of the "employment creation bill" was that it had the character of an ordinary trade bill which could be discounted by the banks and rediscounted by the Reichsbank. The "employment creation bills" were brought into line with ordinary trade bills by being drawn for 3 months, although in fact their currency was much longer, and by being endorsed by the firms supplying building materials and services to the works in question. The usual form of the bills, as already described above, was to be drawn by the original contractors, accepted by the financial institutions, endorsed by the "principals" (public authorities or public enterprises), and reendorsed by the firms supplying goods or services to the drawers. They were then discounted by the credit banks and rediscounted by the Reichsbank.²⁵

²⁴ Grebler, op. cit., p. 346.

²⁵ Describing "The Secret of Employment Creation Financing in Germany," Professor Wagemann, director of the German Institute for Business Research, made the following comments: "The critical condition of German credit in 1932 was reflected in the hoarding of notes * * *, in a strong indebtedness of banks and saving institutes to the Reichsbank, in a widespread illiquidity of business enterprises and general heavy indebtedness of manufacturers, merchants, and farmers. Enterprises had borrowed large sums from the banks in order to improve and extend their plants, to increase supplies, and to maintain a staff of skilled workers. Since this whole apparatus was more or less at a standstill in 1932, it was of paramount importance that it be set in motion again in order to thaw out the credits invested therein.

"The advance tax certificates enabled entrepreneurs to diminish a part of their indebtedness to the banks, and the banks in turn were able to decrease their indebtedness to the Reichsbank. This process became more lively when the employment creation program was set in motion in the middle of 1933. The public bodies sold Reich treasury certificates and employment creation bills, which were acceptable by the Reichsbank as collateral, and returned the proceeds to industrial cor-

The currency of the "work creation bills" was 15 months in the case of the von Papen programme, 3 years for the National Motor Roads scheme, up to 5 years for the "Immediate" and Post Office programmes, while the bills for the National Railways programmes were to mature after 1940, so that their currency was at least six or seven years. At maturity the bills were to be paid by the Reich Treasury, or by the National Railways or the Post Office in the case of their own programmes. Additional guarantees were provided by the Reich Government for these bills, but only in the form of undertakings given by the Government itself.²⁶

In practice this meant that the public works program was financed by the creation of short-term government credit. The Reichsbank played a large part in the transactions by rediscounting the bills. Since the latter were guaranteed by the Reich Government, it meant that the indebtedness of the state to the Reichsbank was proportionately increased. The burden of the preliminary short-term credit was thus borne by the Reich Government. The ultimate responsibility rested with the "principals" for whom the work was undertaken. The "principals" were responsible for the payment of interest and sinking fund charges to the Reich Treasury. Thus the "principals" entered into long-term indebtedness to the Reich for the amounts which the latter raised through short-term credit operations.²⁷

porations which had made deliveries to the state. These companies were able to leave part of these proceeds directly in their bank accounts or used them to repay credits. The banks again were able to apply the larger deposits of industries to decrease their obligations to the Reichsbank or to buy up employment creation bills themselves * * * "The Secret of Employment Creation Financing in Germany," Prof. Ernst Wagemann, Supplement to the Weekly Report of the German Institute for Business Research, August 22, 1935, p. 2.

²⁶Grebler, op. cit., p. 347.

²⁷Ibid., pp. 348-349; the rate of interest ranged from 3 to 5 percent; and the sinking fund charges from 0.5 to 2 percent per annum. A common provision was that no payments were to be made to the sinking fund during the first few years after the public works scheme had been carried out. The loans ran for periods of 15 to 30 years.

Table 2.—Distribution of Public Works and Funds, 1934

Public works program	Funds allocated (Reichsmarks)	Projects approved (Reichsmarks)	Sums expended (Reichsmarks)
Work creation program of the Reich	1,880,000,000	1,834,800,000	1,536,500,000
From the Reich Budget	1,135,000,000	1,132,300,000	727,600,000
Reich Employment Board (for relief works, labor service, etc.)	575,000,000	574,900,000	431,800,000
National Railways	991,000,000	991,000,000	991,000,000
Post Office	111,000,000	111,000,000	111,000,000
National Motor Roads	350,000,000	350,000,000	166,000,000
Total	5,050,000,000	4,994,000,000	3,963,900,000

Source: Gillebaud, op. cit., p. 51.

No official figures have been published on the extent of the public works undertaken or the total amount spent in financing them. The various estimates made are, however, in substantial agreement. According to one source, the various kinds of public works and the funds allocated for them up to December 31, 1934, are indicated in table 2.

The amount of short-term paper created in the process of financing has been estimated for the period 1932-34 in table 3.

The increased volume of employment creation bills and other short-term paper was taken up by the banks. The Reichsbank, together with its affiliated institution, the Gold Discount Bank, had taken up about 1,600 million RM of the increase at the end of 1934. Next to the Reichsbank, the most important contribution to financing the work creation schemes was made by the public banks, which at the end of 1935 had taken up about 2,550 million RM of the increased volume of short-term paper. The contribution of the private credit banks, on the contrary, was small.

That the open market was able to absorb the large amounts of "employment creation bills" and of other government short-term obligations was a surprise to economists and financial experts and was regarded as the "paradox" of the German money market in 1934. In the ordinary course of an upward phase of the business cycle the rise of industrial production and the expansion of business activity in general are usually accompanied by a tightening of the money market and an increase in money rates. The "paradox" of 1934, when the sharp upward

Table 3.—Short-Term Paper (Outstanding Amounts) in RM, 1932-1934

Date	Tax certificates	Treasury notes	Employment creation bills	Total
December 1932	263,200,000	579,200,000	—	840,000,000
June 1933	726,600,000	816,700,000	400,000,000	1,940,000,000
December 1933	1,215,200,000	914,200,000	1,100,000,000	3,230,000,000
June 1934	1,176,800,000	1,321,800,000	2,000,000,000	4,500,000,000
December 1934	1,183,200,000	1,482,600,000	4,000,000,000	6,650,000,000
Increase between December 1932 and December 1934	920,000,000	903,400,000	4,000,000,000	5,810,000,000

Source: Annual Report of Commercial Attaché, Berlin, 1934.

trend of industrial production was paralleled by an easier tendency of the money market, was explained by three major factors:

1. The greater liquidity of industry due to a decline in raw material stocks. In connection with the shortage of supplies caused by drastic import restrictions and a simultaneous brisk demand for all consumers' goods, there occurred a process of "clearance sales."

2. The transfer moratorium on foreign debts, at least the limitation of payments in regard to certain creditor countries and categories of debts, which led to an accumulation of Reichsmarks in the accounts of the Conversion Office with the Reichsbank. These funds, due but not transferred to German creditors, increased the amount available at the Reichsbank for short-term financing.

3. The large expenditures of the government for public works which were themselves a contributory cause toward the greater liquidity of industrial enterprises. The latter were in a position to repay old "partly frozen" debts to the banks which, in turn, could invest these funds in government short-term paper.

Effects of the Public Works Program

The economic effects of the work creation measures and of the method by which they were financed may be considered in relation to (a) the credit system, (b) the budget, (c) investments, production, and the national income, and (d) employment.

Effects on Credit

Despite the extent of the government's financial operations described above, the

net increase in the total volume of bank credit was not great for several reasons. First, business concerns generally were heavily in debt and banks were in an illiquid condition and in debt to the Reichsbank. For some time, therefore, the greater part of the new central bank money was used for reducing the indebtedness of business concerns to the banks and of the commercial banks to the Reichsbank. Throughout this period (as well as later) *pari passu* with the issue of employment bills, there went a decline in the total of ordinary commercial bills and of advances. Second, there was a steady withdrawal of funds by foreign creditors and the deposits of German customers also kept diminishing. Third, there was a loss of 300 million RM in gold and foreign exchange (on account of unfavorable conditions in the balance of trade).

The "employment creation bills" increased the liquid resources of industry by making large repayments of debts possible. The restored liquidity of banking and industry was reflected in a decline of short-term interest rates. Call money rates fell from 6.23 percent in 1932 to 4.68 percent in 1934.²⁸

Effects on the Budget

The expansion of government credit had a two-fold effect on the public finances of the Reich as reflected in the Budget. On the one hand, the national debt was greatly increased.²⁹ On the other hand, there was an increase in tax receipts and

²⁸For effects on capital market and long-term interest rates, see tables 7 and 10 in the appendix.

²⁹For figures for the period 1933-1936, see appendix, table 9.

Table 4.—Unemployment Relief Payments, 1931-35
[In millions RM]

Unemployment relief	1931-32	1932-33	1933-34	1934-35
By the Reich-----	1,049	803	400	—
By the Unemployment Board-----	1,120	1,123	1,202	940
By municipalities-----	763	878	652	410
Total-----	2,932	2,804	2,254	1,300

Source: Annual Report of the Commercial Attaché, Berlin, 1934.

a considerable saving on direct unemployment relief and similar expenditures.

Though the first 9 months of the fiscal year (April-December 1934) showed a deficit of 208,300,000 marks, the Budget for the fiscal year 1934-35 was balanced in the amount of 6,458,000,000 marks. This nominally satisfactory budgetary position was largely due to the fact that nearly all of the government's public works (and probably a considerable part of its military expenses) were financed by the issue of short-term obligations which were not included in the Budget.

The saving in direct unemployment relief (as distinct from productive work relief) was possible not only because of a decline in the total amount spent for this purpose by approximately 900,000,000 marks but also because the Reich was able to shift this expenditure to the Unemployment Insurance Board and to the municipalities. In fact the number of unemployed entitled to benefits under the insurance scheme was reduced to such an extent that not only did the Unemployment Insurance Board become self-supporting but it was even able to spend considerable amounts for grants to municipalities and for productive work relief. The extent of this change is indicated in table 4, which gives the amounts spent on the various forms of unemployment relief during 4 fiscal years.

Effects on Investment and Production

Gross investment which had been only 4.2 billion RM in 1932 and 5.1 billion RM in 1933 rose to 8.2 billion in 1934.³⁰ In both 1932 and 1933 net investment had been

³⁰ *Wirtschaft und Statistik*, September 1935.

negative, as during these years total investment was considerably below the level necessary for normal capital replacements. The national income rose from 45.2 billion RM in 1932 to 46.5 billion in 1933 and to 52.7 billion in 1934. The rise of income from 1933 to 1934 of 6 billion RM (13 per cent increase) was thus associated with an increase of gross investment of 3.1 billion RM (over 60 per cent increase). The differences in these ratios during 1932-34 as compared with predepression years may be seen from table 5.

So far as production was concerned, there occurred a very considerable but uneven expansion of output. The production-goods industries (above all the constructional and building industries) were stimulated by the large orders placed by public authorities and by the growth of investment in general. Their index of output rose from 56.8 in May 1933 to 84.3 in May 1934. The output index of industrial consumption goods rose from 84.5 to 96.3 during the same period.³¹ The consumption-goods industries were stimulated by the swing over from acute depression to revival which released a considerable amount of buying power; by the increase in marriages owing to the marriage loans; and by a sudden emergence in 1934 of hoarding purchases connected with the rise of prices, shortage of raw materials, and the fears of devaluation.

Effects on Employment

The effects of the government program on unemployment were positive and considerable. Between January 1933 and December 1934 the

Table 5.—Investment and National Income in Germany, 1932-1934

Year	Gross investment in RM	Increase in RM	National income in RM	Increase in RM
1932-----	4,200,000,000	—	45,200,000,000	—
1933-----	5,100,000,000	—	46,500,000,000	—
1934-----	8,200,000,000	3,100,000,000	52,700,000,000	6,200,000,000
1926-27--	—	2,300,000,000	—	8,100,000,000
1927-28--	—	700,000,000	—	4,600,000,000

Source: Guillebaud, *op. cit.*, p. 48.

³¹ Reichskreditgesellschaft, *Germany's Economic Development During the First Half of the Year 1934*, p. 2.

Table 6.—Number of Employed and Unemployed in Germany, 1932-34

Period	Total of persons in "regular" employment ¹	Total of persons in "substitute" employment ²	Number of unemployed
June 1932-----	12,730,000	180,000	5,476,000
January 1933-----	11,470,000	280,000	6,014,000
June 1933-----	13,100,000	530,000	4,857,000
January 1934-----	12,970,000	830,000	3,773,000
June 1934-----	15,010,000	800,000	2,481,000
December 1934-----	14,540,000	610,000	2,605,000

¹"Regular" employment covers all those engaged in ordinary employment at standard wages. The official German figures of employment include only those employed wage earners and salaried employees who come under the sickness or unemployment insurance schemes. They, therefore, do not include officials, those in the labor service or in the defense forces, or independent workers in industry, handicraft, trade, and agriculture.

²"Substitute" employment covers those engaged in labor service (from 200,000 to 250,000 during the above period), land service, and on relief works, and obtaining full maintenance but not money wages.

Source: *Konjunktur-Statistisches Handbuch*, 1936, pp. 12 and 16 (quoted in Guillebaud, *op. cit.*, p. 46).

reduction in the number of unemployed was over three million. The development may be seen in table 6.

General Comments

The German public works program during its first phases has been summed up favorably by one of its students as follows:

"The Germans in their recovery measures have laid predominant emphasis upon investment as contrasted with direct transfers to consumers. They have proceeded along the common-sense lines that work and production alone constitute the real source of the wealth of a community, and have regulated money to the subordinate though very important role of financing investment in all its forms, including output of every kind—but chiefly output in the production goods industries; and they have left it to the investment and employment thus created to produce incomes and savings. In the process they have adopted what, in appearance at least, has been a purely inflationary policy, inasmuch as the money (it is entirely immaterial that it should have taken the form of bank credit and not of paper money) has been created by the Reichsbank and the banking system as a whole in advance of the production of wealth—though not * * * in advance of the orders for the production of wealth * * *.

"It would appear that, in adopting this policy, the Germans were governed not by considerations based on economic theory and analysis, but rather by the necessities of the situation in which Germany found

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herself in 1933. At that time the production goods industries were abnormally depressed and suffering from vast unemployment. By contrast, the consumption goods industries were doing relatively well. It was natural, therefore, to apply the stimulus of State orders to that part of the economic system which was hardest hit, and where; moreover, considerations both of the supply of raw materials, and 'labor intensity' made it probable that a given expenditure of public funds would give rise to the maximum amount of new employment. Moreover, the decision not to devalue had left the German price level above that of the countries which had devalued their currencies, and made it imperative to do nothing which could raise initially the general level of prices, such as allowing wages or individual prices to rise, or relying upon an expansion of consumers' demand reacting back on the demand for the products of the investment goods industries * * *. In these circumstances to have attempted to finance consumption would have been worse than useless, so the only alternative left was to concentrate every effort upon creating employment and stimulating output."³²

The fact that both the "investment multiplier" and the "employment multiplier"³³ showed low value during 1932-34 has been explained by the same student of German economy on the basis of the following reasons:

1. There was inevitably a time-lag between the growth of output in the production-goods industries (which were chiefly favored by the various programmes for creating employment) and the growth of income and with it expenditure on, and employment in, the consumption-goods industries. So long also as there were considerable stocks

³²Guillebaud, *op. cit.*, pp. 214-216.

³³The "investment multiplier" expresses the relation between a given increase in gross investment and the resulting increase in total national income; the "employment multiplier" measures the ratio of the increment of total employment which is associated with a given increment of primary employment in the investment (production goods) industries.

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in existence, the rate of creation of new income was retarded.

2. The official policy of stabilizing prices and, above all, wages prevented the upward swing of activity from being reflected in higher money incomes per head.

3. The early public works schemes were "labor intensive," i.e. they were designed so as to give the maximum amount of employment for a given expenditure of public money. They consisted largely of works using unskilled labor, and the workers employed were mostly paid according to the lowest wage scales.

4. The large numbers of those engaged in labor service, emergency relief works, and other forms of substitute employment (800,000 for the 1934 average) were paid in kind rather than in money, so that their incomes were not added to the money total of incomes from wages and salaries.³⁴

5. The first and most urgent uses to which new individual incomes were put were to pay off past debts, to restore cash balances to a reasonable figure, and to replace savings which had been consumed.

6. Very considerable repayments of foreign credits and loans were still being made during this period. To this must be added the interest service on such portion of the foreign debt as was not affected by the transfer moratorium.³⁵

The works program of the German Government showed itself first and foremost in the development of building activity. From the beginning of 1933 there was a continuous increase in the volume of building, and the seasonal reduction of employment during the winter months was surprisingly small. The number of unemployed workers in the building trades, which amounted in the first quarter of 1933 to about 921,000,

fell in the first quarter of 1934 to 390,000 and in April 1934 to 230,000. The government policy affected also the building of private houses. Thus in the first quarter of 1934 some 11,400 new apartments were constructed by alterations to existing houses, as compared with 5,200 in the first quarter of 1932.³⁶

Taking all facts into account, it may be said that, though Germany was beginning to experience a normal upswing of the business cycle, recovery would probably have been retarded (in view of conditions in the money and capital market) had it not been for the stimulation of the public works program. Also, the effects of this program were enhanced by the magnitude of the sums allocated, by the method of financing, and especially by the speed and energy with which it was put into effect.³⁷

The Second Phase of the First Four-Year Plan, 1935-1936

The first 2 years of the First Four-Year Plan, while registering considerable success for the reemployment policies of the government, created certain difficulties and problems. The possibilities of new works projects were reaching a limit, the credit expansion facilities of the Reichsbank were being strained, prices were showing a tendency to rise, the balance of trade was becoming more and more unfavorable, and there was increasing doubt as to the ability of the government to carry its program forward.

There is no question that these difficulties were a factor in the development of the new domestic and foreign policies which marked the second phase of the First Four-Year Plan. In any case they reinforced the general Nazi aims which resulted in the remilitarization of Germany and in

³⁴ The monthly cash income of "land helpers" amounts to between 15-25 marks, while their main income takes the form of free board and lodging. Those undertaking "voluntary labor" receive their board and lodging and clothing and in addition, pocket money amounting to from 25 to 40 pf. per day. Reichskreditgesellschaft, Report for First Half of the Year 1934, p. 27.

³⁵ Guillebaud, op. cit., pp. 49-50.

³⁶ Reichskreditgesellschaft, Report for First Half of the Year 1934, p. 14.

³⁷ By far the greater part of the sums actually expended to the end of 1934 arose out of schemes which were only initiated during the course of 1933.

strengthening the trend toward the reorganization of German economy on a war-preparedness basis (*Wehrwirtschaft*).

The interaction of the difficulties indicated and of general Nazi political aims affected the public spending program of the German Government in a number of ways. The most important developments were towards rearmament, the increasing control of the government over the capital market, the reduction of the long-term rate of interest, the issue of long-term loans, and the extension of price and foreign trade controls.

Public Works and Rearmament

In March 1935 Hitler announced the withdrawal of Germany from the Disarmament Conference and the reintroduction of conscription. On August 24, 1936, the 2-year compulsory military service was introduced.

The public works undertaken in 1933-34, which were the main driving force of the economic recovery of the first phase of First Four-Year Plan, had as their primary objective the reduction in the number of unemployed. Beginning with 1935 the dominating consideration became the task of effecting the rearmament of Germany within the shortest possible period. Some of the earlier work projects, especially the construction of super-auto roads (planned for a period of 10 years) were continued, but the bulk of these employment programs was carried toward completion in 1935. They were then superseded by huge orders for arms and munitions, automobiles, tanks and war ships, construction of barracks, aerodromes, and munition factories, on which building began on a vast scale and with feverish haste.

This shift from the usual employment schemes to armament orders meant considerable structural changes in production and employment. It accentuated the predominance of the production-goods industries. It created a greater demand for skilled labor. It affected the composition of the

national income. It played a large part in subordinating the German economy to greater government control, as indicated further on.

New Methods of Financing

It was estimated at the time that the total additional budgetary and extra-budgetary resources of the Reich from 1933 to the end of 1935 used for public works and rearmament were approximately 18,000,000,000 RM. The total cost of employment schemes and public works of a nonmilitary character was estimated at some 6,000,000,000 marks during the years 1933-35.³⁸ Consequently, the amount available for rearmament during this period must have been roughly 12,000,000,000 marks, and it is this figure which has been quoted as having been spent during 1935-36. In financing these expenditures, the Nazi Government reversed itself on some of its policies of 1933-34, while also having recourse to some new devices.

Reversal of Tax Policy

As pointed out earlier, the Nazi Government during 1933-34 pursued the policy of tax reductions and exemptions as a means of stimulating recovery. During 1935 this policy continued, but in 1936 the policy was reversed. Certain tax abatements granted previously were revoked. Thus, the tax exemptions to encourage the building of small homes originally were to remain in force until March 31, 1938; however they were abrogated in November 1936 so far as the construction of the homes in question would not be completed prior to September 30, 1937. The change of policy was motivated by the fact that the building trades were now employed to capacity and there was even a shortage of certain building materials so that the original intention of the law to stimulate building activities

³⁸ Quoted in the address of Assistant Finance Minister Reinhard at the Nuremberg Party Convention on September 15, 1935.

had lost its meaning. Furthermore, existing taxes were raised and greater strictness was applied to their assessment and collection. The corporation income tax was increased 50 percent (on August 28, 1936). A new tax on devaluation profits was imposed. Important duties on gasoline and benzol were raised.

As a result of the improvement in tax revenues due to these policies and owing to the effects of government expenditure which increased incomes, private spending and savings, a greater part of the Reich's total expenditures in 1936 could be met from taxes. According to semiofficial estimates, 27 percent of Germany's national income was absorbed in 1936 by taxes of the central government.³⁹

Long-Term Loans

The strain imposed on the Reichsbank by the rapidly increasing short-term debt forced the government to seek ways and means of strengthening the capital market and of mobilizing the financial resources of the country in the interests of government long-term credit. What the Nazi Government contemplated was to reduce the long-term rate of interest and to convert as large a part of the floating indebtedness into long-term government loans.

The first step in this direction was taken by the "loan stock law" or "dividend limitation law" (*Anleihestockgesetz*) of March 29, 1934, which provided that an amount equal to profits earned by a company in excess of 6 percent (in some cases 8 percent) should be invested in government bonds. This investment, called "loan stock," was to be carried on the company's books and balance sheet as a "blocked investment" among its assets for a period of 2 years, after which the company recovered

the right of free disposal of the "loan stock." It could then sell the bonds and distribute the proceeds among its shareholders.

On December 4, 1934, a new law—the Dividend Investment Law—was passed which compelled German corporations to invest not an amount *equal* to the surplus dividend distributed, but the surplus dividend *itself* regardless of whether the amount in excess of 6 percent represented an increase over the last year or not.⁴⁰ The investment of the "loan stock" in the new law was not left to the discretion of individual companies. The amounts in question had to be remitted to the Golddiskontbank, which invested them on behalf of the shareholders in Reich loans, and administered the "loan stock" as a trustee in the interest of holders. The effect of this legislation was to make stocks unattractive and to create additional demand for government bonds.⁴¹ The new Bank Law and the Credit Regulation Act, passed at the same time, promoted the same aim by including fixed interest securities, which were eligible as collateral against Reichsbank loans, in the liquid reserves of the credit institutions and by other provisions.

The Nazi Government then took measures to reduce the long-term interest rates by converting outstanding public and mortgage bonds (amounting to over ten billion RM) from a basis of 6½ to 4½ percent interest.⁴²

⁴⁰ In accordance with the purposes of this law, the Stock Exchange Committees almost without exception rejected the admission of new stock, and even made the readmission of shares of reorganized companies conditional upon banks keeping for a certain period the new shares that they took over, in order that they should not impair the sales of public bonds. As a result, despite the spectacular expansion of industrial output, the issue of new shares in 1935 remained at the extremely low level of 1934 and the issues of private bonds were also inconsiderable. Thus, by tightening its control over new emissions, the Nazi Government curtailed the demand of private business for capital and monopolized the capital market for its own requirements.

⁴¹ Bureau of Foreign and Domestic Commerce, *Economic Review of Foreign Countries, 1937*, p. 26.

⁴² To stimulate the conversion the government offered a single tax-free bonus of 2 percent to converting holders. If the holder did not agree to the conversion he was allowed to continue to draw the former rates of

³⁹ Reichskreditgesellschaft, *Germany's Economic Situation at the Turn of 1937-38*, p. 77. This estimate excludes the levy on business for the export subsidy fund, contribution toward the "Winter relief fund," the "Adolph Hitler Spende," etc., and the contributions of German workmen and employees toward the unemployment relief fund.

In order to bring this result about, all the forces of propaganda were mobilized. The transaction, voluntary in form, was compulsory in essence. In February 1935 the government negotiated an agreement with the banks for reducing the interest rates prevailing between the banks and their clients. During 1936 it promoted the conversion of industrial bonds to a lower interest basis. Finally in July 1936 the interest on private (nonagricultural) mortgages was regulated and reduced.

Having thus prepared the ground, the Nazi Government issued consolidation loans in 1935 amounting to 1,800,000,000 RM for a period of 27 years, and another loan (National Railway Loan) in January 1936 of 500,000,000 RM for a similar period. In addition, Treasury bonds redeemable in 10 years were issued in 1935-36 to the amount of about 2,000,000,000 RM. The bulk of issues was placed directly with the banks, savings banks, and other credit institutions and insurance companies, without passing through the regular channels of the capital market. In September 1935, 500,000,000 RM in the form of 4½ percent Treasury bonds redeemable in 10 years were offered for public subscription, but the bulk even of this issue was taken over by the banks and did not reach the public. However, two other bond issues of the same amount each were offered for public subscription in 1936. All told, the Nazi Government succeeded in 1935-36 in placing primarily with the banks, and only to a small extent with the general public, long-term loans to the amount of some 4 billion marks.

"Special Bills"

As a larger part of the government expenditures in 1935-36 was covered by taxes

interest, but his bonds ceased to be quoted on the Stock Exchange and were no longer eligible as collateral at the Reichsbank. Over 99 percent of the bonds were converted. It has been pointed out that the success of the operation was due not only to the credit controls described above but also to the fact that the foreign exchanges were strictly controlled so that no funds could be transferred abroad.

Table 7.—Bills Held by Banks on October 31 of Each Year, 1932-1936

[In millions of RM]

Bank	1932	1933	1934	1935	1936
Reichsbank	2,897	3,162	3,729	4,110	4,942
Golddiskontbank	324	251	218	697	825
5 special institutions ¹	194	284	464	679	851
5 big Berlin banks	1,674	1,689	2,017	2,167	2,569
State and provincial banks	558	668	921	1,022	1,060
Other credit institutions	963	1,491	2,137	2,525	3,019
Total bills held by banks	6,610	7,545	9,486	11,200	² 13,066

¹Deutsche Bau-und-Boden Bank; Bank für Deutsche Industrie-Obligationen; Diskont-Kompagnie; Deutsche Verkehrs-Kredit Bank; Bank der deutschen Arbeit.

²These figures are by no means exhaustive since growing amounts of "Sonderwechsel" were kept by industrial corporations for a more or less considerable period after they had received them in payment for deliveries and services.

Source: Reichskreditgesellschaft, *Germany's Economic Situation at the turn of 1936-37*.

and long-term loans, the portion covered by short-term borrowing was somewhat reduced. But neither the growth of the tax revenue, nor the issue of long-term loans could provide the billions of marks which the Treasury needed, and short-term borrowing remained the chief method of satisfying the Reich's requirements.

The instruments of short-term borrowing of 1935-36 were no longer termed "employment creation bills,"⁴³ but "special" bills (*Sonderwechsel*). These bills had a nominal currency of 6 months, being discountable at the Reichsbank at the end of 3 months, and were renewable without limit. The extent of this credit expansion produced by the policy of issuing "*Sonderwechsel*," or special bills for armament and other purposes, may be estimated on the basis of the statistics of bill holdings by public and private banks. The figures are given in table 7.

How was the financing made possible?

There was much discussion at the time as to how Germany was able to provide the financial resources for its huge public works and rearmament program and many observers believed that the financial strain would soon prove too great. The Reich's financial performance during 1935-36 has since been explained as follows:

1. The increase in economic activity and the consequent growth of profits and of the national income enabled the government

⁴³ The "employment creation bills," were bought up by the government by the end of 1937.

to increase considerably its revenues from taxation. Total tax revenues in 1935-36 were 600 million RM higher than in the previous boom of 1928-29 when they amounted to about 9 billion Reichsmarks.⁴⁴

2. The economic revival and the fall in unemployment improved the financial position of the Reich Unemployment Office. The Office was not only able to dispense with all extra contributions and assistance, but to obtain a surplus and to accumulate reserves. Compulsory contributions to unemployment insurance, which were raised, during the crisis, from 3½ percent of wages to 6½ percent (in 1930) were maintained at this high level.⁴⁵ The insurance taxes and other compulsory contributions were devoted to the purposes of public investment and capital accumulation. In 1936 the receipts of the Unemployment Relief Board considerably exceeded the amount paid in unemployment benefits, and the balance was contributed in the form of investment in government bonds or short-term obligations toward the general resources of the Reich.

3. The large sums needed for private investment in plant and machinery, as output in certain industries reached capacity, was increasingly obtained from the profits of industry itself. In 1934 for the first time a balance of profit was realized amounting to about 750 million Reichsmarks. In 1935 net profits probably rose to well over 1,000 million Reichsmarks. The effect of the Dividend Limitation Law of 1934 and of the restrictions on new capital issues caused firms to reinvest much of their undistributed profits in their own businesses.

4. The growth of incomes which followed the expansion of production and employment increased the savings of the general public, and a large part of these savings flowed into the savings banks and insurance companies. Total deposits with the savings banks increased by 693 million Reichsmarks

in 1934 and by a further 960 million Reichsmarks in 1935.⁴⁶ The savings banks and insurance companies were able to subscribe to an amount of 1,206 million Reichsmarks of government obligations in 1935 and of 1,323 million Reichsmarks in 1936.

5. By banning or severely restricting all private capital issues, the government monopolized the country's savings and capital resources for its own ends. "The open capital market is completely overshadowed by public enterprise. The issue of private securities has * * * been extraordinarily low. During the four years 1932 to 1935 the total issue of new shares amounted to as little as 540 million Reichsmarks. * * * During the sixty years and more which has elapsed since private enterprise came to be based on the joint-stock principle, no economic revival has ever taken place in which new industrial and commercial issues have been so low as they are now. The peculiarity of the present situation is due, partly to the emphasis on public investments, but partly also to the increased importance which has attached to expansion by means of undistributed profits. * * *⁴⁷ It was estimated that public borrowing during 1933-36 absorbed 90 percent of the country's net accumulation of capital.

6. The use of totalitarian methods of "persuasion," involving the threat of force, in carrying out the conversion operations in 1935 and the long-term loans of 1935-36. With the aid of these methods the Nazi Government succeeded in refinancing in 1936 floating debts of over 2 billion marks, or a total of nearly 4 billion marks during 1935-1936.

7. The government made use of the liquid resources of the country by a series of ingenious devices such as the "employment creation bills," the "solawechsel"⁴⁸ and the "special bills." Business enterprises

⁴⁴ See table 5 in appendix.

⁴⁵ Reichskreditgesellschaft, Report for First Half of 1936, pp. 48-49.

⁴⁶ Reichskreditgesellschaft, Report for First Half of 1936, p. 47.

⁴⁷ Ibid, pp. 50-51.

⁴⁸ For description of Solawechsel, see p. 45.

and the banks were in a condition of liquidity owing to the fact that stocks and inventories were low, sales were brisk, profits good, and long-term investments either in domestic or foreign private issues were either forbidden or greatly restricted. The government used the Reichsbank and other public banks to the full to carry its short-term obligations. The role of the commercial banks as direct lenders to industry and trade was greatly reduced. The banks took an increasing part in the financing transactions of the government by increasing their holdings of government securities⁴⁹ and by discounting the "special bills." On the other hand, the Reichsbank decreased its holdings of securities during 1936 and increased its rediscounts of bills. By 1936 about 95 percent of all bills held by the Reichsbank represented directly or indirectly government obligations. In 1935, for example, the Reichsbank discounted bills to the amount of 36.9 billion Reichsmarks. Of this amount commercial rediscount credits amounted to only about 3 billion marks. In other words, over 90 percent of the Bank's rediscount credits represented the discount of employment and special bills.⁵⁰

The existence of this huge "unrecorded" floating debt, in the opinion of many at the time, represented a serious danger. A financial or political upheaval or panic, it was said, would cause banks and businessmen to rediscount their holdings of government bills with the Reichsbank, which would naturally result in a brisk increase in the note issue at least by several billion

marks. The answer was that, in the first place, a large portion of these bills held by the banks and industrial corporations was not even formally eligible for rediscount with the Reichsbank. Second, it was pointed out that, under the conditions in Germany, the danger of such a "run on the Reichsbank" was a practical impossibility. The means of control of the Nazi State were so complete and effective that it was entirely in the powers of the government to avert such a danger from the start.

But the operations of the Nazi Government were supported also on general grounds. The theory was advanced that short-term and indefinitely renewable employment and armament bills did not represent a liability of the German Government—at least not before their maturity—when they were to be either redeemed or refinanced by the issue of long-term bonds. Furthermore, these bills were said merely to "anticipate" public revenue of the next 3 or 5 years.

What actually happened was that the whole credit system was made to work on state or government credit instead of private credit. The private German capitalist, whether owner of stock in a company, a depositor in a bank, or the holder of an insurance policy, was exchanging his capital for an obligation of the Reich. The Nazi Government could accomplish that by using its political pressure and also by making the banks legally as well as practically agents of the Reich Government.

The theory and procedures of Nazi financing during 1933-36 have been clearly stated by one of its main architects, Dr. Hjalmar Schacht, as follows: "* * * The idea of bringing about economic revival by financing consumption which was prevalent at first and which meant the willy-nilly distribution of money by the state, was at once abandoned * * *. Instead of this, all government assistance was from the very beginning used to bring about a rise in production, first in a so-called work creation program through credit assistance for

⁴⁹ The total of these securities rose from 569,000,000 Reichsmarks in 1934 to 817,000,000 in 1936.

⁵⁰ The position of the Reichsbank was eased to a considerable extent by the issue of the "Solawechsel" referred to above. The Solawechsel was a promissory note issued by the Golddiskontbank. These notes were issued for 3 months and were rediscountable at the Reichsbank. These notes offered the banks an extremely liquid form of short-term investment. With the proceeds from the sale of Solawechsel the Golddiskontbank purchased "employment bills" and "special bills" from the Reichsbank and thus eased the latter's position. See Bureau of Foreign and Domestic Commerce, *World Economic Review*, 1935, p. 167.

reconditioning, repairs and similar things, and afterwards through the great armament program which was steadily expanded. The extent of this program and of the auto-highway construction which was undertaken soon made it clear that these two tasks alone would be sufficient to overcome the existing unemployment, so that the other work creation measures soon became superfluous.

"Naturally, this work creation and armament program could only be set under way by the state and could only be carried out by financing on a large-scale. No capital at all was available for this financing. In fact money creation had to be helped along. Classical economic theory permits money creation only when the goods in circulation have already been increased, and it forbids a financing of production and especially a large credit expansion over a short period of time. This theory postulates the existence of a liberal economy, the basis for all classical economic thought. In such an economy a great increase in the money in circulation leads necessarily to price and wage increases and thus to a strained state of affairs which in the end causes an economic depression. But National Socialism introduced in Germany a state-regulated economy which made it possible to prevent price and wage increases. This did away with one of the main objectives to a financing of production through credit. And so credit was used to produce a greater volume of goods, and the only problem which remained was the determination of just how far this money creation could go. For money creation by the state always contains the seed of excess which leads to inflation. The fact that the newly-created money would be covered by newly-created goods was not the only point; the type of goods also had to be considered. Simply expressed, the problem was as follows: The credit money, made available for the armament program, produced a demand for consumption goods insofar as it was paid out in the form of wages and salaries. However, the armament

manufacturers deliver military goods which are indeed produced but not consumed * * *. [The] standard of living and extent of rearmament stand in inverse relation to each other. The less I consume, the more I save, and the more I save, the more I can spend on armaments. This means that armaments in the final analysis can be financed not through money creation, but only through savings * * *.

"* * * In my long years of work in the economic field, I had learned to distinguish the means of exchange, money, from the means of production, savings. I also saw very clearly that I first had to throw a bridge over to this normal financing through savings, for our tax revenues had declined to a minimal amount and our capital market was exhausted. I could not change this state of affairs as long as the economic depression lasted. Therefore, the only correct thing to do was to have the central bank temporarily make available the credits necessary for work creation and armaments. This was to continue until business had improved to such an extent that income was large enough to provide for sufficient savings and consolidation. Only then was it possible—and necessary—to shift the financing over to taxes and loans."⁵¹

The "New Plan" for Foreign Trade

The German balance of commodity trade had been deteriorating steadily since 1931. Nevertheless, when the Hitler government came to power in January 1933, Germany still had an export surplus of 670 million Reichsmarks.⁵² But in 1934, the year of transition, imports exceeded exports by 284 million marks. The decline in exports was caused, aside from the general economic conditions, largely by the growing disparity between German and foreign prices (due to Germany's refusal to devalue her currency),

⁵¹ "Financial Miracle" and "New Plan," by Hjalmar Schacht, Supplement to the Weekly Report of the German Institute for Business Research, December 1, 1938, pp. 2, 3.

⁵² Weekly Report of the German Institute for Business Research, October 21, 1936, p. 85.

by the growing competition of countries with devaluated currencies, by the wide extension of tariffs and exchange restrictions, and by boycotts in several countries against German goods.

Ever since 1931 there had been a measure of exchange control in Germany, but it had been administered chiefly with the aim of limiting the withdrawals of foreign credits from Germany in order to safeguard the external value of the mark. The limitation on transfers did not affect, however, the short-term debts owed to foreign banks which were regulated by the "Standstill agreement" of September 1931. Also, until June 1933, foreign exchange was readily available for the payment of interest.

Beginning with June 1933 the Nazi Government began to tighten its control of foreign exchange. A partial transfer moratorium was declared on interest and sinking fund payments on foreign debts, both public and private. The transfer of the full interest and sinking fund payments of the Dawes Loan and of the interest on the Young Loan was continued, but beginning with July 1, 1934, the provisions exempting the Dawes and Young loans from transfer restrictions were canceled.⁵³ By November 1934 the transfer moratorium was complete.

In addition, various other methods were evolved to control the movements of foreign exchange. Thus in 1934 it was prohibited to export Reichsmark notes in excess of 10 marks in silver. To enlarge the supply of foreign exchange, imports were severely controlled. The system in force was one under which German importers were given a foreign exchange allotment in proportion to the amount they had imported before 1931. In February 1934 the allotment was 50 percent, but by May 1934 it had fallen to 5 percent, and finally a day-to-day allotment was introduced.

The system of foreign exchange quotas was not adequate to meet the situation aris-

ing from the decline in German exports, and in September 1934 Dr. Schacht announced the so-called "New Plan" for foreign trade. The basic ideas of the "New Plan" were (1) to purchase no more abroad than can be paid for out of the foreign exchange proceeds of German exports, i.e. to limit total imports to the amount yielded by proceeds from total exports, and (2) to regulate German imports according to national requirements. Twenty-seven boards were entrusted with the administration of these regulations which controlled the source and quantity of imports, rationed the supply, and restricted the purpose for which raw materials could be used.

As a result of the "New Plan" a considerable shifting took place in the direction of German foreign trade. Germany shifted its imports as much as possible to countries with which it could arrange clearing agreements which obviated the use of foreign exchange.⁵⁴ On October 21, 1936, the German Institute for Business Research remarked that Germany at that time had clearing agreements with all European countries excepting Albania and Iceland.⁵⁵ These clearing agreements enabled Germany to keep imports from nonclearing countries to the level of their imports from Germany, at the same time covering her import requirements through the clearing system which eliminated the necessity to make payments in marks. Germany bought heavily in these countries, linking them thereby close to the Reich. This became increasingly true of southeastern Europe where German trade grew apace. The clearing balances accumulated in Berlin to the credit of southeastern countries could only be liquidated by buying more from Germany; hence countries dependent on the German market saw little alternative but to increase their imports from the Reich in order to liquidate outstanding mark balances.

⁵⁴ For details of the system see League of Nations, Report on Exchange Control, Geneva, 1936.

⁵⁵ Weekly Report of the German Institute for Business Research, December 1, 1938, p. 87.

⁵³ In the fall of 1935 Germany offered to make certain payments on these loans.

In an address delivered on November 29, 1938, before the Economic Advisory Board of the German Academy, Dr. Schacht set forth some of his ideas regarding the "New Plan" as follows: "In addition to the limitations of the service on the foreign debt, it was necessary to regulate foreign trade in order to master the foreign exchange problem. Entrusted by the Führer with this task, I, as Minister of Economics again went back to very simple and primitive fundamental ideas. I said to myself that no one should buy more than he can pay for, and if he cannot pay for everything he wants, he must then buy first that which he needs most and must buy there where he can buy most advantageously. Here again there cropped up the dangers of a mistaken use of the principle of classical economic thought which had been deprived of its basis, a liberal economy. The answer of classical economic theory to the question, where one buys most advantageously runs as follows: naturally, where you can buy most cheaply. This is completely out of the question today. For if you have no foreign exchange, you are not interested so much in the question as to which is the cheapest market, as you are in the question as to where you can secure the goods at all. And if the seller of the goods does not insist on payment in foreign exchange, which I do not have, but is willing to take goods in payment, then the entire classical economic law is deprived of its basis. All in all the main question on which this simple and primitive economic idea was based was whether the rest of the world was willing or was in a position to spurn a market of 70 million people, today 80 million people, or if it wished to retain this market. According to classical theory, it would be assumed that someone who did not receive the desired payment in foreign exchange for his goods would refuse to sell these goods. Way off the mark. It has been proved that, contrary to all the teachings of classical economic theory, not the producer, but the consumer is the main factor

in economic life. And this theory also affects to a certain degree general social and political thought, since it leads to the conclusion that the number of consumers is much greater than the number of producers, a fact which exerts a none too light social and political pressure."⁵⁶

Another device introduced under the "New Plan" was the so-called *Aski Mark*. With Latin America especially, Germany arranged her trade on a compensation basis which took either the form of direct bargaining (such as the exchange of Brazilian cotton and coffee against German manufactured goods), or of private compensation against payment in Aski marks. (*Auslaendersonderkontern für Inlands-Zahlungen.*)

Under the Aski system, suppliers of materials sold to Germany received payments in a special category of marks which were available for counter-purchase of German goods, usually at a rate below the official exchange rate. The value of the Aski mark varied from country to country, and was not transferable from one country to another, although they might be sold internally. In practice, the use of the Aski mark had much the same effect as a clearing agreement in that it enabled Germany to obtain supplies of raw materials in exchange for German goods.⁵⁷

The control of the foreign exchanges was steadily tightened as shortages in Germany became more serious. On December 1, 1936, a decree was passed ordering capital punishment for wilful failure to surrender foreign exchange or for any illegal attempt to export capital.⁵⁸

⁵⁶ "Financial Miracle" and "New Plan," by Hjalmar Schacht, Supplement to the Weekly Report of the German Institute for Business Research, December 1, 1938, p. 5.

⁵⁷ Germany used the blocked mark scheme of purchasing at what seemed to be attractive prices, but by placing restrictions on the types of goods she was willing to export, restricted sales so that blocked marks accumulated in the hands of Latin-American banks. In some instances experience showed that the terms of trade were not as favorable as the Latin-American nations had hoped and resistance began to develop.

⁵⁸ *Völkischer Beobachter*, December 2, 1936.

The "New Plan" was costly and cumbersome and besides it did not solve all the difficulties of German foreign trade. Due to high domestic prices, rising cost of production, and the determination to maintain the nominal external value of the mark, Germany had to give special assistance to her exporters to enable them to compete on the world market. The device adapted to meet this difficulty was a levy on industry. The scheme was supposed to operate on a voluntary basis, but in reality it could not be evaded.

But the "New Plan" accomplished its main purpose. Whereas the balance of trade in 1934 had shown an excess of imports over exports of 284 million RM, this was transformed in 1935 into a favorable balance of 111 million RM, and this balance increased to 550 million RM in 1936. The "New Plan" also had the advantage of making possible the stabilization of the German internal price level and the prevention of large-scale capital exports. It ensured that Germany would not import more than she could pay for with her exports and that she could direct the flow of her exports to those countries which were prepared to accept her goods and whose goods she wished to buy in return. Without this control it is hardly conceivable that Germany could have maintained so high a rate of internal expansion as she did in 1934-36 and after, on the basis of so small a volume of imports. Nor could she have carried through the financial operations on which the Four-Year Plan was based.

Stabilization of Prices and Wages

The recovery formula of the Nazis called for an extension of production, but for a strict maintenance of existing wage and price levels. Exception was at first made in favor of farm prices which were to be readjusted upward, but after 1934 even agricultural prices were to be subject to the general rule.

On the whole, the Nazi Government succeeded in maintaining wages at the level

Table 8.—Average Wage Rates in Pfennigs per Hour, 1934-36

Class of workers	Jan. 1, 1934	Jan. 1, 1935	Jan. 1, 1936	Dec. 1, 1936
Male skilled workers-----	78.3	78.3	78.3	78.3
Male semiskilled workers-----	68.1	68.3	68.3	68.3
Male unskilled workers-----	62.1	62.2	62.2	62.2
Female skilled and semiskilled workers-----	51.6	51.6	51.6	51.6
Female unskilled workers-----	43.3	43.4	43.4	43.4

Source: Reich Statistical Office.

existing at the beginning of 1933. Wage rates during 1934 were regulated by wage schedules taken over from the collective wage agreements concluded before the Nazis came to power. The only substantial difference was that wage scales previously negotiated between workers and employers were now imposed by the Labor Trustees appointed for the 13 districts into which Germany was divided for this purpose.

The stability of wage rates may be seen in table 8.

On the other hand, the control of prices was neither so easy nor so effective. From 1934 on there were a number of factors which tended to raise wholesale and retail prices as well as rents. Among these factors were the shortage of grain and especially fodder crops, the drastic restrictions on imports of raw materials, the higher costs of substitute products, the price-raising policies of the cartels, higher prices paid under clearing agreements, the higher taxes, the higher money incomes in the hands of the people, etc. These price-raising factors created difficult problems of control with which the government had to cope continuously.

At first the control of prices was exercised primarily by regulating cartel prices which included most of the important indigenous raw materials. During 1934 the Nazi Government issued decrees setting maximum prices for various commodities, and a multitude of government agencies was set up to enforce them. As overlapping and conflicts developed, the government on November 6, 1934, appointed a *Reich Commissioner for Price Control* whose powers

were several times extended to cover the prices of all goods and services with the exception of wages. All price increases had to have the approval of the Commissioner.

Still, during 1935, discrepancies developed between the official prices fixed by the government and those actually paid by manufacturers, dealers, and consumers. There were various kinds of "concealed" price increases and much "bootlegging," especially in the form of illicit direct dealings between farmers and urban consumers. Also, while many prices remained fixed, inferior goods were substituted for those for which the prices were fixed. Despite all regulations, the indexes of prices for all goods rose during 1935.

On June 30, 1935, the control of prices was decentralized and handed over to various ministries. Forty-nine price control commissioners (generally the governors of the provincial states) were entrusted with the supervision of the price regulations. Propaganda was intensified for the slogan "Production Boom, (*Mengenkonjunktur*) but not Price Boom (*Preiskonjunktur*)." But the problems persisted, and in the fall of 1936 the Price Commissioner was replaced by a Commissioner for Price Formation.

According to official estimates, the cost of living in Germany rose by 5.4 percent between 1933 and 1936. Conservative unofficial estimates placed the increase between 15 and 20 percent. An idea of the decline in real wages is indicated in table 9.

Thus, after a slight increase in 1935, the average labor income per person employed was still somewhat lower in 1936 than in 1932. In view of the increase in

Table 9.—Total and Average per Capita Earnings of Wage Earners, 1929-1936

Year	Incomes from wages and salaries (RM)	Total number of persons employed (yearly average)	Labor money income per person employed (RM)
1929-----	43,000,000,000	17,870,000	2,402
1932-----	25,700,000,000	12,580,000	2,039
1933-----	26,000,000,000	13,080,000	1,985
1934-----	28,300,000,000	15,080,000	1,940
1935-----	32,300,000,000	16,000,000	2,019
1936-----	34,500,000,000	17,160,000	2,006

Source: Reports of Commercial Attaché, Berlin, 1936.

the cost of living, as estimated above, this meant a decline in *average* real wages.

The "Abolition of Unemployment"

At the Nuremberg Congress of the National Socialist Party in September 1936, a "proclamation" was read which claimed that the main objectives of the First Four-Year Plan had been obtained and that unemployment had been "abolished." According to the official statistics, the number of registered unemployed in October 1936 had fallen to 1,076,000.⁵⁹ This million of unemployed, according to an inquiry conducted by the Ministry of Labor, included an "unemployable residue" of 237,000 persons who could not be employed on account of age, infirmity, or other disqualifications. Some 94,000 were found to be not fully employable in their own trade. The number of fully employable was 745,000 but of this latter number only 279,000 were suitable for transfer to other districts with acute labor shortage; of these, only 162,000 were skilled workers. Also, owing to the shift of production to rearmament, there was developing a shortage of skilled workers in the machinery and allied trades.

The claims of the Nazi Government were disputed at the time. The facts, so far as they can be disentangled from propaganda and counterpropaganda, seem to have been as follows:

1. A considerable number of workers were absorbed outside the industrial process. According to the report of the Reich Minister of Labor for 1935, the calling-up of men for military service and the labor service "greatly relieved" the labor market. The total number of workers absorbed outside the process of production has been estimated at not less than 1.5 million at the end of 1935. Thus, about 45 percent of the decrease in unemployment from 1933 to

⁵⁹ Bureau of Foreign and Domestic Commerce, World Economic Review, 1936, p. 24.

Table 10.—Absorption of Workers Outside Industrial Production, 1933-35

Scheme	Average number of workers absorbed		
	1933	1934	1935
Labor service-----	200,000-250,000	200,000-250,000	200,000
Agricultural assistants-----	?	} 150,000	150,000
The "Year on the Land"-----	?		
Marriage loans-----	150,000	365,000	523,000
Additional domestic servants-----	100,000	170,000	180,000
Total-----	450,000-500,000	885,000-935,000	1,000,000-1,100,000
Including military service-----			1,500,000

Source: Institut für Konjunkturforschung, Wochenbericht, 21 March 1936.

1935 may be attributed to this cause. See table 10.

2. The average hours of work, after rising slightly in 1933, remained more or less stationary in 1934-35.

3. The total increase of employment and decrease of unemployment was greater during 1933-34 than during 1935-36, as may be seen in table 11.

4. The increase in employment took place chiefly in a few industries. From the middle of 1933 to the middle of 1936, about 80 percent of the total increase in employment took place within the capital-goods industries, 45 percent of the increase falling within the building trades and their subsidiaries. The increase of employment among workers in trade and transport was 17 percent and only 14 percent among salary earners.⁶⁰ Seven branches of industry contributed toward the absorption of some 4 million unemployed up to the end of 1936.

5. As the public works schemes of 1933-34 reached completion, there was a slowing-up of reemployment. In fact, during the last months of 1935, there was a rise in the number of registered unemployed. But reemployment was greatly stimulated by the

Table 11.—Number of Employed and Unemployed in Germany, 1932-36

Year	Total number employed	Total number unemployed
1932-----	12,518,000	5,575,000
1933-----	13,016,000	4,804,000
1934-----	15,041,000	2,718,000
1935-----	15,949,000	2,151,000
1936-----	17,097,000	1,593,000

Source: Sickness Insurance Fund statistics.

⁶⁰ Reichskreditgesellschaft, Germany's Economic Development at the Turn of 1936-37, p. 31.

progress of the rearmament program in 1936.

Production and Consumption

As already pointed out, the years 1935-36 saw an accentuation of the divergence between the production and consumption-goods industries. The index of the production goods industries rose from an average of 77.2 for 1934 to 99.4 for 1935, and 112.9 in 1936 (1928=100). The index of output of the consumption-goods industries advanced from 91.0 for 1935 to 97.5 in 1936.⁶¹ The main explanation lies in the fact that "the secondary effects of the work creation schemes in the field of consumption were weakened by the shortage of raw materials and the rise in prices on the one hand, and by rearmament on the other, as a result of which a considerable fraction of the newly created incomes were diverted by means of taxation and loans to the production goods industries. It should further be noted that in the statistics of every country, armaments are included under the heading 'production goods' (a typical example being iron and steel), but this is misleading as regards the economic significance of armaments. Increased output of production goods means that at some later date the national economy has more or better consumption goods at its disposal. This is by no means the case when armaments are manufactured."⁶²

In brief, while national income increased,⁶³ consumption was kept down by stabilizing wages, encouraging voluntary savings, im-

⁶¹ See table 1 in appendix.

⁶² Grebler, op. cit. Report for the First Half of 1936 of the Reichskreditgesellschaft explains in a similar way that the "humble place" which the consumption-goods industries had in the revival of these years was due to the fact that the general level of wages was kept constant while there was a rise in the price of foodstuffs. Difficulties with regard to the balance of payments and the supplies of foreign exchange cut down the possibilities of imports. In some cases, as in the textile trades, legal limitations were imposed on the total output.

⁶³ The figures in table 12 indicate the relations of investment and income during 1935-36 and may be compared with the similar figures given earlier for 1933-34.

Table 12.—National Income and Investment in Germany, 1934-36

Year	National income (RM)	Gross investment (RM)
1934.....	52,700,000,000	8,200,000,000
1935.....	58,600,000,000	11,600,000,000
1936.....	64,900,000,000	13,800,000,000

Source: Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 15.

posing forced savings, and by the other devices described in the preceding sections.

The Second Four-Year Plan (October 1936-August 1939)

Some students of German economic developments have pronounced the First Four-Year Plan an unqualified success. To quote one of them:

"By the autumn of 1936 the success of the First Four-Year Plan was no longer in doubt * * * the economic circuit had been closed. Initially, the State orders provided the demand for the work at a time when effective demand was almost paralysed and savings in the aggregate were nonexistent; the Reichsbank supplied the money funds needed for investment; investment drew the unemployed into work; and work created the incomes, and therewith the savings, out of which the short-term indebtedness previously incurred was able to be carried and, in a certain measure, to be funded."⁶⁴

But the developments of 1933-36 had many questionable aspects which created serious difficulties for the Nazi Government. The chief difficulties were the shortage of foodstuffs and of raw materials (textile fibers, iron ore, etc.) due to the decline of imports, the slowing-up of the favorable trade balance as a result of increasing obstacles to export trade, the continued growth of the floating debt, the disequilibrium between the production and consumption goods industries, and the unsatisfactory functioning of the price control system. By the summer of 1936 internal stresses were acutely felt. The peasants were complaining because the prices of their produce were being kept down despite shortages.

⁶⁴ Guillebaud, *op. cit.*, p. 101.

The wage earners were grumbling because a high level of employment was not bringing higher money wages or better consumption. The businessmen were discontented with the expansion of state industry at the expense of private enterprise, with the increasing government debt, and with the growing rigidity of state intervention.⁶⁵

There was much discussion in the German press as to the next steps (such as devaluation of the mark) when in September 1936, at the Nuremberg Party Congress, Hitler announced the Second Four-Year Plan. With this announcement the second stage in the economic development of Nazi Germany was ushered in.

Autarchy and Planning

As stated by Hitler, the Second Four-Year Plan had the main purpose of making Germany self-sufficient in essential foodstuffs and raw materials and of providing a larger basis for increasing employment. Hitler's declarations may be summarized as follows:

The expansion of production and of the national income had increased the demand for consumption goods and the need for raw materials. There was thus need for increasing the "food-basis" of the German people within German territory. But it was even more necessary to free Germany from dependence on foreign industrial materials and to increase the supply of consumption goods by widening and extending the raw materials which could be obtained within the territories of the Reich. Every mark saved through home production of industrial raw materials could be used for the importation of other articles. The larger the extent to which Germany could supply her own needs in raw materials, the more she would be able to import articles of comfort and luxury and thus raise the standard of living of the people. Furthermore, this scheme of developing the home production of agricultural and mineral raw materials (or substitutes for them) would provide a

⁶⁵ *Ibid.*, p. 102.

means of employment on a large scale in the consumption-goods industries after the investment needs of the production-goods industries (associated with rearmament) had been satisfied.

Hitler thus stresses the standard of living and employment aspects of the plan. But various observers at the time pointed out that *Autarchy* in agricultural and industrial raw materials was an essential part of the Nazi military program and "a logical continuation of Germany's rearmament."

It was also pointed out at the time that Germany was taking a long step from mere "pump-priming" by means of public works to an increasingly comprehensive "planned economy" of the totalitarian type. The Nazi Four-Year Plan was developing into a kind of general slogan intended to spur the nation's economic energies. General Loeb, one of Göring's principal assistants in the execution of the plan, pointed out that in view of the aims which it pursued, the Plan could never be limited to a period of 4 years and that it rather incorporated the idea of national socialist economic leadership for the future generally. A German newspaper expressed the idea that planning was becoming a permanent feature of German economic life by referring to it as "*Vierjahrsplan ohne Ende*" (Four-Year Plan without end).⁶⁶ The trend toward more "planned economy" was interpreted to mean that the sphere of government interference and direct government activity in industry and commerce were bound to expand at the expense of private business.

Both Hitler and Göring stressed the fact that the Plan would for some time mean sacrifices. "The worker must put aside his immediate hopes for a higher standard of living; the business men their desire for more freedom of individual action, and everybody their wish for lower taxation." In return, the German people were promised security from their enemies in time of war

and from industrial fluctuations in time of peace, and in some more distant future, a higher standard of living all around.⁶⁷

Development of the Plan

The chief raw materials for which independence was sought (exclusive of grains and fats) were textile fibers, mineral oils, iron ore, rubber, and nonferrous metals. The replacement of foreign imports of these materials by their home production represented problems of varying complexity and procedure. It meant in some cases the increased production of substitutes such as "*Kunstwolle*" or "*Zellwolle*" (staple fibers) or "*Buna*" (synthetic rubber), in other cases the utilization of inferior grades of supply as of iron ore.

The carrying out of the plan was placed under the control of Marshal Göring. The Marshal proceeded to set up a separate organization, which was superimposed on that of the ordinary state departments. Many of the more important posts in this organization were given to military officers of high rank. There was a determination to use methods of wartime control for carrying out the Plan. The Colonels and Major-Generals were certainly not possessed of much economic knowledge but since 1933 an important section of the General Staff had been set up for the study of war economics (*Wehrwirtschaft*), and they were called upon to carry on the work.⁶⁸ Among the more important administrators of the Plan was Colonel Loeb, head of the Raw Materials Section.

The development of the Second Four-Year Plan made necessary large extensions of existing plants and the building of many new plants. The most "grandiose" project undertaken was that of the Hermann Göring Iron Works. While the projects of an autarchic character were being put into effect, a further impetus to economic activity was given in the latter part of 1937 by the

⁶⁶ *Deutsche Bergwerkszeitung*, January 26, 1938.

⁶⁷ Guillebaud, *op. cit.*, p. 107.

⁶⁸ *Ibid.*, pp. 107-108.

announcement of great construction plans for the complete rebuilding (over a period of 10 to 20 years) of Berlin, Hamburg, and other cities.

However, before the Second Four-Year Plan was halfway advanced, the Nazi Government embarked upon the political and military enterprises which culminated in the present war. In March 1938 Austria was annexed; in October 1938 the Munich agreement was effected and the Sudetenland was made part of Germany; in March 1939 Czechoslovakia was absorbed by the Reich, and in August 1939 the invasion of Poland took place, leading to the declaration of war on September 3, 1939. As a result of these political developments, the execution of the Second Four-Year Plan was complicated by measures taken for adjusting the economy of Austria to the needs of the Reich, by the reorganization of the economic resources of Czechoslovakia, etc. Furthermore, the data needed for judging the degree of success of the Second Four-Year Plan, especially with regard to the output of various substitute products, are not available.

In view of these facts, no attempt can be made here to assess the performance of the Second Four-Year Plan. All that is attempted below is merely to summarize some of the important aspects of its development, so far as data are at hand. The analysis is concerned with the financing of the Plan, and its effects on prices, employment, and labor conditions.

New Methods of Financing

Data on the cost of the Second Four-Year Plan and on total expenditures for Germany's continued rearmament during 1937-39 are not complete. Some idea of the magnitude of these expenditures is suggested by the fact that total taxes and revenue from customs duties rose from 9,700,000,000 RM in 1935-36 to 17,700,000,000 RM in 1938-39, and that the declared debt of the Reich increased from 14,372,000,000 RM in 1936

to 30,676,000,000 RM in 1939.⁶⁹ Hitler, as is known, declared in one of his speeches that Germany had spent 90 billion marks between 1933 and 1939 on her public works and rearmament program. The amounts spent during 1937-39 were larger than during 1933-36.⁷⁰

Following its new line indicated above, the Nazi Government during 1937-39, obtained an increasing part of the sums needed from taxation. There was a sharp rise in tax revenue as indicated by the figures given above. A larger part of total expenditures was covered by the flotation of consolidation loans. Of the loans issued between January 1937 and May 1938, about 3,600 million RM were offered for public subscription. The duration of the loans was increased from 10 to 20 years.

The government also made it known that they expected a large part of the financing to be borne by private industries. The ban on the capital market was relaxed. Industry was required to finance its share of the new capital cost out of profits. When the capitalization of the Göring Iron Works was increased, for instance, all future users and prospective buyers of steel from these Works were invited to subscribe to the capital of the company. The quota which each industrial manufacturer was expected to subscribe was fixed in advance at 50 marks per worker or employee. The government counted on the fact that greater business turnover, higher industrial earnings, and larger pay rolls were contributing toward a marked increase in the formation of capital which could be used for financing the new program. At the beginning of 1938 Colonel Loeb stated that the firms undertaking the formation of the new enterprises under the Plan "had contributed about 30% of the finances

⁶⁹ The long- and medium-term debt was declared to be 8,029,000,000 RM in 1936 and 19,577,000,000 RM in 1939; the short-term debt--2,899,000,000 RM in 1936 and 6,535,000,000 RM in 1939. See Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of 1939*, p. 60.

⁷⁰ See tables 4, 8, and 9 in appendix.

required. The capital market, by share of bond issues and by taking over loans, had provided 50%. A further 8% was provided by the banks and 12% was supplied by the Treasury."⁷¹

During 1937 and up to March 1938 the Nazi Government continued to issue "special bills" for financing its operations. In view of the lack of official figures, the movement of bill portfolios of the Reichsbank and other banks is the only index of the trend. Total bill holdings of the German banking system at the end of October 1936 amounted to 12,510,000,000 RM, and rose to 14,306,000,000 RM a year later. Comparing the end of 1932 with the end of 1937 there was a rise of 7,954,000,000 RM. This does not include the bills in possession of private bankers and of industrial and commercial firms. The rate of increase in the form of "special bills," however, was somewhat slower in 1937 than in 1936.⁷²

By the beginning of 1938 it was becoming clear that the use of bills as a means of financing investment (except in the form of short-term, self-liquidating loans for working capital) was reaching its limit, and that a further extension of bank credit was likely to have inflationary effects. In March 1938 a new financial policy was therefore inaugurated. In the words of Dr. Schacht, "* * * Spring 1938 brought a change in our finance policy, because at that time German economy had reached a stage of full employment. As soon as an economy has made use of all available labor and materials, any further credit expansion is not only senseless, but actually harmful. For then newly created money can no longer effect a further increase in goods production, but can only bring about competition for the available labor and raw materials; and such a competition must necessarily lead to an increase in prices and wages,

despite all measures of state control. Now, the term 'full employment' is naturally elastic. An economy as large as the German economy will always be able to mobilize some labor reserves and realize some success in rationalization. But there was no more room for a credit expansion in the former style, and the authorities drew the inevitable conclusions. On April 1, 1938, credit creation by the central bank was stopped, and the financing of government orders was shifted to taxes and loans. The period of transition was covered by the issue of delivery certificates."⁷³ The new bills were not to be eligible for rediscount with the Reichsbank, but would be accepted as collateral from the banks to 75 percent of their value and at 3 percent interest.

The methods of financing the Reich's huge expenditures by means of "delivery bills" failed to function satisfactorily. Soon after the change in financial policy was announced, came the incorporation of Austria and of the Sudetenland. Far more "delivery bills" had to be issued than had been expected and further expansion of central bank credit continued. During the latter part of 1938, two long-term loans were issued totaling 3 billion marks. The second loan was undersubscribed, and the banks had difficulty in placing their quotas. The capital market was obviously overtaxed; the bond market was depressed; and the Reichsbank had to step in to resume open market operations in support of sagging bond prices.

On March 20, 1939, a new plan was promulgated for financing the Reich's expenditures. The basic idea of this plan was to spread the cost of the Reich's program of armament, road building, and general reconstruction over many years by the issue of tax certificates (*Steuergutscheine*), anticipating future tax revenues.

⁷¹ Guillebaud, *op. cit.*, p. 120.

⁷² Reichskreditgesellschaft, *Germany at the Turn of 1938-39*, p. 88.

⁷³ Hjalmar Schacht, "Financial Miracle" and "New Plan," *op. cit.*, p. 3.

Under this plan, extraordinary expenditures of the Reich, states and municipalities, railroads, and other public authorities were to be paid as follows: 60 percent in cash and 40 percent in tax certificates of classes I and II which would be accepted in payment of taxes after 6 and 36 months, respectively. The presumptions on which the success of this plan was based were: (1) growing liquidity of industrial concerns and (2) their ability to hold the tax certificates in order to benefit from taxation privileges resulting from the possession of these certificates over a period of years. The issue of new tax certificates was discontinued as of November 1, 1939, and the Reich again resorted to straight short-term borrowing in the form of Reich bills and Treasury notes.⁷⁴

However, all these plans had little time in which to prove their workability. Within a few months Germany was at war.

The "Price-Stop" Decrees

In view of the needs of the Second Four-Year Plan, the Reich Government made a new and more determined effort to keep prices stable. On November 21, 1936, a "price-stop" decree was issued which was followed by an executive order to the same effect on November 30, 1936. The decree prohibited any increase in prices of commodities or services above the level of October 18, 1936, though some exemptions were allowed. The decree was to be enforced by the Reich Commissioner for Price Formation.

Price control was exercised rigidly during 1937-38. It amounted practically to an elimination of market price as determined by supply and demand factors. The prices fixed allowed for costs plus a

⁷⁴ On June 15, 1939, a new Reichsbank law was passed which confirmed the development of the past few years under which the Reichsbank was converted from an independent bank of issues to an instrument for carrying out Nazi economic and financial policy. The new law subordinated the Reichsbank to the Reich Chancellor, who alone had authority to determine the amount of credit which the Reichsbank might extend to the government. All existing formal restrictions and guarantees limiting government borrowing from the bank were removed.

reasonable profit to the producer, and costs were strictly supervised. Retail prices of consumers' goods were kept down by reducing the operating margins of the distributors. From time to time, prices were forcibly reduced in various branches of industry where the Price Commissioner thought that costs could be lessened by better utilization of a plant or otherwise.⁷⁵ So far as prices were affected by changes in world prices of imported goods, adjustments in German domestic prices were made.

Labor Shortages and "Labor Regimentation"

The development of the Second Four-Year Plan and continued rearmament were accompanied by a further increase of industrial production. Capital-goods industries continued to lead in the spectacular expansion. The index of production rose from 106.7 in 1936 to 116.7 in 1937 and to 124.7 in 1938. In 1938 industrial production was higher by 28 percent than in 1928, while in the first three months of 1939 it was 32.7 percent greater.

The increase in production called for the employment of additional labor. The number of insured wage earners and salaried employees in the former Reich reached the level of 20,800,000 in the autumn of 1938, which was about 1,200,000 higher than in the autumn of 1937 and more than 7½ million higher than at the low point of the slump in October 1932. By May 1939 the number of insured workers and salaried employees in the former Reich was 21,600,000. The number of unemployed, which had fallen to about 500,000 by October 1937, decreased to 164,000 in October 1938. Of these only about 88,000 were regarded as fully employable. Even seasonal unemployment was low, having decreased from 1,052,000 in

⁷⁵ According to the Institut für Konjunkturforschung the savings to consumers from price reductions in 1937 amounted to 300 million RM (about 1 percent of total retail sales estimated at 31 billion RM).

December 1937 to about 456,000 in December 1938.⁷⁶

The problem in Germany was no longer that of unemployment, but of labor shortages. There was a general dearth of workers, but especially of skilled workers and of agricultural laborers. The labor shortage in agriculture was due to a new "flight from the land" which was developing as a result of the attraction of the new industrial projects and of higher wages in industry.

To overcome the scarcity of labor which was said to be endangering the success of the Four-Year Plan, the Reich Government adopted a number of measures which were intended to mobilize all the labor power of the country. In doing so, the Government threw to the wind some of the cherished Nazi principles and put aside some of the objectives for which the party had presumably come into existence. The chief measures of the government for the mobilization of labor power may be summarized as follows:

1. To meet the scarcity of farm labor and of domestic servants, a decree was issued in February 1938 forbidding girls under 25 years of age, who had not worked for 1 year on a farm or in a private household, to accept employment in textile mills and in certain branches of industry. Labor decrees restricted the movement from one job to another throughout the entire field of agriculture and forestry. At the same time, steps were taken to encourage the building of farm laborers' houses, to improve their working conditions, to train them for their work,⁷⁷ and to provide them with better recreational facilities. In 1939 the farms were reinforced with foreign

workers; with members of the Labor Service, the Hitler Youth, and similar organizations; and even with workers from industry and men from the army.

2. Encouragement was given to women to return to work. Women who originally had been relegated by the Nazis to their kitchens and nurseries were increasingly mobilized for industrial work. Between October 1934 and October 1937 about 830,000 women returned to industrial and other gainful employment. At the end of 1937 it was announced that marriage loans would be granted even though the wife continued in employment. This caused difficulties for those dependent on domestic servants, and in February 1938 the decree referred to above under "1" was issued. Between the middle of 1938 and 1939 about 600,000 women workers were added to the gainfully employed labor force of the country.

3. The Nazis abandoned their policy of "middle class protection" which had been so material in gaining adherents among small tradesmen and handicraftsmen before the Nazis came to power. They began pointing to the "excess capacity" of retail trade intimating that the best these "superfluous" small independents could do was to give up a hopeless job and to join the ranks of the industrial proletariat.⁷⁸

4. The Nazi Government relaxed the protective labor laws in various ways with regard to retirement, hours of work, etc. About 100,000 elderly persons who would have retired under normal conditions were continued in employment. Hours of work were extended. In the building and machinery trades all legal limitations on hours of work were suspended. Factories which

⁷⁶ Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of 1939*, p. 20.

⁷⁷ In November 1937 the Agricultural Estate introduced a system of training for agricultural laborers designed to give the latter the recognized status of a skilled craft. The plan envisaged a 2 years' special course, leading up to a technical examination, on the lines of the "master's" examination in the skilled handicraft occupations.

⁷⁸ In this connection the following remarks are made in the Report of the Reichskreditgesellschaft on Germany at the turn of 1938-39: "The Reich Handicraft units during the 2-year period from April 1936 to April 1938 were reduced by 104,000 by the transference to industry of the craftsmen concerned as skilled workers, assistants, or foremen * * *. Among small producing firms and in the field of retail trade there is still a certain amount of under-employment and excessive personnel, and steps are being taken (partly in connection with the process of Aryanization) to eliminate this * * *." pp. 52-53.

had been operating on one or two shifts were worked two and three shifts.

5. Large numbers of foreign workers, especially of agricultural laborers, were imported from Italy, Poland, Hungary, and other countries. The total number of foreign workers employed in Germany during the period from April 1937 to March 1938 was 380,000. (With the incorporation of Austria and the Sudetenland a substantial number of these workers—estimated at nearly 70,000 Austrians and about 100,000 Sudeten Germans—ceased to be foreigners.)

6. To increase the supply of skilled workers, especially in the building and machine trades, all firms in these industries employing more than ten persons were required to train additional apprentices. The ratio of apprentices to skilled workers was determined by the Reich Employment Board. Any firm whose circumstances were such that it could not take on the appropriate number of apprentices had to pay a levy of 50 marks per apprentice to the Board. The contribution was used for the training of apprentices in some other place. Furthermore, every apprentice in any craft was to receive general instruction in iron and wood work before starting upon his special training. In order to increase the number of technicians (civil engineers, scientific workers, etc.), it was decided to lower the school-leaving age by 1 year in the secondary schools. In addition, a series of measures was taken for the retraining of persons who had long been out of work.

The measures listed above were intended to increase the supply of labor. But there was also the problem of controlling the flow of labor into the most desirable channels. Aside from the shortage of skilled and semiskilled workmen, the government was seriously concerned about the fact that manufacturers and contractors were trying to "entice" workers from their competitors by offering them all kinds of privileges and advantages which virtually amounted to an increase in wages, which

was strictly prohibited. This threatened to upset the equilibrium of the German wage and price structure. Besides, by resorting to such practices, firms working for the private market and producing "non-essential" goods were able to tempt workers to give up their present jobs and thus possibly lure them away from factories working on armament and other public orders. And, as already pointed out, there was the "flight from the land," which added further difficulties to the problem.

The Reich Government tried to meet the situation by issuing a series of decrees and regulations which practically deprived labor of its freedom of movement and "regulated" it for the needs of the government program. One of the first actions taken by General Göring in his capacity of Reich Commissioner for the execution of the Four-Year Plan was to issue, under date of November 7, 1936, six decrees dealing with the question of skilled labor.⁷⁹ One of these decrees forbade all enterprises in the iron, steel, and metal industries to increase the number of their workmen by more than ten within a period of 3 months without permission of the Labor Office. The purpose of this regulation was to prevent the employment of additional labor on such jobs as were not considered of importance to the national interest. Another decree encouraged the increased employment of salaried employees in the higher age groups. A third ordered contractors and construction firms to notify the competent labor authorities about all building projects on which they intended to start work. A fourth measure was the decree intended to mobilize skilled metal and building trades workers who, for some reason or other, were employed on other jobs than those for which they had been trained. Employers were to notify the Labor Office of all such men in their employment. If, subsequently, such a worker

⁷⁹Reichskreditgesellschaft, *Germany's Economic Situation at the Turn of 1936-37*, pp. 33-34.

was notified by the Labor Office of a suitable job in another concern, in line with his original occupation, he could leave his employer without giving notice.

While the decrees of November 1936 restricted the "migration" of labor between jobs and employments, the ordinance issued on February 11, 1937, by the President of the Reich Unemployment Board, virtually tied certain categories of workmen to the factories and works in which they were working at the moment. The ordinance applied to all skilled and semiskilled workmen in the metal and machine trades. It provided that these workers could be engaged only by public and private enterprises on written permission from the competent labor office. This meant that a worker could not accept another and better position in his trade unless he had secured such a permit in advance. The new regulations gave the labor offices, for the first time, a monopoly of employment placement over a wide range of trades. The worker was virtually bound to his present employer and the government was able to undertake a redistribution of labor according to its own plans.

Further steps to mobilize labor for national ends were taken in 1938 and 1939. In the summer of 1938 a Compulsory Service Decree was adopted for securing the necessary labor for tasks of especial national importance. The main operation of this decree was in connection with the rapid construction of the line of fortifications on the Western Front. On February 13, 1939, and on March 2 and 10, 1939, further decrees were issued which gave the Ministry of Labor complete control over the employment of labor. These decrees provided that: (1) every inhabitant of the Reich could be summoned to assist in the performance of tasks which the Commissioner for the Four-Year Plan regarded as of special national importance; (2) the Minister of Labor could abrogate any labor contract when it seemed desirable to do so on grounds of national interest; and

(3) new labor contracts could not be entered into without the consent of the labor exchanges.⁸⁰

Thus, by the summer of 1939, German labor had been practically conscripted for national service—the scene was set for the application of a war-labor policy after September 3, 1939.

The Prevention of Inflation

From the preceding sections it is clear that the German planning program went through several stages, both with regard to objectives and methods. Public works were at first undertaken primarily to reduce unemployment; they were then dovetailed into a program of rearmament; and finally a scheme for autarchy was superimposed upon them. In the first stage of this program, government spending was intended to stimulate private investment and enterprise; but it gradually became the chief means of carrying out the program and an integral element of the changing economic structure or, as has been said, "an end in itself."

The extent of government spending increased steadily between 1933 and 1939, and the spending was directed towards the expansion of the production-goods industries. The figures of public investment for 1933-36 were given above.⁸¹ In 1937 gross investments amounted to 16 billion RM and in 1938 they were increased to 19 billion. The public investments in 1937 amounted to 54 percent of the total. On the basis of the experience of previous "booms," such as that of 1928, it was clear that drastic measures would be necessary if the growing volume of investment was not to provoke a precipitate expansion of general demand leading to inflation. The question is, what were the measures taken

⁸⁰ In summarizing these measures the report of the Reichskreditgesellschaft observes that these far-reaching interventions in the life of the worker were not to be regarded as a normal part of National Socialist labor policy.

⁸¹ See p. 12 and pp. 15 and 16 of this report.

to prevent the effects of inflationary finance?

The answer to the question lies in the principal regulations described in the preceding sections of this report, adopted for the control of consumption and private investment. The developments may be restated as follows:

1. During the first stages of the program (1933-1934), the government tried to expand effective demand for consumption goods and private investment, but this policy was relinquished as the spending program developed. After 1935 government measures were definitely aimed to restrict consumption, to discourage private investment, to limit dividends, and to keep wages and prices stable.

2. To limit consumption demand and to absorb an even larger portion of savings, the government increasingly used its powers of taxation. The ratio of taxation to national income increased by over 50 percent between 1929 and 1939. To this must be added the forced savings imposed through compulsory social insurance payments which yielded considerable surpluses after 1935. There can be little doubt that taxation was maintained at such a level as not merely to absorb what otherwise would have been voluntary savings but also to limit any increase in consumption.

3. Through its control over the capital market, the government canalized savings into the desired channels, in other words, saw to it that investment was restricted to projects determined by the state. On the monetary side, the capital market was placed under rigid control.⁸² Private capital issues were made subject to government permission. Control of the monetary side was supplemented and reinforced by a stringent supervision of actual real investment. The establishment of new companies and the extension of plant and buildings in practically all important branches

of industry were prohibited,⁸³ except as the authorities granted exemptions. Through the corporate organization of industry, individual profits were thus utilized for government purposes.

4. The potential increase of consumption was curtailed by the rigid fixing of wages at existing wage levels.

5. When the increase in economic activity and in total demand resulted in a reversal of the favorable balance of trade, the control of foreign transactions began to be used for the conscious management of foreign trade—with a view to preventing the flight of capital and to maintaining internal price stability.

6. The stabilization of money wages was accompanied by an extension of control over prices. At first, merely the restriction of increases in prices was attempted. "Step by step the government was forced to extend regulation over the whole cost structure. In vital commodities the market mechanism was partly replaced by rationing. Lately this control was extended to other elements of cost. Rigid profit margins were fixed instead of proportionate margins, and though prices of foreign commodities could not be controlled, the impact of their fluctuations was restricted to the minimum. The location of industry was also more and more regulated. As a result of these controls, price movements were very much smaller in Germany than in other countries."⁸⁴

In sum, the control of total demand through limitations on consumption and on private investment was supplemented by direct control of production through regulation of prices, supplies, and profit margins.

In summing up the German experience, in its bearings on inflation, Guillebaud remarks: "The result has demonstrated in practice the truth * * * that the creation of money (inflationary finance) cannot

⁸² For the relevant laws see "Fünf Jahre National-socialistischer Wirtschaftsgesetzgebung," No. 12-12, vol. XI, 1938, Institut für Konjunkturforschung.

⁸³ Balogh, op. cit., p. 475.

⁸⁴ Ibid., p. 479.

produce an inflationary rise in the general level of prices, with all its attendant evils, so long as there is an abundant amount of idle resources and unused productive capacity available * * *. It is true that there are two conditions which must be fulfilled in order that this general proposition may be valid: there must be substantial stability of the level of efficiency wages, and the process of money creation must not be accompanied by the export of capital on a large scale, i. e. by a flight from the currency. But in the case of Germany both these conditions have in fact been satisfied as a result of direct State intervention."⁸⁵

Technically, this statement can not be questioned. It is important, however, to bear in mind that the consequences of the Nazi program were stopped short in September 1939 and have since been overlaid by the developments of the War.

Reemployment and Standards of Living

The increase in total national income, industrial production, and employment in Germany from 1933 to 1939 is impressive. However, the attempt to measure the effects of this increase on the well-being of the German people is beset with difficulties. Data on many points are lacking, and the accuracy and meaning of available data are subject to many uncertainties. Interpreters of the German economic situation have thus differed greatly in their answer to

the question: what have added activity and employment meant to the German population in terms of its standards of living?

It is not possible to give a complete or definitive answer to this question here. But it may be helpful to bring together some of the data as a means towards forming an approximate idea of what the German people gained from the Nazi programs between 1933 and 1939.

To begin with, increased activity resulted in an expansion of the national money income. In 1938 the total national money income was equal to 77 billion RM and exceeded, for the first time, that of 1928 which was 75.4 billion RM. As the national income in 1932 was 45.2 billion RM, the increase between 1932 and 1938 was about 32 billion RM (about 71 percent).

However, this increased income was in large measure in the form of goods which were not for final consumption by the people. The increase in the income for consumption during this period was estimated at only about 11 billion marks, or only a third of the total increase. During the same period there was an increase in the total population, in the labor supply, and in working hours—all of which means that the shift in the direction of production and in the composition of the national income exerted "a tremendous pressure on consumption."⁸⁶ These statistical figures bear out the widespread comments of many observers on the shortages of consumers' goods and on the state of under-consumption in Nazi Germany as compared with the years 1928-29.

The distribution of the increased national income indicates considerable disparity in the gains of the different economic groups. This may be seen in table 13.

As is indicated in table 13, the business groups whose incomes are derived from profits obtained in 1938 a money income larger than that of 1929. They had the largest percentage increase of income between 1932

⁸⁵Guillebaud, op. cit., pp. 214-215. As pointed out above, in adopting this policy the Nazis were governed by the necessities of the situation in which Germany found herself in 1933. "Since the appearance of Keynes' A General Theory of Employment, Interest, and Money, many Germans have tried to rationalize their official policy by reference to his theories. Independently (in whole or part) of Keynes, German economic writers have developed theories on somewhat similar lines. But there is no evidence to show that the original policy was influenced at all by abstract theories. So far as there could be said to have been an economic theorist of early National Socialism, Gottfried Feder, who belonged to the left-wing of the Party and subsequently fell into disfavour and obscurity, would seem to have the best claim to the title, as indicated previously." Ibid.

⁸⁶Balogh, op. cit., pp. 466-467.

Table 13.—Distribution of National Income in Germany, 1929, 1932, and 1938

	1929	1932	1938 ¹	1929	1932	1938 ¹
	(In millions of marks)			(Percentages of total)		
	75,949	45,175	79,722	100.0	100.0	100.0
Total National Income						
1. Profits of agriculture and forestry	5,487	3,695	5,800	7.2	8.2	7.3
2. Profits of industry and trade	11,738	6,000	14,800	15.5	13.3	18.6
3. Wages and salaries	43,085	25,711	42,717	56.7	56.9	53.6
4. Interest	3,264	2,298	2,950	4.3	5.1	3.7
5. Rent	871	760	1,120	1.1	1.7	1.4
6. Pensions and social insurance benefits	9,188	9,358	7,614	12.1	20.7	9.6
7. Various incomes not included in items 1-6	9,382	4,852	10,100	12.4	10.7	12.7
8. Adjustments for duplications	-7,056	-7,499	-5,379	-9.3	-16.6	-6.7

¹Including the Saar, but without Austria and the Sudeten Area.

Source: Statistisches Jahrbuch für das Deutsche Reich, 1936, p. 502. Wirtschaft und Statistik, November 1938, p. 706.

and 1938. Thus, despite irksome restrictions imposed on business concerns, profits were favorable due to the high level of output, to guaranteed orders and markets, to stable interest rates, and to stable wages.

The chief beneficiaries among the business groups were the large-scale enterprises. Small and medium-sized enterprises often suffered in comparison with big business, because they did not profit to the same extent from government orders and could not afford the staff necessary to cope with the maze of bureaucratic regulations.⁸⁷ This fact was in line with the measures of the Nazi Government which after 1935 abandoned its policy of middle-class protection. During 1936-37 the number of small enterprises decreased by about 90,000. The "combing out" of small business in order to obtain a greater labor supply was accentuated in 1939.

It is generally claimed that the peasants and farmers benefited most from the Nazi regime. Farm income in 1938 was above that of 1929 and increased considerably between 1932 and 1938. The disparity between the prices farmers pay and those at which they sell was reduced. But the share of farm income in the total national income decreased between 1932 and 1938. Also, despite the rise in farm income, German peasants were far from satisfied as the system of price control prevented them from taking full advantage of the shortage of many food products. In addition, the government was

putting ever greater limitations on the farmer's economic freedom and had not carried out by 1939 the reforms it had promised (e.g. with regard to the division of large estates).

The economic groups living largely on investments in real property or stocks and bonds did not fare well. Their share of the national income dropped. Government control of rents, reductions in interest rates, and the limitation of dividend payments were responsible for this development.

The changes in the condition of the wage-earning groups were complex. The total amount of income paid out to wage earners in 1938 was slightly larger than in 1929, but their annual average per capita income declined. According to the Reich Statistical Office, the average hourly earnings of German workers increased from 0.70 RM per hour in 1933 to 0.76 RM in 1937, i.e. 8.5 percent. The weekly pay increased from 30.7 RM to 36.1 RM during the same period, or roughly 20 percent. In 1929 the average weekly earnings were 44.9 RM, or 24 percent higher than in 1937.⁸⁸

During the second half of 1938 there was a rise in hourly earnings in many of the production-goods industries. This was made inevitable by the expansion of production and by the increase in productivity. It is presumed that these increases were in line with the government policy that the *general level of efficiency wages*, as embodied in the basic minimum wage rates in force at the end of 1934, remain unchanged.

⁸⁷Foreign Policy Association, Report of, May 1, 1937, p. 46.

⁸⁸Wirtschaft und Statistik, 1938, p. 159; also the Report of the Reichskreditgesellschaft for 1938, p. 44.

It is also necessary to take into account that the number of workers per family increased and that, as a result, family earnings increased. There were 1.6 wage or salaried earners per family at the beginning of 1933, while by the end of 1936 the number had risen to 1.8, and in view of the scarcity of labor it must have risen in 1937-38.

The net earnings of labor were affected by the increase in contributions to various funds required under the Nazi regime. It has been estimated that weekly deductions from wages for wage taxes and social insurance contributions increased from 3.8 RM in 1928 to 4.9 RM in 1937. Thus, the net money wages increased only from 26.9 RM to 31.2 RM or 16 percent. In 1929 average net weekly earnings had amounted to 39.5 RM. The Reich Statistical Office estimates that in addition, the average worker pays about 1.5 percent of his weekly wage to the Labor Front but probably less than one percent in contributions to the Nazi Welfare Organization, the Winter Relief Fund, etc.⁸⁹

The increase in real wages in Germany during 1933-39 has been the subject of much controversy, in view of the fact that the official cost-of-living index is not regarded as reliable (owing to leakages in price control, substitution of goods of inferior quality, etc.). As already indicated, competent foreign observers estimate that there was a considerable rise in the cost of living between 1932 and 1937, and a further rise since.⁹⁰ There seems no doubt that the German wage earners had to content themselves with inferior goods and forego many of the things they desired. With the development of the rearmament program, there was also an increasing shortage of new dwellings.⁹¹

⁸⁹"Die Entwicklung der Arbeitsverdienste in den letzten zehn Jahren," *Wirtschaft und Statistik*, No. 4, 1938.

⁹⁰Foreign Policy Association, Report, May 1, 1937, p. 43.

⁹¹The Report of the Reichskreditgesellschaft for 1938-39, says: (pp. 14, 15), "The improvement in general employment and incomes has brought with it a shortage in dwelling houses which has become much more acute

The condition of those formerly unemployed certainly improved. There was a greater job-security for all. There was also a development of government provision of recreational facilities through the "Kraftdurch Freude" and other means. But this to a large extent was merely a substitute of the facilities formerly provided by the trade unions and voluntary social organizations. As against these improvements there were the longer working hours, the greater intensity of work, and the increasing regimentation of the working life of the wage earner.⁹² It must also be pointed out that Jews and non-Aryans, constituting over 1 percent of the total population of Germany, suffered greatly from discriminatory legislation and administrative measures taken against them which depressed their standard of life to the lowest possible levels and "no account of the standard living in Germany can ignore this fact."⁹³

The statistical data also indicate that there was an increasing inequality in the distribution of income in Germany under the Nazi regime. This conclusion is borne out by some special studies.⁹⁴

Concluding Comments

The German experience of 1933-39 developed under conditions and was marked by features which make it difficult to draw from it conclusions applicable to a relatively free economic system such as ours. The German program, for instance, was carried out under conditions of isolation from the world market through the strict control of exchange

during the last few years with the marked rise in marriages since the slump. The present deficiency of dwellings (as measured by the number of families which have not at the moment a dwelling of their own) is estimated at 1½ million."

⁹²In 1939 the average length of the working day was 7.90 hours, as compared with 8.91 in 1932, but the averaged concealed considerable variations. The working day for metal workers in 1937 was 8.49 hours, but for textile workers only 7.52.

⁹³Guillebaud, op. cit., p. 209.

⁹⁴Maxine Yapple Sweezy, "Distribution of Wealth and Income under the Nazis," *Review of Economic Statistics*, vol. XXI, No. 4, November 1939.

movements and under a totalitarian political system entirely foreign to our ideas and ideals.

There are, however, in the German experience a number of suggestive points with regard to social-economic methods and techniques. The most significant of these may be stated as follows:

1. The willingness to try new economic expedients.

2. The energy and speed with which new methods and plans, once adopted, were applied.

3. The way in which the government assumed the initiative in making productive plans and imposed the responsibility for their execution on private enterprise. It readily employed unofficial experts and private industrialists while retaining final direction and control of their activities.

4. The way in which the government used its powers to direct investment. Whether the particular channels (rearmament and

autarchy) are desirable or not, the methods for controlling the distribution of investment funds are interesting.

5. The various methods by which the government both limited and utilized the profit motive as a means to its ends.

6. The application of investment to public purpose, if necessary, at lower economic yields on the assumption that the long-run results will be justified also from an economic point of view.

7. The strains arising under such a system of economic control, the adverse effects on the standard of living, and the "regimentation" of the individual in his economic and social relations.

8. The way in which the public works program was used as a basis for "Wehrwirtschaft" and facilitated the transition to a war economy.

The above aspects of the German experience are singled out here for further examination and study.

APPENDIX—STATISTICAL TABLES

Table 1.—Employment and Production in Germany, 1929-1939

	Employment ¹ (in thousands)	Unemployment ² (in thousands)	Hours worked ¹ (April)	Index of production, 1928 = 100 ²		
				Total	Consumption goods industries	Production goods industries
1929	17,869	1,892	7.80	100.9	98.5	103.2
1930	16,515	3,076	7.37	85.1	95.4	85.5
1931	14,336	4,520	7.08	66.9	90.6	61.0
1932	12,518	5,575	6.90	58.7	78.1	45.7
1933	13,016	4,804	7.15	65.5	82.9	53.7
1934	15,041	2,716	7.77	83.3	92.6	77.2
1935	16,949	2,151	8.53	91.0	99.4	99.4
1936	17,097	1,593	7.67	106.7	97.5	112.9
1937	18,354	912	7.82	116.7	102.8	126.0
1938	19,518	429	7.85	124.7	107.8	135.9
1939	21,640	370	7.90			

¹From Sickness Insurance Fund statistics.²From Institut für Konjunkturforschung, Statistik In- und Auslands.³For May 1939. Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 20.

Table 2.—Index of Cost of Living, 1929-1938

[1929 = 100]

Year	Percent
1929	100
1930	96
1931	88
1932	78
1933	77
1934	79
1935	80
1936	81
1937	81
1938	82

Source: *International Labour Review*, January 1940, p. 99.

Table 3.—Public Demands on the National Income for the Year 1938

	Amount (in millions RM)
1. Revenues from taxes, dues and customs duties	17,000
2. Proceeds of the new Reich loans (increase in total declared public debt from Jan. 1, to Oct. 31, 1938)	8,100
3. Revenues of States, Hansa Towns, local districts, and counties (excluding sums remitted by the Reich)	5,000
4. Proceeds of insurance contributions with the Reich Labor and Unemployment Office	1,700
5. Proceeds of contributions to the sickness and accident insurance funds (1937 figures)	2,000
6. Proceeds of contributions to the disablement and clerical insurance funds	1,100
7. Contributions to the German Labor Front	500
8. Gifts to Winter Relief	400
Total	35,800

¹This amount represents 47.1 percent of the national income in 1938.Source: Reichskreditgesellschaft, *Germany's Economic Situation at the Turn of 1938*, p. 101.

Table 4.—National Income and Investments in Germany, 1928-1938

Year	Total national income (in Reichsmarks)	Total new constructions and replacements (in Reichsmarks)	Proportion of investments to national income (percent)
1928	75,400,000,000	13,700,000,000	18.2
1929	75,900,000,000	12,800,000,000	16.9
1932	45,200,000,000	4,200,000,000	
1933	46,500,000,000	5,100,000,000	11.0
1934	52,700,000,000	8,200,000,000	15.6
1935	58,600,000,000	11,600,000,000	19.8
1936	64,900,000,000	13,800,000,000	21.3
1937	71,000,000,000	16,000,000,000	22.5
1938	77,000,000,000	19,000,000,000	24.7

Source: Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 5.

Table 5.—Taxes and Customs Revenue in Germany, 1929-1939

Year (April 1-March 31)	Tax and customs revenue grand total ¹ (Reichsmarks)	Taxes on wages included in total of column 2 (Reichsmarks)
1928-29	9,023,000,000	1,415,000,000
1932-33	6,647,000,000	749,000,000
1933-34	6,845,000,000	730,000,000
1934-35	8,223,000,000	899,000,000
1935-36	9,654,000,000	1,362,000,000
1936-37	11,492,000,000	1,544,000,000
1937-38	13,964,000,000	1,760,000,000
1938-39	17,712,000,000	2,091,000,000

¹Does not include tax on Jewish wealth, one-half of which, amounting to 500 million RM, was paid over during this period.Source: Condensed from Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 58.

Table 6.—Capital Accumulation in the Former German Reich, 1934-38

	Annual increases (in million RM)				
	1934	1935	1936	1937	1938
I. Long-term					
1. Savings deposits with all banks	957	1,244	1,084	1,823	2,600
2. Increase in life and social insurance investments	719	889	1,136	1,402	1,600
3. Investments in shares and bonds ¹	38	249	923	1,385	2,700
Total	1,714	2,382	3,143	4,610	6,900
II. Short-term					
1. Bank deposits	1,059	819	1,239	1,007	2,800
2. Tax Certificates, Treasury bonds, and special bills ²	-356	-162	409	156	-600
3. Cash holdings	257	401	591	535	1,060
Total	960	1,058	2,239	1,698	3,260
Grand total	2,674	3,440	5,382	6,308	10,160

¹Calculated by Reich Statistical Office; 1938 figures estimated on a similar basis from data published by the Business Research Institute. (Weekly Report, 1938, No. 51/52.)²Does not include holdings of the banks, i.e. covers securities with business and the public only.Source: Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 56.

Table 7.—The German Capital Market, 1926-1938

Year	New issues—in millions RM		
	Public loans	Loans to private enterprises	Stocks and shares (cash issue price)
1926	1,163	323	988
1927	714	161	1,438
1928	663	294	1,339
1929	520	8	979
1930	529	35	555
1931	65	1	635
1932	248	10	150
1933	71	2	91
1934	75	4	143
1935	1,636	3	156
1936	2,670	47	395
1937	3,150	258	333
1938	7,744	107	822
Total, 1933-1938	15,046	421	1,940
1938 January-April	3,481	65	116
1939 January-March	1,300		113

Source: Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 52.

Table 8.—Loans of German Reich, 1935-1938

[Amounts in million RM]

4½ issues	Amounts issued		Period in years	Amounts outstanding Oct. 31, 1938 ¹
	Total	Publicly offered		
Loans: 1935-----	846.8		27	793.7
Loans: Second Series-----	1,078.6		27	1,034.5
1937-----	637.3		27	624.9
1938-----	1,270.5		27	1,270.5
Reich Railway Bonds, 1936-----	500.0	500.0	8	500.0
Redeemable Treasury Bonds:				
1935-----	500.0	500.0	10	463.1
1936, First Series-----	98.0		10	98.0
Second Series-----	700.0	500.0	12	670.4
Third Series-----	600.0	500.0	12	600.0
1937, First Series-----	700.0	600.0	12	700.0
Second Series-----	800.0	700.0	15	800.0
Third Series-----	850.0	750.0	15	850.0
1938, First Series-----	1,400.0	950.0	18	1,400.0
Second Series-----	1,966.0	1,200.0	20	1,966.0
Third Series-----	1,840.1	1,200.0	20	1,840.1
Fourth Series-----	1,500.0	1,500.0	20	(²)
Total-----	15,287.3	8,900.0		13,611.2
4½ Debt Certificate-----	264.1			264.1
Loan, 1935-----	56.7			56.7
Grand total-----	15,608.1	8,900.0		13,932.0

¹After deducting amounts redeemed.²Not issued until Nov. 28, open for subscription up to Jan. 9, 1939.Source: Reichskreditgesellschaft, *Germany's Economic Condition at the Turn of 1938-1939*, p. 92.

Table 9.—Declared Public Debt of German Reich, 1928-1939

[In millions RM]

Debt outstanding	Old (pre-1924) debt	Foreign	Domestic		Total
			Long- and medium-term	Short-term	
March 31, 1928--	5,560	884	500	187	7,131
1933--	4,422	3,003	2,751	1,514	11,690
1934--	4,239	2,026	3,596	1,932	11,793
1935--	3,917	1,773	4,358	2,404	12,452
1936--	3,766	1,678	6,029	2,899	14,372
1937--	3,622	1,442	8,611	2,383	16,058
1938--	3,486	1,333	11,954	2,345	19,098
1939--	3,307	1,257	19,577	6,535	30,676

Source: Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 60.

Table 10.—Money Rates in Germany, 1931-1938

Year (monthly averages)	Reichsbank rediscount rate (percent)	Private discount rate (percent)	Call money (percent)
1931-----	6.91	6.78	8.37
1932-----	5.21	4.95	6.23
1933-----	4.00	3.88	5.11
1934-----	4.00	3.77	4.68
1935-----	4.00	3.15	3.77
1936-----	4.00	2.96	3.18
1937-----	4.00	2.92	2.92
1938 (October)-----	4.00	2.88	2.90

Source: Reichskreditgesellschaft, *Germany's Economic Condition at the Turn of 1938-1939*, p. 87.

Table 11.—Germany's Foreign Trade, 1928-1938

[In millions RM]

Year	Imports	Exports	Balance
A.—Former Reich only, exclusive of Austria			
1928-----	13,769	11,851	-1,918
1929-----	13,245	13,042	-203
1933-----	4,146	4,751	+605
1934-----	4,385	4,060	-325
1935-----	4,088	4,162	+74
1936-----	4,141	4,660	+519
1937-----	5,375	5,788	+413
1938-----	5,449	5,257	-192
1939 1st quarter-----	1,289	1,262	-27
1938 1st quarter-----	1,383	1,339	-44
1937 1st quarter-----	1,070	1,257	+187
B. Greater Germany			
1937-----	5,943	6,271	+328
1938-----	6,052	5,619	-433
1939 1st quarter-----	1,470	1,354	-116
1938 1st quarter-----	1,502	1,445	-57

Source: Reichskreditgesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, pp. 32-33.

PART II
WARTIME PLANNING IN GERMANY, 1939-40

Introduction

This report is concerned with selected aspects of German economic and social planning during the first year of the present war. For nearly 6 years, from 1933 to 1938, the National Socialist Government of Germany had steadily enlarged its planning structure and activities in preparation for a war which it anticipated and which it finally precipitated. With the annexation of Austria in March 1938, Germany began to reveal to the world the extent to which, and the efficacy with which, its previous planning had built up a powerful war machine and how this machine was going to be used. From that date until August 1939, when Poland was invaded, the German Government directed its planning more vigorously and more feverishly towards war preparations, laying in reserves of food and raw materials, gearing its industrial mechanism to maximum production, and perfecting the banking and credit institutions of the country. When the present war was formally begun on September 3, 1939, Germany could enter the conflict equipped not only with a well-armed force but with an industrial and social-economic mechanism planned and built for the purpose.

After September 3, 1939, the supreme problem of the German Government was to use its forces in the field and its social-economic resources at home to win a victory as soon as possible. This aim was interlaced with two other purposes. Since the National Socialists had predicated their military success on their economic system, it was necessary for them to continue to strengthen the system even during the war. Since the Nazis were waging war in order to make Germany the dominant center of an integrated and subordinated Europe and were eager to confront the world with a *fait accompli*, it was necessary for them to carry out their schemes of reorganization

in the territories occupied by them as rapidly and as completely as possible without awaiting the final decision of the war.

German war planning since September 1939 thus has had three main aspects: first, the planning of war activities not only on the battle field but at home; second, the planning of the economic and social activities of the civil population in order to support the war front and to strengthen the basis of the Nazi system; and third, the planning of the reorganization of occupied territories to make them serve the military needs of Germany today and to bring them within the economic orbit of the projected Greater Germany of tomorrow.

This report considers only developments which fall within the second category of German war planning, namely, the measures by means of which the Nazi Government strengthened its "home front" and made it serve both military needs and civilian requirements. The questions selected for consideration are: What was done to secure the food supply; what restrictions were imposed on consumer-goods industry; by what methods has the war been financed so far; to what extent was price control extended; what employment and wage policies were pursued; to what extent were public works continued; and how was the war economy organized to carry out these purposes?

Though the three main aspects of German war planning indicated above can not be entirely separated, the topics considered in this report have a distinct significance. A study of how they were handled in a totalitarian country may be suggestive for comparison with democratic methods and procedures.

Securing the Food Supply

One of the first acts of the German Government upon the outbreak of the present war was to make sure that the existing supply

and reserves of food would be utilized in the most effective way and that the production of foodstuffs would not be diminished but possibly increased. Germany in 1939, in contrast to its procedure in 1914, entered the war fully prepared to control the consumption and production of its food supply. The methods used for this purpose—rationing on the one hand and the stimulation of agricultural production on the other—are described in this section.

Food Rationing

On August 27, 1939, five days before Germany invaded Poland, the Nazi Government issued a decree establishing formal rationing of certain foodstuffs. A number of decrees soon followed, extending the scope of the rationing system and setting up agencies for enforcing it.

The Need for Control

The agricultural and food policies of the National Socialists were influenced by the memory of the great hardships suffered by the German people from 1916 to 1918 as a result of deficiencies in certain foods and in fats,¹ and by the fact that the final collapse of Germany in 1918 was considered by them to be due in large measure to the shortage in essential foodstuffs. From 1934 on, the Nazis had made efforts towards increasing the agricultural production of the country with the idea of attaining self-sufficiency and of otherwise providing a more adequate food supply in case of war.

The efforts made by the National Socialist regime were only partly successful. In 1938 the extent of food self-sufficiency was officially estimated at 82 percent, that is, domestic production covered approxi-

mately 82 percent of Germany's total food requirements. Nominally, this was slightly above the level of 1914, when domestic production accounted for 80 percent of food requirements (average for 1909-1913). But actually the comparison is less favorable for 1938, since the German diet in 1938 was estimated to be about 15 percent below the pre-1914 level. In other words, the large reductions in imports of certain foodstuffs between 1933 and 1938 were only in part offset by the expansion in domestic production, and the apparent increase in self-sufficiency was due in large measure to a decline in consumption.

The position of Germany in 1939 varied considerably with regard to various foodstuff items. Germany was completely or nearly self-sufficient in sugar, potatoes, bread grains (rye and wheat), milk for drinking, cheese, certain vegetables (cabbage and carrots), and some fruits (plums and cherries). Between 1936 and 1938 the production of bread grains in Germany had been considerably increased, and the domestic production of these grains was estimated in 1938 at about 95 percent of Germany's total requirements (as compared with 88 percent in 1936).² Owing to increased production, to the record crop of 1938, and to substantial imports during 1938-39, the bread-grain supply of Germany was greatly improved. On April 30, 1939, total grain reserves were estimated at 7,900,000 short tons (as against 4,400,000 short tons a year earlier).

Germany's domestic output was insufficient in meats, eggs, certain fruits and vegetables, and especially in edible fats and oils. Though the domestic production of butter, lard, and of other fats was considerably increased between 1933 and 1938, the total domestic output of fats in Germany in 1938 was still only 1,328,000 short tons out of a total supply of 2,360,000

¹Hunger was widespread in Germany during the "turnip winter" of 1916-17. As heavy frosts prevented the transportation of the limited potato supply to the consuming centers, potatoes were replaced by turnips, less susceptible to freezing. There was also the memory of the "slaughter of the hogs" due to a shortage of feed, which led to a drastic reduction in the meat supply. For data given in this section, the writer has drawn largely on the article of Dr. Harry A. Franklin, "War-Time Agricultural and Food Control in Germany," *Foreign Agriculture*, April 1940.

²Some of this improvement was made at the expense of feed grains. In 1937 the government prohibited the feeding of bread grains to livestock, which resulted in a saving of 1,100,000 short tons. This amount was replaced for feeding purposes by imported corn and by root crops.

short tons. Domestic production of fats in 1938 thus accounted for 55 percent of Germany's total requirements (as compared with 45 percent in 1933 and with 40 percent before 1914). The situation has been summarized in the statement that while Germany produced a large supply of carbohydrates, the country faced a serious problem in its supply of foodstuffs owing to the "fat gap."

In addition to the "fat gap," Germany also suffers from a "protein gap" in its supply of foodstuffs which is important for the production of milk and for the livestock industry in general. Germany is dependent on imports for about 25 percent of its feedstuff requirements, being a large importer of oilseeds and oilseed cake as well as of corn for feeding purposes.

Thus, though the general food supply in the summer of 1939 was by no means critical, the German Government had to face the possibility of serious shortages, as a result of greater requirements due to the war and of interruptions in supplies due to blockade. There was also the problem of spreading available supplies more evenly over the years of the war and more equally among the various groups of the population. The Nazi Government introduced rationing to meet these problems.

Principles and Methods of Rationing.

In issuing the first war rationing decree on August 27, 1939, designated as the "Decree for the Preliminary Guarantee of the Necessities of Life of the German People," it was declared that such rationing was not made necessary by any shortages in materials and supplies, but was desirable to prevent hoarding, to keep prices stable, and to assure an equitable distribution of the necessities of life. In view of the large grain reserves, bread and flour were not to be included among the rationed products. The latter included meat, fats and oils, milk, sugar, coffee, cereal products, and eggs.³

On September 25, 1939, new food-rationing regulations were issued which, with some modifications, have remained in effect since. Under these regulations, food rations are fixed for a period of 4 weeks, but the rationed amounts of some foodstuffs are fixed in advance for a period of 4 months. The general principles of the system, as formulated in these regulations, are: (1) to fix a "normal" ration for the average person; (2) to allow differential rations, heavier in calories and richer in content, for workers doing "heavy" or hazardous work; (3) to allow special rations and to restrict the consumption of some foods (e.g. milk) to nursing mothers, and (4) to supplement from time to time the fixed rations with special allowances in accordance with seasonal conditions and requirements.

Under the system established by the regulations of September 1939 and by later changes, the foodstuffs rationed include bread, meat, fats and oils, sugar, coffee, cereal products, and eggs. Fresh (whole) milk is allowed only to children under 14 years of age and to expectant or nursing mothers. Skimmed milk is not rationed.

The rationing is put into effect by means of a card system. Each person is supplied with six separate cards of as many different colors for each of the following food products: (1) bread; (2) meat; (3) fats; (4) marmalade, sugar, and eggs; (5) *Nährmittel*, including cereals (oatmeal, rice, sago, etc.) and coffee substitutes; and (6) whole milk. Each person is warned by the government to guard his cards as "public documents" since their replacement is beset with difficulties. The buyers of most foods must register with the store from which they intend to make their purchases and must go to that store as long as their residence is unchanged. The stores also keep "customers' lists" for such products as fish and poultry which are not formally rationed. It is the duty of the storekeeper to arrange for the equitable distribution of these products among his regular listed customers.

³ Also soap, textiles, domestic coal, etc. See Reichsgesetzblatt, 1939, part I, No. 649, p. 1502, Aug. 27, 1939.

Table 1.—German Weekly Food Rations

Food	Weekly rations for Nov. 20-Dec. 17, 1939 ¹	
	Normal rations ²	Special ration
	Ounces	Ounces
Bread	84.6	
Children under 6		38.8
Children 6-10		60.0
Hard workers		134.0
Very hard workers		168.3
Fats (butter, lard, margarine, vegetable fats, oils, tallow, etc.)	39.5	
Children under 3		4.4
Children 3-6		6.6
Children 6-14		9.1
Hard workers		13.9
Very hard workers		26.1
Meats and meat products	318.7	
Children under 6		9.9
Hard workers		36.4
Very hard workers		43.4
Cheese ⁴	2.2	
Sugar	58.8	
Nährmittel (oatmeal, rice, tapioca, pudding powder, etc.)	65.3	
Milk, whole ⁷	Quarts 0	Quarts
Children under 3		5.5
Children 3-6		3.7
Children 6-14		1.8

¹Deutscher Reichsanzeiger, Nov. 11, 1939.

²Normal* rations are for all persons for whom special rations are not listed.

³0.5 ounces of meat and 0.7 ounce of fat are issued weekly in addition to the "normal" ration to workers not classified as heavy or extra-heavy workers but who

(1) have a work shift of at least 10 hours; (2) on account of the distance from place of work, are away from home at least 11 hours daily; or (3) are on a night shift.

⁴Instead of cheese, 6 ounces of condensed milk were allowed during the fourth week of the period December 18 to January 14, but neither is allowed for the fourth week of the period January 15 to February 11.

⁵In addition to this amount, 1.4 ounces of sugar weekly may be taken in lieu of

3.5 ounces of marmalade.

⁶In addition to the indicated amount of Nährmittel, 3.5 ounces of coffee substitutes are allowed all consumers weekly on the Nährmittel ration card.

⁷Skimmed milk is not rationed but "customers' lists" are maintained by dealers. In addition to children, as indicated, whole milk is permitted for nursing and expectant mothers.

Note: Conversions are from grams and liters: 1 gram=0.03527 ounce; 1 liter=1.0567 quarts.

Source: Based on tables given in Franklin, *op. cit.*

The System of Weekly Rations

The weekly rations which were fixed for the 4-week period of November 20-December 17, 1939, are summarized in table 1.

These rations have been but little changed since, except for the supplementary and seasonal allowances referred to above.⁴ During the summer months of 1940 the "normal" rations for butter and eggs as well as for cheese and marmalade, were increased.⁵ More serious modifications were made during

⁴Thus, for the period November 20 to December 17, 1939, all consumers were granted 7.1 ounces of chocolate, 28.8 ounces of pralines, and 7.1 ounces of Christmas honeybiscuits; for the period January 15 to March 10, 1940, an allowance of 8.8 ounces of dried peas, beans, or lentils was made. From May 6 to June 2, 1940, pastry was rationed.

⁵The ration for butter was increased by 125 grams for the 4-week period beginning July 1, 1940. This was due to the increased production of milk and also to increased imports of butter from Denmark and Holland. For the same 4-week period, the egg rations were increased to 10 or 12.

July-August 1940 in the bread ration. For young people from 10 to 20 years of age the bread ration was increased 200 grams per week, but in view of the continued need to safeguard the supplies of bread grain for as long a period as possible,⁶ the bread ration of all adults was reduced by 150 grams per week. This reduction applied not only to "normal consumers" but to "heavy and heaviest workers" as well. The bread ration for children under 10 years of age was left unchanged.⁷

For the period from September 23 to October 20, 1940, the rations for butter, eggs, and cheese were again reduced. "Customers Lists" were introduced for potatoes in all industrial centers and for vegetables generally, while the entire apple crop of the year (which had suffered from the severe winter of 1939-40) was requisitioned by the government.⁸ With these changes, the rations given in table 1 are still regarded as basic.

Adequacy of Present Rations

All available information would indicate that the "normal rations" are below the

⁶The reason given was that "the total expenditure of bread grain during the war has increased owing to the higher consumption of bread, the expanded output of certain cereal products, the necessity of providing food for prisoners of war, and certain other circumstances."

⁷The bread ration for the period July 29 to August 25, 1940, was as follows:

Bread Rations for 4 Weeks

Groups of consumers	Old		New	
	(Kilograms)			
Young people 10-20 years of age	9.6		10.4	
Normal consumers	9.6		9.0	
Heavy workers	15.2		14.6	
Heaviest workers	19.2		18.6	

Source: Order of the Reich Minister for Food and Agriculture regarding food rationing for the rationing period from July 29 to August 25, 1940. Deutscher Reichsanzeiger, No. 155 of July 5, 1940.

⁸On the other hand, the seizure of considerable stocks of coffee in Dutch and Belgian ports permitted, for the first time since the outbreak of the war, the distribution of small quantities of "real" coffee. In September 1940, 75 grams (2½ ounces) were distributed to all consumers in Berlin and until further notice normal consumers all over Germany were to be entitled to purchase 60 grams (2 ounces) during each of the 4-week rationing periods.

consumption levels of adult working persons which prevailed in Germany in 1937, and considerably below the levels of 1927. According to a special inquiry made by the Reich Central Statistical Bureau in 1937 for a selected number of working families in various parts of Germany, the weekly consumption in 1937 of a working adult was 90.5 ounces of bread, 12.5 ounces of fat, 26 ounces of meat and meat products, 5.6 ounces of cheese, and 10.3 ounces of sugar. Thus, the "normal rations" of today are 94 percent of the consumption of 1937 for bread, 76 percent for fat, 72 percent for meats, 85 percent for sugar, and 39 percent for cheese. As the diet of 1937 was estimated to be 15 percent below that of 1927, the adequacy of the present "normal rations," as compared with the consumption of 1927, was still less.

On the basis of these data, the conclusion has been drawn that "a large part of the German people receiving the normal consumer rations are not afforded proper and adequate nourishment, according to generally accepted nutrition standards and in the light of German data on this subject."⁹ In increasing the bread rations for young people, as reported above, the Reich Food Minister stated that the change was necessary because "the existing bread ration had proved insufficient for this consumer group."¹⁰ Also, it is admitted that the absence of oranges and other tropical fruit aggravates the problem of adequate supplies of vitamins in the German diet. On the other hand, over a million workers in heavy industries are receiving extra rations. The German soldiers are also allowed preferential rations. It is also likely that the farmers and peasants fare considerably better than the urban population generally in the way of adequate food.

The Machinery of Distribution and Control

The functioning of the rationing system in Germany depends on the exercise of con-

trols at specific points through appropriate machinery. It is necessary that the peasants and farmers produce as much as possible; that they deliver their products to wholesalers and retailers at acceptable prices; that the retail dealers charge the prices fixed by the government, and otherwise comply with the regulations; and that consumers (individual and corporate, such as hotels and restaurants) carry out instructions in good faith.

The Nazi Government has exercised the necessary controls in the matter of rationing largely owing to the agricultural organization built up during 1934-38. The elements of this organization are the *Ministry of Food and Agriculture* and the so-called *Reich Agricultural Estate*. The former, like similar ministries of other countries, formulates general agricultural policies. The latter is *sui generis* and is one of the distinctive features of the National Socialist economic structure. It is concerned with the production, marketing, pricing, and all other matters involved in the control and direction of German agriculture for National Socialist ends. It is the basic factor in the control of marketing, pricing, and distributing essential to the proper working of the rationing system.

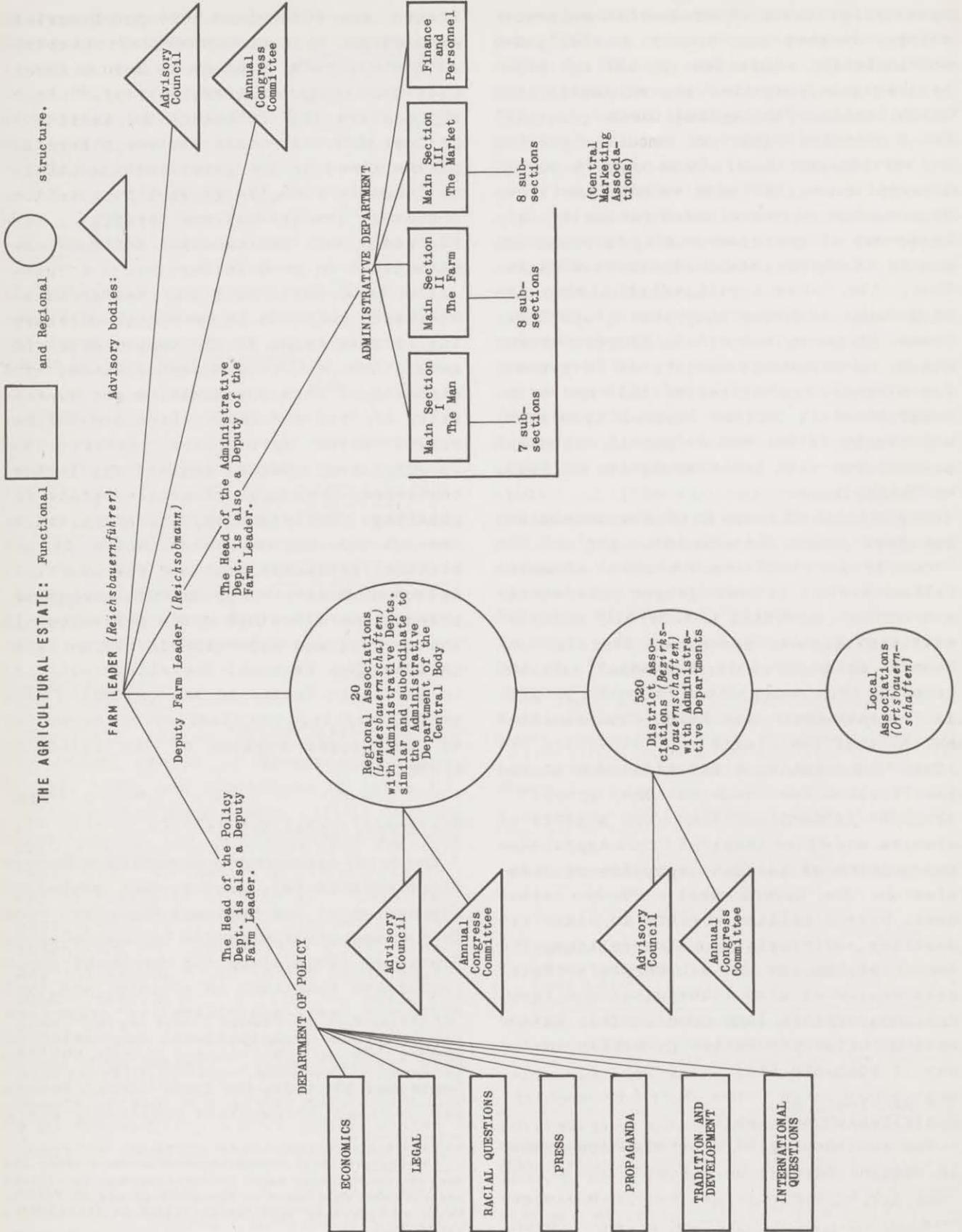
*The Agricultural Estate*¹¹

The Reich Agricultural or Nutrition Estate (*Reichsnährstand*) is the most elaborate expression of the National Socialist idea that the population should be divided into "estates" (*Stände*) on the basis of their productive functions in society, and that different "self-administrative" organs are to form the organizational expression of this "estate" unity. Created by a law of September 13, 1933, the Agricultural Estate was devised to regulate completely every

¹¹The agricultural organization of Germany under the Nazi regime has other basic features, such as hereditary peasant ownership based on the National Law of Inheritance of September 1933, which cannot be examined in this report.

⁹Franklin, op. cit., p. 195.

¹⁰Deutscher Reichsanzeiger, July 5, 1940.



aspect of agricultural production and processing. It comprises not only all landowners, tenants, cultivators, and agricultural workers but also all wholesale and retail traders in agricultural products and foodstuffs, all food manufacturers, such as millers, brewers, and sugar makers, all agricultural cooperative societies, and the new associations created for marketing. Membership is compulsory and is presumed to carry with it certain rights as well as obligations. The Agricultural Estate is a self-administering body which pays most of its expenses out of the members' compulsory contributions. It is directed according to the *Führerprinzip* by Reich Peasant-Leader, Walter Darré, appointed directly by Hitler and responsible solely to him. Darré is also Minister of Food and Agriculture, but the holding of the two posts by the same person is not an essential part of the set-up.

The Agricultural Estate has two main divisions: (1) The Staff Division, concerned with policy formation and (2) the Administrative Division. The Staff Division is divided into seven sections dealing with economic, legal, and social questions, and with propaganda, tradition, development, and international questions.

The Administrative Division has three main sections designated: The Man, The Farm, and The Market. It also has a section which handles personnel and finances. The "Man" section deals with employer-employee relations, mental and moral welfare, preservation of peasant traditions, social questions, with relation to resettlement, etc. It carries on the propaganda of Nazi ideas concerning the social status and functions of the peasantry. The "Farm" section deals with research, land improvement, farm management, taxation, agricultural shows, etc. The "Market" section centralizes the work of the cooperative societies, as well as of the marketing associations described below.

The Agricultural Estate has 20 Regional Associations, (*Landesbauernschaften*). These

in turn are subdivided into 520 District Associations (*Bezirksbauernschaften*) which are further subdivided into numerous Local Associations (*Ortsbauernschaften*).¹² Each regional association has an administrative staff similar to the central one in Berlin, but there is only one policy-forming staff. The leader of the Local Farm Association is usually the local Party leader.

In addition, there are two national consultative bodies which have a more ceremonial and propaganda function than an administrative one. These are the Advisory Council (*Reichsbauernrat*) composed of 100 members drawn from the membership of the Estate, and the Farm Committee (*Reichsbauernthing*) of 1,000 members, appointed from among prominent district and regional leaders by the Reich Peasant-Leader. The latter body seems to find its function mainly in preparing and conducting the annual farm congress (*Reichsbauerntag*) which is an occasion for festivities and for the injection of "morale" into the whole organization. The structure of the Agricultural Estate is presented graphically in the chart on page 46.

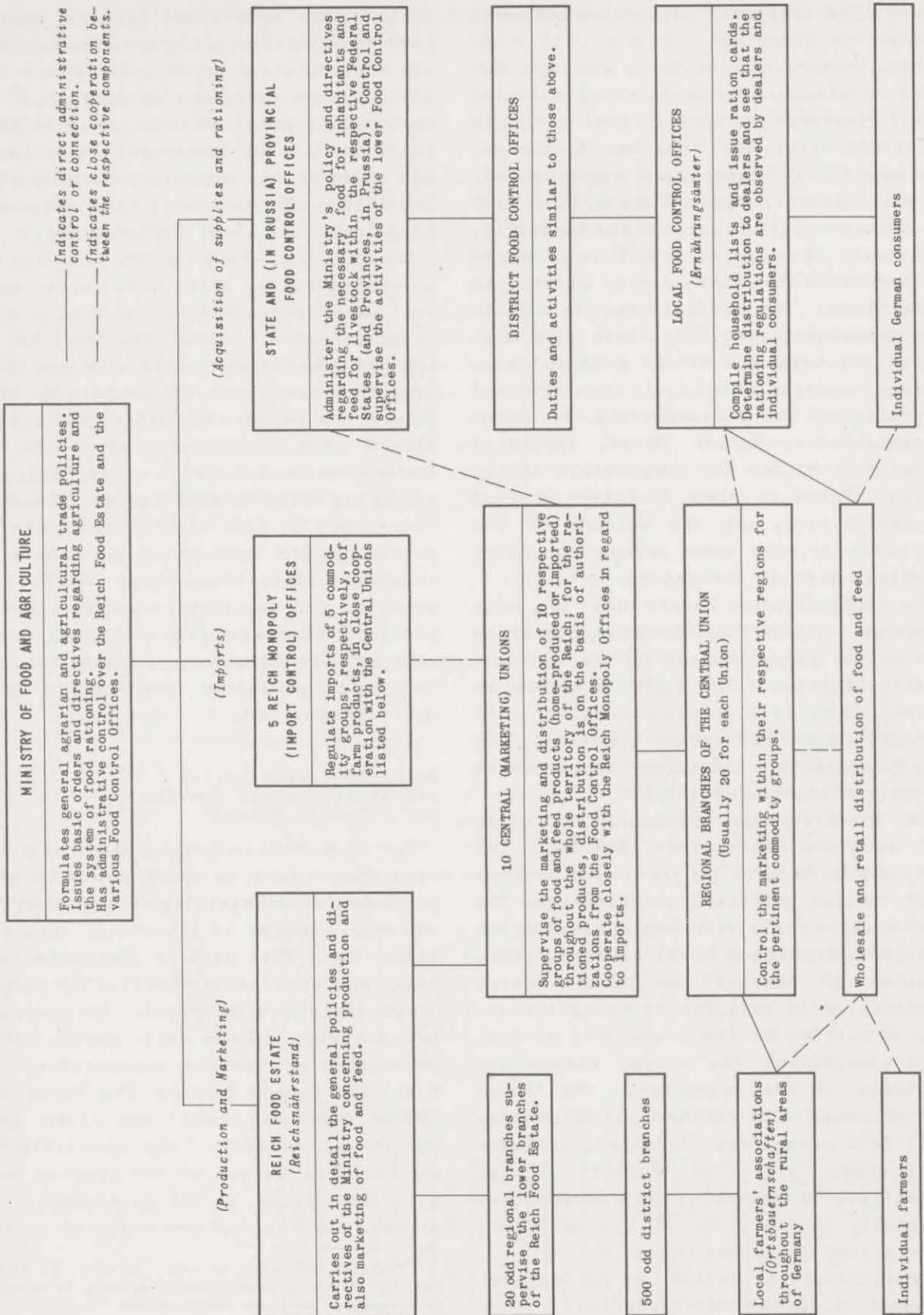
*Marketing Associations
and Reich Control Boards
(or Monopoly Boards)*

For each farm in Germany there is a "farm management" card, on which are entered all pertinent data regarding acreage and yields of crops, numbers of livestock, farm practices, etc. This card is available to the local and central authorities for purposes of supervision and control. The government assigns each farmer basic quotas for the production of various commodities. Some 2 million German farmers who raise bread grains (rye and wheat) are given quotas for annual delivery, the quantities are announced at the end of the growing season at prices fixed by the government. In a similar way, quotas are assigned to flour

¹²Franklin, op. cit., p. 183. Also E. C. Donaldson Rawlins, *Economic Conditions in Germany to March 1936*. Department of Overseas Trade, London.

GERMAN WARTIME CONTROL OF FOOD AND FEED

[Preliminary as of March 1940]



The above diagram is only a rough approximation of the chief features of the very complicated German set-up for administering that country's existing food and feed control.

millers and prices for flour are fixed by districts.

Besides belonging to the local and district associations of the Agricultural Estate, each farmer, or peasant, is also a member of one of the marketing associations which are organized according to commodities or commodity groups. There are altogether 10 Central Unions or Marketing Federations for marketing the various farm commodities (i.e. grain, cattle and meat, milk, potatoes, eggs, sugar, market-garden produce, etc.). The 10 Central Unions are self-governing, legal entities, under the control of the Agricultural Estate. The Reich Farm Leader appoints a National Commissioner for each Central Union or marketing federation. The Central Unions are also under the control of the Ministry of Food and Agriculture.¹³ The Central Unions deal with domestic production and marketing of their respective commodities. They regulate costs and prices, profit margins, establish standards and grading regulations, and may, to some degree, regulate the actual production of agricultural produce.¹⁴

Another agency which exercises widespread control in German agriculture are the Reich Control Boards or Monopoly Boards (*Reichsstellen*). The function of the *Reichsstellen* for various products was originally to monopolize the trade in certain products in order to control the price. As the organization of agricultural marketing itself became more and more monopolistic, the function of the *Reichsstellen* changed to that of equalizing seasonal fluctuations of supply and demand by either buying up temporary surpluses or by controlling deliveries to and buying on behalf of processors and distributors.¹⁵ The *Reichs-*

stellen are trading bodies, and they are entrusted with the purchase and sale chiefly of imported foodstuffs and raw materials, and also of domestic produce within the country. They regulate imports with a view to the volume and adequacy of the domestic supply, and sell domestic produce abroad in order to acquire foreign exchange or to maintain the stability of internal prices.¹⁶

Food Control Offices

All these organizations were at hand in August 1939 when Germany was preparing to enter the war. But the German Government felt it necessary to supplement them with another agency for purposes of rationing. On August 27, 1939, in connection with the rationing decree discussed above, the German Government set up a series of state, provincial, district, and local Food Control Offices (*Ernährungsämter*). The functions of these offices "comprise the supervision and control over the acquisition and distribution of foodstuffs and feedstuffs and the assurance that agricultural production in their respective territories is maintained at capacity."¹⁷

The mechanism of control is somewhat complicated, and the chart on page 48 may help to visualize it. The various parts of the mechanism function in cooperation with one another, though friction is not entirely avoidable in view of their tendency to overlap.

The decree of August 27, 1939, which created the Food Control Offices, also placed the whole Agricultural Estate under the direct control of the Reich Minister of Food and Agriculture. Even though this minister happens to be the same man as the Reich Peasant-Leader, (the former *Führer* of the Agricultural Estate), it may be of

¹³ Until recently, each Central Union was composed of regional commodity marketing associations, territorially paralleling the regional subdivisions of the Agricultural Estate proper. This regional organization has been allowed to disappear.

¹⁴ Rawlins, op. cit., p. 44.

¹⁵ Holt, John Bradshaw, *German Agricultural Policy, 1918-1934*, p. 199.

¹⁶ Monopoly or Reich Control Boards exist also for nonagricultural raw materials and are under the supervision of the Estate of Industry and Trade. The Boards play an important part not only in marketing, but in foreign exchange control, in building up reserves for raw materials, etc.

¹⁷ Franklin, op. cit., pp. 183-185.

significance that he now exercises leadership in his capacity *qua* government official and not *qua* leader of an autonomous "Estate." This would indicate a trend towards the substitution of direct state control over all realms of national life for a functional grouping of the population in "estates" and an increasing reliance on especially created war organizations.

Wartime Food Production

The success of the present rationing system in Germany is dependent in very large measure, if not entirely,¹⁸ on the capacity of German agriculture to maintain or even increase its output despite war conditions. Considerable study and planning had been given to this task in Germany before 1939. The "Battle of Production" carried on by the National Socialist Government from 1934 to 1938 had used every possible device—reduction in prices of fertilizers, tax easements, reduction in costs of electric power, a favorable price policy for farm products, subsidies for mechanization—to stimulate increased output by an extension of the crop area and by an increase in yields per acre.

Despite the considerable success of this planning, Germany, as indicated above, had not achieved self-sufficiency in food production by 1939. Also despite the large reserves laid in during 1938-39, the outlook for the food supply in 1939, in case of a prolonged war, was serious. It was necessary, from the point of view of the German Government, to continue the "Battle of Production" during wartime with such changes as were dictated by the conditions of blockade and other war difficulties and requirements.

¹⁸This statement must be modified to the extent to which military and diplomatic successes enable Germany to obtain additional supplies of foodstuffs by requisitioning, forced sales, or imports. As pointed out in the preceding section, such additional supplies (of butter, eggs, coffee) were obtained after the occupation of Denmark and Holland. "Diplomatic" successes in Rumania, Hungary, etc. have increased imports of some agricultural products.

The wartime agricultural production program was set forth by Herbert Backe, State Secretary in the Ministry of Food and Agriculture, on December 15, 1939, as follows: (1) enlarged agricultural output in general, with special emphasis on high yields per acre for field crops; (2) expansion or at least maintenance, of the root-crop acreage, (potatoes, sugar beets, fodder beets, etc.); (3) increased cultivation of vegetables; (4) extension of a feed and fodder basis adapted to German conditions; (5) healthy and productive livestock; and (6) especially the further extension and stabilization of the dairy industry as one of the most important sources of domestic fats.¹⁹ To help carry out this program of the "Food War" a number of special measures were adopted which may be summarized briefly.

Price Increases and Special Rewards

On February 15, 1940, Field Marshal Göring addressed an appeal to German farmers to prepare for the "Battle of Production" of 1940 and announced new measures to stimulate the production of butter and an increase in the area of arable crops. In order to make dairy production more profitable and thus to encourage the production of milk and butter, farmers were promised a price increase of 2 pfennigs per liter of milk and a rise from 1.60 to 1.80 marks in the price of a pound of butter. This price increase, which became effective March 11, 1940, was expected, according to private estimates, to increase the annual income of German farmers by at least 250,000,000 marks. The farmers were warned, however, by Field Marshal Göring against considering this additional income as a "gift." They were expected, Göring pointed out, to invest the entire amount in increasing and improving cattle breeding and in stimulating the production of feeds tuffs. Moreover, as a compensation for the higher

¹⁹Article by Herbert Backe in *Nationalsozialistische Landpost*, summarized by Franklin, op. cit., p. 211.

prices, farmers were urged to deliver to the market some 2 billion liters of whole milk which formerly they and their families had consumed. This quantity, Field Marshal Göring claimed, would permit an increase in German butter production by approximately 80,000 to 90,000 tons per annum which roughly corresponds to the Reich's annual imports of butter during recent years.

At the same time Göring announced the payment in 1940 of the equivalent, roughly, of \$40 per acre for each acre of hitherto unused meadow or grazing land that is plowed up and devoted to arable crops. This is in line with this year's slogan for farmers, "Every acre must count." Göring exhorted, "Everything must be brought out of the German soil that can be brought out of it, no matter what the cost. The Führer demands this of you. The whole German nation expects it of you."²⁰

Providing the Labor Supply

For various reasons, a shortage of farm labor had been a serious problem in Germany before 1939.²¹ The problem became more acute with the outbreak of the war when hundreds of thousands of farmers and farm laborers were called to military service. In the fall of 1939 the German Government met this problem in part by using some 300,000 Polish war prisoners for the harvesting of the root crops.

The demand for labor in agriculture was greatly increased in the spring and summer of 1940. A severe winter and abnormally late spring had delayed all plowing and planting for several weeks, and made necessary the crowding of all farm work into a shorter period of time than usual, both in the spring and summer. There was a decreased labor supply due to the absence of many farmers serving in the armed forces, and a shortage of draft animals due to their withdrawal from the countryside for

use in the army. The labor problem was further aggravated by the effort to increase the planted acreage in order to offset the effects of the blockade, as well as by the necessity of replowing and replanting large tracts of land on which the crops sown in the fall had been destroyed by the severe winter.²²

To meet this situation, arrangements were made to assist the farmers by granting special furloughs to soldiers from the army and to workers from industrial enterprises, and by conscripting young boys and girls and Party members. But chief reliance was put on placing foreign workers and prisoners of war at the disposal of German agriculture. In the summer of 1940 between 600,000 and 700,000 prisoners of war (mainly from Poland, but about 175,000 from the Western Front) were assigned to agricultural work, and about 500,000 "voluntary" workers, chiefly Poles, were recruited for the same purpose. Poland alone supplied at one time over 750,000 workers, many of them with their wives and children. They received lower wages than Germans doing the same work. The labor shortage in agriculture continues, however, to be a serious problem. Germany, despite Nazi doctrines, is experiencing a "flight from the land," and the number of new workers and helpers entering agriculture has been decreasing each year. In 1938 about 110,000 male helpers entered agricultural service, in 1939 only 100,000, and in 1940 only about 90,000.

Efforts are being made now to assure the German farmers a supply of 115,000 male helpers and apprentices for 1941. It is proposed to achieve this partly by offering these young workers better working and living conditions and an opportunity to be trained for skilled work, partly by compulsion and conscription.²³

²⁰ Berliner Boersenzeitung, February 16, 1940.

²¹ See part I of this report, "Public Works and Employment Planning in Germany, 1933-39."

²² Frankfurter Zeitung, June 2, 1940, No. 276-277, p. 11.

²³ For further discussion see section of this report on "The Control of the Labor Supply."

Increasing Farm Efficiency

Other measures taken by the government were intended to meet the difficulties created by shortages in fertilizers, draft animals, and machinery. The difficulties caused by the withdrawal of draft horses from the land were to a great extent alleviated by the planned utilization of available animals. The army returned to the land all beasts found unsuitable for its own use. Many booty-horses from Poland were placed in service in Germany. Severe measures were taken against speculative increases in the price of horses, and official appraisers were appointed to set the maximum prices. Purchasers had to present "necessity certificates" from the proper authorities before they could buy animals. Furthermore, the commissioner of the Reich Food Estate was given authority to transfer horses from one area to another according to need. This authority was hardly used, however, as the demand was generally satisfied through the usual trade channels. Within each district (*Landesbauernschaft*) care was taken to spread the use of horses as evenly and effectively as possible.

The use of labor-saving machinery was greatly increased in agriculture. Special consideration was given to middle and small concerns which, in the past, had been somewhat neglected in favor of the larger ones. The maintenance of existing farm machines was held to be of even greater importance than the production of new ones. Thus, according to an order from Göring to Dr. Lange, General Commissioner for Machine Production, special attention was to be given to the maintenance and extension of repair stations and to the machine-parts industry. Special freight rates given to agricultural machinery by the *Reichsbahn* were extended to machine parts. The spare-parts industry was placed in a preferred position over the new machine industry in the allotment of raw materials. The most important repair stations were elevated to the status of defense industries with priority rights.

Cooperative or communal utilization of agricultural machinery was widely encouraged. Prime movers with drivers (frequently women) trained in special courses were provided, sometimes on a two-shift basis. The form of payment most encouraged for the use of such machinery was that of an exchange of services. In cases in which cash payment was unavoidable, the Reich Food Estate regulated payment to cover costs of operation, interest, depreciation, maintenance, and risk, but prohibited any profiteering.²⁴

On December 6, 1940, a new Institute for Agricultural Labor Science was founded in Breslau. The Institute is a research agency concerning itself mainly with the introduction of machines and motorized equipment into all kinds of agricultural enterprises with a view to a greater intensification of production with the available labor power. It also concerns itself with the problems of rural electrification.²⁵

The Rationing of Clothing

In addition to food, the German Government has applied rationing to clothing, textile materials, footwear, heating coal, soap, and many other consumer commodities. Some of the features of this rationing and the methods used are of interest, but cannot be considered here because of limitations of time and space; however the rationing of clothing is presented briefly.

While the policy of "autarchy" before 1939 resulted in a considerable increase in the domestic production of textile raw materials and especially of synthetic fibers, Germany was still very far from self-sufficiency in this respect on the eve of the war. In 1938 the home production of textile raw materials in Germany was estimated at 26 to 32 percent of total requirements.²⁶

²⁴Frankfurter Zeitung, June 2, 1940.

²⁵Dienst aus Deutschland, No. 288.

²⁶Depending on whether regenerated materials, wool shoddy and cotton shoddy, are included. So far as specific fibers are concerned the domestic production rose from 23,417 tons in 1933 to 32,000 tons in 1938, that of hemp from 220 tons in 1933 to 9,920 tons in 1938, and of wool from 5,732 tons in 1933 to 8,818 tons in 1938. The output of staple fiber increased from 5,942 short tons in 1933 to 171,000 tons in 1938. See Franklin, op. cit., p. 206.

Imports of textile raw materials were quantitatively higher in 1938 than in 1928-29. The need for conserving available supplies and for the rationing of textile goods was even more urgent than that of food.²⁷

The decree of August 27, 1939, included a wide range of textile goods, which were to be rationed to consumers. Among the goods enumerated were men's and women's clothing, underwear, handkerchiefs, stockings, and household linen. Special purchasing certificates were issued to consumers on the basis of a "needs test." As this system proved cumbersome, it was replaced by a new method on November 16, 1939.

The system introduced in November 1939 has been described as follows:

"Under the present textile-goods rationing system, each individual is issued a Reich clothing card allowing the purchase of rationed goods on a quota basis of 100 "points" per year, with a specified "point" value for each article. For example, a man's suit is valued at 60 points, a shirt at 20 points, a pair of socks at 5 points, a handkerchief at 2 points, a woman's woolen dress at 40 points, other dresses at 30 points, and a pair of stockings at 4 points. Stockings for women are the only articles for which a quantitative restriction is definitely listed, each woman being allowed to purchase only six pairs a year. Not covered by the point system are overcoats, bed and household linens, and certain other rationed items, for which special purchasing certificates are still required. Purchasing certificates for overcoats will be issued only against the surrender of an old coat.

"In order to administer the rationing of textiles (as well as soap and certain other consumers' goods), state, provincial (in Prussia), district, and local Economic Control Offices (*Wirtschaftsämtter*) under the jurisdiction of the Ministry of Commerce, similar to the Food Control Offices, were established by the decree of August 27, 1939.

It is difficult to determine how the present clothing rationing under the point system compares with normal peacetime requirements, but the best estimates available are that the permitted purchases for a middle-class family are scarcely more than 30 or 40 percent of the peacetime level, and for a worker's family possibly 40 to 50 percent.²⁸

On August 20, 1940, a new clothing card was introduced by the Minister of Economics, effective September 1, 1940. The new card retains the point system under which the consumer is restricted to an annual quota of clothing measured in points and under which he has the freedom of choice among individual textile goods, provided his annual purchases do not exceed the total number of points allowed. The new clothing card provides for an annual theoretical quota of 150 points for men, women, and children. But the greater number of points does not represent an increase in the total allowance, since a new system of evaluation has been adopted under the new clothing card by which many individual articles are assessed a higher number of points than heretofore.

According to available reports during the first 10 months of the "clothing year" (November 1939-October 1940) consumers only used about two-thirds of the total number of points which were allotted to them under the first "*Reichskleiderkarte*." This conservative spending on the part of consumers was apparently due to several reasons. First, for the poorer classes the annual textile quota exceeded what they had usually purchased and what they could afford to buy. Second, many holders of clothing cards postponed their purchases until the last months for which they were valid, partly because they were uncertain as to what they would need most toward the end of the "clothing year" and partly because they did not know what the allowance would be for the second year of the war. When this latter uncertainty was removed, reports

²⁷ Beginning July 1, 1939, the use of cotton was prohibited for such purposes as women's clothing, furniture fabrics, linings, and curtains.

²⁸ Franklin, op. cit., p. 207.

from the textile trade showed that buying of textile goods against the first cards became much more lively.

Industrial Readjustments and the New Four-Year Plan

German industrial activity since September 1939 has been geared entirely to the production of war equipment and of materials essential to the conduct of the war. In pursuing this policy, the German Government has exercised a considerable degree of flexibility in accordance with changing conditions of the war. At the outbreak of the war, the government, in accordance with its long-prepared plans for industrial mobilization, rapidly shifted resources and plants to war industries and drastically curtailed the production of consumer goods. As the war on the Western Front entered a quiet stage during the winter of 1939-40, industrial activity in the consumer-goods industries was enlarged. This policy was again reversed in April, May, and June 1940, in view of the Western Offensive. In the summer of 1940, as a result of the seizure by Germany of large quantities of land armaments,²⁹ production was redirected towards those branches of war industry which supply primarily the air force and the navy.

According to estimates made at the end of the first year of the war, the total volume of industrial production did not then differ materially from the aggregate output shortly before the outbreak of the war.³⁰ The requirements of war made it

²⁹In his speech in the Munich Lowenbrau Keller on November 8, 1940, Hitler said that "the reserves of munitions are so formidable that in many branches of production I am forced to curtail output because of the impossibility of storing the accumulated stocks" and "furthermore that the munitions which Germany has used heretofore in the course of war, represent only a part of its monthly production."

³⁰In June 1939, the last month for which data are available, the general production index of the Institute for Business Research was 136.9 (1938=100) as against 126.9 in June 1936. The output of capital goods was being developed at a much faster pace than the output of consumer goods. The Reichskreditgesellschaft claimed that as a result of the incorporation of the industrial areas of Eastmark, Sudetenland, and Bohemia-Moravia, "the proportion of Germany's share in world industrial production increased by about 15 percent," and that Germany thus was "after the U.S. the second largest in-

necessary to devote an even larger share than before 1939 to the capital-goods industries. The need to import foodstuffs and industrial raw materials from accessible European areas called for the production of certain export commodities and also helped to maintain to a certain extent the output of consumer-goods industries.

A full account of wartime industrial planning in Germany is not possible for obvious reasons. But the available data throw some light on how Germany has met difficulties in some industries, how it has handled the consumer-goods industries, and how it has provided for further planning in the near future. Some aspects of these industrial readjustments to war conditions are considered in this section.

Emergency Aid to Industry and Mutual Assistance

As a result of the war, many industrial concerns and business firms found themselves in economic and financial difficulties. Some had to close or curtail operations as a result of war regulations, lack of raw materials, or financial strains. Others were willing to shift over to war production, but lacked the means for the extension and reequipment of plant.

To meet this situation the government had recourse to a procedure which combined state aid with mutual assistance on the part of business. The government provided the necessary credit, but the losses from the extension of such credit were to be borne by industry itself.³¹

dustrial country in the world, her industrial output exceeding that of Great Britain by about a third." Reichskreditgesellschaft, Germany in the Middle of the Year 1939.

³¹It should be noted that the Nazi Government changed its policy with regard to the way in which war orders were to be handled by industrial plants. At first the government selected certain concerns which were to bear the "burden" of war production. It was believed that the shortage of labor and of raw materials would force production down to a necessary minimum. These selected plants were the most efficient, while other plants (mainly middle- and small-sized ones) were either to be closed down or operated on a restricted basis. Experience, however, forced the government to change its policy, and war orders and raw materials were distributed over a maximum number of plants. See *Der Deutsche Volkswirt*, December 15, 1939, pp. 303-305.

According to the arrangements made, emergency credits were extended by the German Industrial Bank (a government institution) to firms which wanted to extend or to reequip their plants in order to shift to war production. On the other hand, industrial and commercial enterprises which were adversely affected by the requisitioning of stocks or other war measures and whose liquidity was impaired, could obtain emergency credit from the *Öffa* (*Deutsche Gesellschaft für Öffentlichen Arbeiten*—the German Corporation for Public Works). The procedure was for the firm to obtain credit from a bank, but the *Öffa* guaranteed the bank credits granted for such purpose up to 95 percent of the amount. The remaining 5 percent was the bank's own risk, but it was covered by a collective guarantee given by German trade and industry. To the end of July the *Öffa* guaranteed 47,000,000 marks of loans advanced by the banks under this scheme.

The scheme was defended not so much as a form of aid or relief to individual businessmen but as a means of preserving the national economy against unnecessary losses and against an undesirable collapse of small firms. On the other hand, the burden of the obligation and the scope for possible abuses worried business.

On August 22, 1940, the Ministerial council for National Defense issued a decree which made the scheme more definite. The decree provided that the Reich Economic Chamber (the central organization of German business³²) should be responsible for losses from emergency industrial credits as follows: (a) up to 10 percent of losses resulting from credits given by the German Industrial Bank; and (b) for all losses resulting from credits guaranteed by the *Öffa*. No details were worked out as to the distribution of the payments among individual businessmen or firms. It is assumed that individual firms will pay in proportion to the amount of their dues to the Reich Economic Chamber.

³²For description of this organization see the section "The Organization of the War Economy."

The burden of assisting entrepreneurs whose plants were closed down completely by circumstances arising out of the war was placed on business as such through the various "Estates" and "chambers" (Estate of Industry and Trade, Reich Culture Chamber, Chamber of Handicrafts, etc.)

The funds for this "Mutual Assistance" are raised by assessment on operating plants based on the "business tax" (*Gewerbesteuer*). The assessments levied within each National Economic Group (see section on "The Organization of the War Economy") are to be applied for enterprises within that group, but in the event that some groups raise more money than they can use for this purpose, and others are especially hard hit by the war, money may be transferred from one group to another.

The Mutual Assistance plan is intended to help the crippled enterprises to meet maintenance costs for buildings and equipment, interest on debt, pension obligations, insurance, rent, and the like. No "entrepreneur's wage" is paid, nor can creditors of excessively indebted undertakings expect full service on their claims, as assistance is given only after careful investigation in each individual case. Concerns which were unable to meet competition even before the war will not be assisted.

The purpose of this scheme is to prevent the destruction of plant and equipment which will be necessary when peacetime production is resumed, and to finance this "conservation" out of the increased profits of war industries. If this were not done, says the *Frankfurter Zeitung*, after the war there might remain only a few giant undertakings which, without adequate competition, would be able to monopolize the economic life of the nation. Everything is being done to prevent the eventuality that when the closed-down concerns are "reawakened," it be found that they are no longer viable as private undertakings.

In this connection, State Secretary Landfried has emphasized the fact that the state refuses to let itself be driven into

any form of state economy over the detour of war economy. It is not known whether the concerns assessed for the purpose of this "Mutual Assistance" were permitted by the Price Commissioner to pass on the expenses involved by means of increased consumer prices.³³

The Reichskreditgesellschaft plan has been set up for firms which have assets in enemy countries, and are thus unable to meet their debt obligations under present circumstances. Such firms can apply to their bankers for credits for the conduct of current business or for reorganization purpose, but the Reichskreditgesellschaft takes over the guarantee for the credits as "principal debtor and depute for the Reich."³⁴

Shifts in the Consumer-Goods Industries

As indicated above, one of the features of the German war economy has been the shifts made in the operation of the consumer-goods industries. Immediately after the outbreak of the war Germany placed drastic reductions on the production of certain consumer goods. Among the commodities whose production was greatly curtailed or practically suspended for the duration of the war, were sewing machines, refrigerators, household electrical appliances (such as vacuum cleaners, electrical cooking stoves, water heating apparatus), and a wide range of even the simplest kitchen utensils. The reasons for these restrictions were either a shortage of raw materials or the need for reserving industrial capacity and labor for war industries. In some cases, e.g. that of typewriters, production was greatly curtailed and the entire output was reserved for the needs of the army, government offices, and for industrial establishments working on war orders.

In December 1939 and January 1940, during the lull on the Western Front, industrial

³³For full discussion of "Mutual assistance" see *Der Deutsche Volkswirt*, December 1, 1939; February 9, March 1, May 24, June 28, 1940.

³⁴Weekly Report of the German Institute for Business Research, September 5, 1940.

production for civilian requirements was resumed on a larger scale. For instance, fertilizer and farm machinery plants were directed to increase output to the highest possible levels. But from February through April 1940 there was again a shift from peacetime to war production. The government made efforts to mobilize further industrial plant and labor in order to speed up war industrial output. New possibilities for utilizing industrial capacity for the production of goods essential for the conduct of the war were sought. Many industrial enterprises which had been put on part time or closed at the beginning of the war received army orders which gave them a chance to continue operations at least on a reduced scale.

During the summer of 1940 further steps were taken to reduce the production of certain commodities for civilian use. On July 1, 1940, the production of passenger cars for the domestic market was discontinued. Passenger cars were to be manufactured for export only; automobile manufacturers were to make only trucks and other military and commercial vehicles. It was thought that the limited private demand for passenger cars would be satisfied from stocks in the hands of dealers.

Similar readjustments were made in other industries. The margarine industry was directed to suspend production completely during the summer of 1940, when butter supplies were seasonally more plentiful, but it resumed work about the middle of September 1940. In order to stretch available stocks of raw materials which formerly were imported chiefly from oversea countries to which Germany now has no access, only 31 margarine factories out of a total of 181 were to be operated during the coming winter months. In accordance with curtailed volume of margarine production, the number of wholesalers engaged in the distribution of margarine in Germany was to be reduced from 13,000 to 3,000.³⁵

³⁵*Der Deutsche Volkswirt*, September 13, 1940, p. 1829.

Another example of the shift in consumer-goods industries is the reduction of the output of tin containers for the canning industry, owing to the shortage of tin plate. Deficiencies, as respects containers, are to be met by the glass industry, which has included in its production program the manufacture of a new article: glass jars for the preservation of vegetables and fruit to replace the tin cans formerly used.

The New Four-Year Plan

The industrial maneuvering of the German Government is shown not only by its treatment of the consumer-goods industries but also by its action in promoting a new Four-Year Plan. It has been generally assumed that the Nazi Government had carried out 2 Four-Year Plans—the first from 1933 to 1936 and the second from October 1936 to October 1940.³⁶ During the summer of 1940, however, the German Government announced a third Four-Year Plan but referred to it as the *Second Four-Year Plan*. A decree was issued on October 18, 1940, extending for another 4 years the extraordinary powers conferred upon Marshal Göring under the decree of October 18, 1936.

Emphasis is laid in the decree on the necessity of adopting the new Four-Year Plan "to the requirements of war." No indication is given as to the specific industries on which effort will be centered, but it is assumed that special attention will be given to the further development of synthetic gasoline, "Buna" (synthetic rubber), and "Zellwolle" (staple fiber), especially as the territorial acquisitions of Germany during 1940 did not materially improve the position of the Reich with regard to the supply of these materials.³⁷

³⁶See part I, Public Works and Employment Planning in Germany, 1933-39.

³⁷That Germany was facing serious problems during 1940 with regard to a number of industrial raw materials is evidenced by the systematic effort made in the spring of that year to build up a national metal reserve considered necessary "for the long-range conduct of war." This nation-wide effort was centered on nonferrous

The Control of the Labor Supply

Despite the elaborate and thoroughly prepared plans for industrial mobilization in case of war, Germany experienced some industrial dislocations in the fall of 1939 which resulted in unemployment and in part-time employment. But by the spring of 1940 the measures taken to increase war production as well as to maintain as much as possible the output for civilian requirements, resulted in a serious labor shortage which has continued since. The policies used for increasing and distributing the labor supply in industry and agriculture were largely a continuation of prewar policies with certain modifications made necessary and possible by the conditions of war.

Unemployment and Labor Shortage

Despite the withdrawal of several million persons from productive life as a result of mobilization, a considerable amount of unemployment was caused during the first months of the war by the curtailment of peacetime industries.³⁸ According to the

metals and alloys such as copper, bronze, brass, lead, tin, and nickel, i. e. metals which were chiefly imported from oversea countries and which were most affected by the Allied blockade.

To create a national metal reserve the following measures were adopted:

1. An appeal to the German people to surrender all nonessential metal articles; according to a proclamation signed by Field-Marshal Göring the collection was intended as a birthday present to Reich Chancellor Hitler. The Chancellor himself set an example in this connection by ordering the heavy brass doors and other metal ornamental objects in the newly completed Reich Chancellery in Berlin to be dismantled.

2. A decree of March 15, 1940, ordering the requisitioning of church bells and of copper parts of buildings—the government promising to supply substitute metal and to pay an adequate indemnity after the war.

3. An appeal emanating from the Reich Economic Chamber requesting that all manufacturing and commercial establishments surrender metal articles in their possession which do not serve directly the purpose of manufacturing, processing, storing, or transportation of goods, and which do not belong to the firm's stock-in-trade.

³⁸To some extent this was also caused by the system of gradual mobilization adopted by the German Government and by its effort to keep essential workers in industry on the theory that the "soldiers on the industrial front" were as important as "soldiers on the battle front." See Economic Situation in Germany in 1939, Division of Regional Information, Bureau of Foreign and Domestic Commerce, U. S. Department of Commerce, May, 1940.

figures published in April 1940³⁹ the number of unemployed in Greater Germany (including Austria and the Sudetenland) in December 1939 was 128,000 and increased to 256,000 in January 1940.⁴⁰ Some of the unemployed were reemployed during the winter of 1939-40, though such reemployment was hampered by the severe weather and by the consequent interruption in building activities.

With the spring of 1940 the increased demand for labor, due to the mobilization of new classes of soldiers and to increased war production, resulted in stimulating reemployment on a large scale. In March 1940 the number of unemployed dropped to 137,000 and in April 1940 it decreased to 105,000. At the end of June 1940 the number was 39,000. Of these only 3,500 were regarded as fully employable. The number of part-time workers drawing unemployment relief was given as 8,350, of whom 6,400 were women.⁴¹

Even during the earlier months of the war, despite unemployment, there were labor shortages in some industries, especially in coal mining and in the iron and steel mills. But from April 1940 on, labor shortages became general both in agriculture and in industry. At the end of October 1940 the number of unfilled vacancies registered with the labor offices was about 1,500,000.

Mobilization and Conscription of Labor

As related in part I of this volume,⁴² the Nazi Government began to ration the

³⁹ *Wirtschaft und Statistik*.

⁴⁰ One-half of the unemployed were located in 8 large cities, including Berlin, Vienna, and Hamburg. The Labor Office also reported 236,000 workers on short time in 4,949 industrial establishments. The majority of these short-time workers were in the textile and clothing industries. See "Economic Situation in Germany in 1939."

⁴¹ *Koelnische Zeitung*, August 21, 1940.

⁴² "Public Works and Employment Planning in Germany, 1933-39."

labor supply in November 1936,⁴³ with the introduction of the Second Four-Year Plan. It adopted a system of allocating labor on a priority basis to the metal, food, building, and other industries. Between June 1938 and March 1939 a number of decrees were issued which practically conscripted labor and which gave the Ministry of Labor complete control over the allocation not only of all workers, but of all inhabitants of the Reich, to whatever jobs were regarded essential to the national interest.

Rationing and conscription of labor were applied on a large scale soon after war broke out. The German Government had recourse to "mobilization" of German men and women in order to meet the increasing demand for labor and to fill the gaps in the industrial population created by the calling of workers to the colors. During the first year of the war about 1,750,000 male workers, not previously engaged in industry, were mobilized for industrial work. These included older persons who had retired and were living on pensions, savings, etc., and young people who left school in the spring of 1940. The mobilization or conscription was for limited periods of time. In October 1940, 350,000 of these conscripted workers were still at work.

Despite its original principles about woman's place in the home, the Nazi Government made a special drive to draw women into industry. Between September 1937 and February 1940 the number of women employed had decreased by 500,000. This was due to a number of reasons, such as an increase in marriages, the return of many girls to their homes and to the businesses of their parents in order to assist them, to the higher earnings of husbands, etc. The Labor Offices made great efforts to reverse this trend. By the end of June 1940 their efforts had resulted in 200,000 more women

⁴³ The first steps in this direction were taken in February 1935 when the "Labor Book" was introduced and in March 1936 when no one could be hired for work unless he was in possession of a Labor Book.

being employed than in August 1939.⁴⁴ This was not regarded as a sufficiently large increase, however, in view of the urgent demand for labor. The mobilized and conscripted women were employed largely in the aviation industry.

The Use of War Prisoners

With the progressive exhaustion of German labor reserves, there was an increasing employment of prisoners of war and of foreign workers. Large numbers of Polish prisoners were taken to Germany during the fall and winter of 1939-40 for work in agriculture and industry. In June 1940 about a million war prisoners were at work in Germany, of whom 600,000 to 700,000 were in agriculture⁴⁵ and over 200,000 in industry. In addition to Polish war prisoners, there were now also prisoners from the Western Front. It was estimated that during May and June 1940 some 350,000 Western-Front war prisoners were used of whom about 53 percent were at work in agriculture and 47 percent in industry.

Employment of Foreign Workers

The Reich Government made efforts to induce, cajole, or force civilian workers from the occupied territories or neutral countries to accept employment in Germany. In June 1940 there were some 500,000 such workers (mostly Poles) in agriculture, and about 400,000 foreign workers in industry. In October 1940 the number of foreign civilian workers was estimated at 1,100,000. About half of these were in agriculture, and the other half in mines and factories.⁴⁶

⁴⁴ Reichsarbeitsblatt, 1940, No. 23, p. 396.

⁴⁵ In February 1940, 2.4 percent of the Polish prisoners were working in forestry and 3.2 percent in land reclamation. See Dr. Voelk, "Der Einsatz von Kriegsgefangenen in Arbeitsstellen," Reichsarbeitsblatt, July 25, 1940.

⁴⁶ Workers from 15 nationalities are said to be employed at the Herman Göring Iron Works. When the first train of Dutch workers left Rotterdam for Berlin, it was sent off to the accompaniment of music by a German band. Many Italian workers have been sent to Germany as a result of an agreement with the Fascist Confederation of Labor. There are workers also from Belgium, Norway, and other countries.

"Combing Out" the Skilled

Despite the principle of the Reich's war policy that "in modern war the worker at the lathe is as important as the fighting soldier at the front," many skilled workers have been drawn into the fighting forces. The general shortage of labor has thus been aggravated by the gaps created in the ranks of the skilled. To meet this situation, a circular order was issued on May 16, 1940, by the Reich Minister of Labor to the chiefs of the Labor Offices⁴⁷ to intensify the recruitment of skilled workers. The Minister of Labor stated that the closing down of nonessential industrial enterprises had not met sufficiently the demands for labor by the Reich's war economy. It was now necessary to undertake special action to "comb out" such skilled workers in industrial establishments as could be withdrawn and assigned to more important jobs.

The circular suggested the appointment of "special commissions" to examine the possibilities of reducing the number of skilled workers in factories and workshops. This was made necessary because of the alleged tendency of manufacturers to "hoard" skilled workers and to give them tasks which could be performed by unskilled workers, merely in order not to lose them in case the factory was to obtain more war orders or even to keep them available in the event of peace.

The "combing out" of skilled workers was continued during the summer of 1940 in view of the growing demand for skilled labor. From June to the middle of September 1940 the 10 commissions appointed by the Reich Government investigated 1,000 firms and obtained the release of 26,000 workers of whom 6,000 were skilled. In addition, the several hundred commissions organized by local authorities obtained the release of 460,000 workers.⁴⁸

⁴⁷ Reichsarbeitsblatt, 1940, No. 17.

⁴⁸ This figure is for the period from December 1939 to October 1940.

The campaign was carried out in factories and in retail trade. Special efforts were made to comb out skilled workers in enterprises which had only recently changed over to serial production and where, therefore, a number of operations could be performed by unskilled, especially female, labor.⁴⁹ The results of the campaign in the retail trade were less satisfactory as many of the men who could be released were not always physically fit for the heavier work in the arms and munitions industries.

After the termination of the root-crop harvest, in the fall of 1940, skilled workers among the prisoners of war were assigned to the chemical, metal, and other industries. In the coal mining industry the labor situation was eased by the transfer of skilled miners from occupied Polish territory.

Longer Hours, Half-Day Shifts, Mechanization, and Training

The shortage in the labor supply has also been offset to some extent by an extension of working hours and by a rationalization of production methods. The mechanization of many production processes has permitted a greater employment of unskilled labor, releasing a considerable number of skilled workers for other purposes. Furthermore, the training of apprentices and helpers has been accelerated.⁵⁰ The introduction of half-day shifts has been proposed as a means for utilizing the services of more housewives for industrial work.

⁴⁹ Koelnische Zeitung, July 17, 1940.

⁵⁰ Between 1933 and 1938 the Reich Labor Offices claim to have given some technical training to over a million workers. The number of apprentices placed in the metal industries averaged over 125,000 between 1935 and 1938. Various measures were taken to systematize and unify apprenticeship requirements in different industries and to establish proper methods of examination for the promotion of apprentices and helpers. On September 28, 1939, the Ministerial Council for the Defense of the Reich issued a decree ordering all appropriate enterprises to train a certain number of workers whether they were needed by the plant itself or not. This decree was intended particularly to increase the number of skilled metal workers. See article on the subject by Dr. H. Hilderbrandt in Reichsarbeitsblatt, May 5, 1940.

Geographical Distribution of Workers

During the first stages of the war the Reich Government transferred many plants and workers from the western provinces and tried to concentrate production in such territories as were considered more immune from enemy attacks. During recent months the tendency has been to spread orders for arms and other military equipment more evenly over the territory of the Reich. This policy of a wider dissemination of war industries is said to be partly dictated by the desire to make them less exposed to air raids.

These geographic changes in the distribution of industries has also made necessary the shifting of workers, especially skilled, from place to place. The movement of workers is reflected in the large turnover which, according to the German Labor Exchanges, has been between 500,000 and 800,000 workers a month in recent months.

The Number of Gainfully Employed

No figures on the total number of persons gainfully employed have been published. Official statements have been made that "after allowance for persons called to the colors during the first ten months of war," the number of employed male workers rose by about 1,000,000 between August 1939 and July 1940, and the number of women workers by 200,000.⁵¹ On the other hand, private estimates are to the effect that despite the conscription and mobilization of labor, the total number of workers industrially employed is still between 1 and 2 million below the peacetime total.

Wage, Price, and Profits Policies

During 1934-39 the Nazi Government had made strenuous efforts to maintain a stable

⁵¹ At the end of August 1939 the total number of persons employed in Greater Germany was 24,461,000 of whom 16,331,000 were males and 8,130,000 females. See Reichsarbeitsblatt, No. 24, August 1940.

price level and to keep wage rates unchanged. At the outbreak of hostilities in September 1939 the German Government felt it necessary to accentuate this policy in order to prevent the accumulation of free purchasing power resulting from the rationing of consumption, and a possible consequent inflation. But the government has had to modify from time to time its policies with regard to wages, prices, and profits, though the essential purpose of preventing inflationary trends remains.

The Abolition and Restoration of "Extra-Pay"

The "War Economy Decree" (*Kriegswirtschafts-Verordnung*) issued on September 4, 1939, contained a clause (§ 18) which abolished all extra payments to workers for overtime, nightwork, and holiday work. Another clause (§ 19) suspended all previous provisions for leave without pay. The purpose was to "deflate," or, rather, freeze wages and workers' earnings at the existing level, as a precaution against inflation.

The decree resulted in a reduction of earnings, estimated at 20 to 25 percent among various groups of workers, especially of those in munition plants and in construction. There was considerable dissatisfaction with the decree among the workers, resulting in slack and inefficient work.

On November 19, 1939, the wage policy formulated in the War Economy Decree was reversed by proclamation of Dr. Ley, Leader of the Labor Front. Extra pay for night and holiday work was formally restored and vacations for workers and employees were again permitted as of January 15, 1940. Extra pay was also reintroduced for overtime, although in a somewhat concealed and limited form. Wage rates above normal could not be paid for the ninth and tenth hours of work but employers were promised an additional allocation of food which would permit them to provide their workers with a warm meal during the day, a privi-

lege which under prevailing conditions of food rationing was likely to prove even more acceptable than an increase in money wages. Direct extra pay for overtime was declared permissible when the working time exceeded ten hours per day.⁵²

On September 3, 1940, the Reich Government took another step in the revision of its original War Economy Decree. Paragraphs 18 and 19 of that decree were abrogated. The new decree explicitly restored extra payment for "additional work" which covers not only payment for overtime and holiday work but also special bonuses for output above normal standards. The decree of September 3, 1940, thus practically restored peacetime wage payments.

The official reasons given for the change of policy were the extra efforts made by the workers and also the "simplification of wage computations." It is reasonable to assume, however, that one of the main reasons was the need for placating the workers. The new decree does not affect the profits of employers since the latter had been required to turn over profits from wage reductions to the government. The latter thus lost a source of revenue of minor importance.

Under the decree of September 3, 1940, the entire earnings of the workers or the employees were made subject to the wage tax and, in the event that the workers' income exceeded 234 marks per month or 54 marks per week, it was also liable to the payment of the war surtax of 50 percent on the regular income tax. It therefore could, and did, happen in some cases that the extra pay received by the worker made his condition worse since he had to pay more in taxes than he received in bonus.

As this caused ill feeling among the workers, the government on November 7, 1940, issued a new decree⁵³ by which additional payments to workers and employees for overtime, holiday, Sunday, and night work were

⁵²See Economic Situation in Germany in 1939 quoted above.

⁵³Reichsgesetzblatt, part I, No. 193.

not to be taken into account in assessing the earnings of workers for income-tax purposes.

Maintaining Price Stability

As in the case of wages, so with regard to prices, the German Government at the outbreak of the war tried to enforce a major downward revision. The War Economy Decree of September 4, 1939, provided (in paragraph 22) that during the war, prices of goods and services were to be fixed in accordance with the principles of a "militarized economy" (*Kriegsverpflichtete Wirtschaft*) which meant, in part, that prices had to be lowered in conformity with the savings resulting from the reduction in wages.

With the reversal of the wage reduction policy in November 1939 the idea of a major price deflation was abandoned. The efforts of the Reich price-control agencies were henceforth to be centered on the task of reducing prices only on public orders, especially for arms and other war materials. So far as the "civilian sector" of the war economy was concerned, the price control agencies were merely to prevent an increase of prices.

The maintenance of price stability during the first year of the war had to cope with the increasing effects of price-raising influences. The main factors which tended to raise prices have been summarized by competent observers as follows:

First, the replacement of mobilized workers by less experienced and physically weaker workers, especially female, tended to raise the cost of labor.

Second, the greater use of substitute raw materials which were higher in price than the natural products also contributed its part toward an increase in the cost of manufacture.

Third, even if imported raw materials were still available, they had to be drawn from other countries than those from which they were normally imported. This usually

involved higher costs, quite apart from the higher prices demanded by countries which were able because of their geographical position to supply Germany under conditions of war and blockade.

Fourth, the shift from peacetime to wartime production necessitated in many cases additional investment of capital and thus tended to raise interest, depreciation, and other charges.

Fifth, and perhaps most important, was the growing disproportion between supply and demand in all peacetime goods and the presence of a large and constantly growing excess purchasing power in the hands of the public which in a free market would have caused a sharp rise in the price level.⁵⁴

The growing pressure of the price-raising factors made itself felt in the spread of more or less ingenious devices for circumventing the government's price-control regulations. The government tried to check this tendency by tightening its control measures. On April 3, 1940, for instance, the Reich Price Commissioner issued a circular order to the effect that any increase in production costs caused by wartime conditions must be borne by the industrial establishment in which it occurred. The order strictly forbade the passing of such increases in costs to the consumer or the preventing of a reduction in profits by turning out goods of inferior quality at unchanged prices. A shifting of the increased costs to the consumers was to be permissible only under special exemption granted by the Price Commissioner. Such exemptions were to be granted only when the existence of the business was seriously threatened and when its maintenance was justified from the viewpoint of national economy.

The German Government has had to depart from its strict price policy on several occasions during the past year. The most

⁵⁴Dr. E. Flottman, *Der Deutsche Volkswirt*, December 15, 1939, p. 305.

important deviation was the increase in the price of butter offered by Marshal Göring as an inducement to producers to increase their output.⁵⁵ In general, however, the price changes which have been allowed have been confined to alterations of seasonal price schedules, especially for agricultural products, and to small readjustments necessitated by conditions of war and blockade.⁵⁶

The Reich price policy in 1939-40 would seem on the whole to have attained its purpose though "profiteering" is not unknown under Nazi rule. The Reich Statistical Bureau published a table indicating the growth of commodity prices from August 1939 to August 1940. (See table 2.)

According to these official price statistics, the level of prices in Germany during the first year of the war rose by 3.5 percent. This maintenance of relative price stability in spite of the acute shortage in many foodstuffs and industrial consumer goods was only possible, as the Reich Statistical Bureau points out, owing to the elaborate price-control machinery which has been built up since 1936 and which was already functioning when the war began. The "proverbial" discipline of the German people, it is also claimed, further strengthened by seven years of National Socialist regime, undoubtedly contributed its part toward this achievement, which was of

⁵⁵ See above, "Wartime Food Production."

⁵⁶ As concrete illustrations of the procedures of the Price Commissioner the two following cases may be cited: The price commissioner has permitted the vanadium cartel to permit the I. G. Farbenindustrie to increase its vanadium price by 50 Pfg. per kilogram until the 395,000 RM is recovered which the I.G.F. had invested in its experimental laboratories for the extraction of vanadium from smelter slag. This process has now made Germany independent of foreign imports of vanadium. This price increase was also justified because the demand far outstripped the supply.

On the other hand is the case of binding twine (Bindeyarn) which was bought at the price effective before July 1, 1940, and sold at the price effective after that date, the persons having engaged in such transactions must give up 35 Pfg. per kg. to the Reichkasse. This obligation is only effective in cases in which 1,000 kg or more were purchased by a person at the low price and resold at the high price. (See *Der Deutsche Volkswirt*, August 16, 1940.)

Table 2.—Price Movements, 1939-1940

Commodity groups	Commodity price indices, 1913 = 100		
	August 1939	August 1940	Change in percent
Agricultural products	108.8	112.0	+2.9
Industrial raw materials and semi-manufactured goods	94.9	98.5	+3.8
Finished goods	126.0	130.6	+3.7
General commodity price index	107.1	110.8	+3.5

Source: *Wirtschaft und Statistik*, 1940, No. 17, p. 388.

crucial importance for the financing of the war, since it prevented the surplus purchasing power being absorbed by higher prices and made it available, directly or indirectly, for the Reich's borrowing operations. This price stability contrasts sharply with the movement of prices in Germany during 1914-15 when, according to the Statistical Bureau, wholesale prices of agricultural products rose by 57 percent and those of industrial products by 41 percent.

The cost-of-living index rose from 127.0 in January 1940 to 133.1 in August 1940, but dropped to 130.2 in October 1940 (1913=100 percent). This comparatively small rise does not measure, however, the state of consumption of the people which is determined more directly through the system of rationing described above.

Despite the strict system of supervision, there is evidence that the Reich price-control regulations are often violated or circumvented by means of various ingenious devices. The Price Commissioner has on several occasions issued circular orders reminding businessmen of the necessity of obeying the price regulations, and recently more drastic penalties have been adopted for those guilty of violating the decrees on the subject.

The Prevention of Profiteering

At the beginning of the war the Führer is said to have made a declaration which in part is quoted as follows: "As long as the soldier is fighting at the front, no one is going to profit from the war. The good soldier at the front will know

that we still prize his life above the lives of traitors. He will also know that in this fight for the first time in history no one will profit while others bleed to death. Whoever hopes, therefore, to enrich himself in these fateful months or years, will gain no riches, but only death."⁵⁷

The Nazis claim that their price and tax policies⁵⁸ have made war profiteering in Germany impossible. Data on corporate earnings and dividends for 1940 are not available.

The Financing of the War

Rationing and wage and price stability are important elements in the complex of methods by which the Nazi Government planned to facilitate the financial conduct of the war. Their chief importance lay in the manner in which they were expected to prevent inflationary tendencies and to release funds for the fiscal and credit operations of the government.

It has been pointed out by students of German economic life that the Reich's financial position on the eve of the war in September 1939 showed both certain weaknesses and some strong points for the war tasks which lay ahead. During 1933-39 the Nazi Government had spent about 90 billion marks on reemployment programs and on rearmament. Towards the end of the period, in August 1939, there were undoubtedly signs of incipient currency and credit inflation. The German capital market had been over-taxed, the banks were having difficulty in placing long-term loans (some 3 billion marks issued in the last quarter of 1938), and bond prices were sagging. The "new financial plan" which had been inaugurated on March 20, 1939, and which was to spread the cost of rearmament over a period of years by the issue of tax certificates (*Steuer Gutscheine*)⁵⁹ antici-

pating future tax revenue, was not operating well.

On the other hand, the Nazi Government had acquired a certain experience in handling financial operations and had worked out a fairly clear idea as to the possibilities of mobilizing the financial resources of the country for public purposes. On June 15, 1939, it had also reorganized the Reichsbank to enable it to play the large part in government financing which had fallen to it. According to the new law, the Reichsbank was converted from an independent bank of issue into a government institution directly responsible to the Reich Chancellor who alone was to determine the amount of credit which the bank might extend to the government. All existing restrictions limiting government borrowing were removed. Gold was declared to be subsidiary as a basis and a cover for the currency. The new principle on which the stability of the currency was to be based was that of a "Labor Currency" (*Arbeitswährung*) which consisted in the maintenance of a "reasonable proportion between currency circulation and the quantity of goods produced by German labor."

The financing of the first year of the war by Germany was thus a problem of overcoming the weaknesses in its financial position and of using its experience in the most effective way possible for the task at hand. How that was done is the subject of this section.

Principles and Program

The basic Nazi idea of war financing is that it is primarily a matter of the allocation of productive resources and of the distribution of the national income between war needs and civilian consumption. This idea was clearly formulated by Dr. Funk, the Reich Minister of National Economy, in a speech delivered February 2, 1940, as follows:

"The financing of the war is not so much a money problem as a problem of the production of goods. This means that the

⁵⁷Der Deutsche Volkswirt, December 1, 1939, p. 240.

⁵⁸For tax measures see section, "Public Works and Housing."

⁵⁹See part I of this volume, "Public Works and Employment Planning in Germany, 1933-39," p. 30.

increased expenditures of the state in wartime must be covered by withdrawing a significant portion of the national income from civilian uses and applying it to the production of goods necessary to the conduct of war. This shift in the use of the national income is accomplished by rationing all essential goods and raw materials; by deflecting labor, credit, capital and foreign trade from channels unessential to the conduct of war to those necessary to it; and finally, by prohibiting the production of certain kinds of goods altogether. The purchasing power thus released must be methodically mobilized for the purpose of financing the war.

"The art of war financing consists in the ability to preserve the saving power of the people despite a sharp increase in taxation. One cannot solve these problems by the application of technical financial methods. Therefore we reject as methods of war financing an open money devaluation by raising prices and wages, or a concealed devaluation through credit extension without an insured increase of production and without an increase in the productivity of the economy. In wartime it is more necessary than ever before to increase the will to achievement as well as achievement itself in all realms. Tax policy must be based on considerations such as these.

"A special problem arises through the accelerated depletion of stocks without the possibility of restoring them through taxation. If one were to tax away these reserves which appear as profits on the balance-sheets, one would be taxing away actual substance (material). Our industry needs reserves, however, to enable it to continue under difficult war conditions and also to enable it to accomplish the necessary restoration of stocks after the end of the war either from its own means or with the assistance of the banks. Therefore the banks must be kept solvent. For war financing it is necessary to bring to life the so-called 'dead funds' ("*toten Kassen*") to cover the increased expendi-

tures of the state. Under all circumstances, however, the liquidity of the economy must be considered."⁶⁰

The program of German war finance formulated by the decree of September 6, 1939, is in line with these general principles. The program provided for:

1. Drastic increases of taxes.
2. Lowering of prices and wages to effect reductions in the cost of war supplies to the state.
3. Reduction of expenditure through a 50 percent savings on nonmilitary expenses, such as public construction.
4. Short- and long-term borrowing.

The wage and price policies outlined in this program had to be modified, as described in the last section. The changes in the construction program are considered in the following section. In this section it is thus necessary to survey the methods by which the tax and borrowing programs were carried out.

The Part of Taxation

From the outset the Nazi Government was determined to cover as large a part of war expenditure as possible by tax revenue. Such policy was in line with the general principles outlined above, but specifically two considerations were cited in its support. First, that it was not desirable to defer the payment for the war to the future. Second, that taxation was the most effective way of absorbing the increase in mass purchasing power and thus avoiding inflation.

The War Economy Decree of September 4, 1939, thus provided for drastic increases in taxation. The main increases were as follows:

1. A 50 percent increase in personal income-tax rates on incomes exceeding 2,400 marks a year or wages exceeding 234 marks a month; this "war surtax" was not to exceed 15 percent of the income, and the

⁶⁰ Deutsche Bank, February 29, 1940, p. 22. See also Weekly Report of the German Institute for Business Research, September 5, 1940.

income tax and surtax together were not to exceed 65 percent of the income.

2. A "war surtax" amounting to 20 percent of the retail price on tobacco, beer, liquors, and champagne (but not wines).

3. A special levy on states and municipalities equivalent to 15 percent of their contributions under the income, corporation, and turnover taxes collected by the Reich. The states and municipalities may not shift this levy to their citizens in the form of higher taxes, but must raise the necessary funds by economies in their own administrations.

During October 1939 three new measures were passed which affected the revenue of the government:

1. A decree of October 11, 1939, provided that businessmen must turn over to the Treasury the increased profits which they had derived from the reduction of wages brought about by the decree of September 4, 1939, with regard to special overtime, Sunday, and holiday pay, as well as the general lowering of wages where "possible." The idea was that no private person should benefit from the increased burdens placed on the working population by the war. The actual results of this decree were negligible due to the modification of the September 4th decree, and to the fact that general wage reductions were not carried into effect as local officials were loath to incur the discontent of the workers.⁶¹

2. A decree of October 19, 1939, on the collection of the 1 billion RM "contribution" from the Jews which had been imposed in 1938. The four installments towards this sum, paid on a basis of an assessment of 20 percent of the Jews' property, had failed to produce the desired amount. The October decree raised this quota from 20 to 25 percent of the property of the Hebrew community. Persons liable for this "contribution" were to make their last payment by November 15, 1939, which was expected to yield 200,000,000 RM.

⁶¹See section of this report on "The Control of the Labor Supply."

3. A decree of October 22, 1939, repealed the provisions of the "New Financial Plan" of March 20, 1939. This plan was based on the issue of tax certificates by which the Reich and other public authorities hoped to pay 40 percent of their current "extraordinary" expenditures. The October 22 decree discontinued the issue of tax certificates of classes I and II as of November 1, 1939, but the privileges attached to the uninterrupted holding of these certificates in regard to the assessment of income taxes were not affected.⁶²

It was semiofficially estimated at the time that the wartime taxes would yield about 5 billion marks additional revenue a year.⁶³ The experience of the first year of war, on the whole, justified these anticipations. During the fiscal year from April 1, 1939, to March 31, 1940, the receipts from taxes were 23,575,100,000 Reichsmarks as compared to 17,712,100,000 marks for the year 1938-39. This was an increase of 5,863,000,000 marks. The increase came largely from the income and property taxes as shown in table 3.

It would seem from the incomplete data published that the rate of increase in tax revenue is decreasing as a result of a diminution in the rate of increase of the regular prewar taxes. In the first place, owing to the blockade, the revenue from customs duties has diminished. Second, the tax certificates of class I began fall-

Table 3.—Tax Receipts in Germany, 1938-40

Source of tax	Fiscal year 1938-39 (RM)	Fiscal year 1939-40 ¹ (RM)
Property, income, and turnover taxes	13,061,000,000	² 18,235,500,000
Customs revenue and consumption taxes	4,651,100,000	5,339,600,000
Total	17,712,100,000	23,575,100,000

¹Figures of 1939-40 are for Greater Germany (including Austria and Sudetenland).

²Includes war surtaxes.

Source: *Deutscher Reichsanzeiger*, No. 151, July 1, 1940.

⁶²The total amount of tax certificates of classes I and II issued till the end of July 1939 had been 2,448,700,000 RM.

⁶³About 2.5 billion marks from increased income taxes; about 1,250,000,000 marks from the consumption taxes; and about the same from the contribution of the states and municipalities.

Table 4.—Revenue From Taxes of the Reich Government, 1936-40

Period	Amount of tax revenue (RM)
1914	4,000,000,000
1932-33	6,600,000,000
1936-37	11,470,000,000
1937-38	13,960,000,000
1938-39	17,690,000,000
1939-40	23,580,000,000
April-September 1939	11,400,000,000
April-September 1940	13,418,000,000

ing due and the government had to accept them in payment of taxes. The amount turned in from December 1939 to March 1, 1940, averaged about 170,000,000 Reichsmarks a month.

The changes in government revenue from taxation may be seen in table 4. While affected by changes in territory and in methods of taxation, the figures given are still suggestive of both the steady increase in tax revenue under the Nazi regime and of the slowing up of the rate of increase after the outbreak of the war.

It is estimated that during the first year of the war, the German Government covered about half of its expenditures out of taxation. The war expenditures were at an average rate of 4 to 4.5 billion marks a month, and the revenue from taxation averaged about 2 billion marks monthly. The government obtained the largest share of the other half through borrowing at average rate of about 2.6 billion marks a month. The amounts borrowed, and the consequent increase in the Reich's public debt, varied considerably from month to month, in accordance with the needs of the military situation. Thus, in May 1940 the Reich's recorded debt increased by over 5 billion marks, while in June 1940 the increase was 1,554,800,000 marks.

The total increase in the public debt during the first year of the war was over 29 billion marks, or about 78 percent. The details of the change in the Reich recorded public debt are shown in table 5.⁶⁴

⁶⁴The totals given in the table do not include the outstanding "Sonderwechsel" and "Blockwechsel" issued before 1939, nor the army promissory notes issued since the beginning of the war.

Table 5.—Total Recorded Public Debt of German Reich, 1939-40

Reich debt	Aug. 31, 1939 (RM)	June 30, 1940 (RM)	Aug. 31, 1940 (RM)
Old Debt, i.e. reval- orized and other debts contracted prior to Apr. 1, 1924	3,235,800,000	3,076,100,000	3,076,100,000
New Debt:			
Foreign	1,253,200,000	1,236,800,000	1,236,800,000
Domestic long term and intermediate term	20,555,400,000	29,268,000,000	—
Domestic short term	9,086,700,000	22,780,200,000	—
Tax certificates	3,294,100,000	3,783,700,000	—
Total recorded debt (including tax cer- tificates outstand- ing)	37,425,200,000	60,144,800,000	166,542,000,000

¹During the second half of 1940 the cost of the war increased and government borrowing mounted rapidly. At the end of December 1940 the total recorded indebtedness of the Reich was estimated at 79,000,000,000 RM. See *Foreign Commerce Weekly*, Mar. 8, 1941, p. 388.

Source: *Foreign Commerce Weekly*, Bureau of Foreign and Domestic Commerce, October 19, 1940.

As may be seen in table 5, the German Government's war borrowing was in the main in the form of short-term and intermediate-term loans.⁶⁵ The short-term borrowing consists chiefly of the sale, in the open market and to banks, of Treasury bills and notes, and tax certificates, and in direct advances from the Reichsbank to the Treasury for current expenses which appear on the Reichsbank's books as "miscellaneous assets."⁶⁶ This method of war financing follows, on the whole, the methods used in financing the prewar public works and rearmament.⁶⁷

Despite its large demands for funds, the German Government made efforts to reduce the rate of interest in order to reduce the cost of the war. On September 22, 1939, the Reichsbank reduced the official bank rate from 5 to 4 percent. On April 9, 1940, the rediscount rate was further reduced from 4 to 3½ percent.⁶⁸ The government

⁶⁵Exceptions to this policy were the October 1939 Reichsbahn loan of 500,000,000 RM, half of which was subscribed in advance by savings banks and other credit institutions; 229,400,000 RM received during September 1939 from banks and insurance companies for bonds of the 4½ percent Reich loan of 1939; and 400,000,000 RM granted by the Rentenbank in the form of the newly issued Rentenbank notes in denominations of 1, 2, and 5 marks.

⁶⁶The short-term loans include also the so-called "Li-Anleihen" or "liquidity loans." These loans have been issued since 1935, and are sold exclusively to savings banks and other credit and insurance institutions as a means of absorbing their liquid funds.

⁶⁷See part I of this volume, "Public Works and Employment Planning in Germany, 1933-1939."

⁶⁸Interest rates on savings deposits were lowered from 3 to 2½ percent.

also reduced the interest rate on "Li-Anleihen" or "Liquidity Loans" from $4\frac{1}{2}$ to 4 percent.

Taking advantage of lower interest rates and of easy conditions in the money market, the government in the spring and summer of 1940 floated several series of intermediate and long-term "Four Percent Treasury Notes of 1940," with terms from 5 to 20 years. Total Treasury notes issued between March and the middle of October 1940 amounted to 5,750,000,000 RM.

The government was able to carry out its financial operations during 1940 owing to the abundance of available funds. Complete data on the subject are not available. The deposits of the Five Big Banks (private) increased in 1939 from 7,626,000,000 marks to 8,802,000,000 marks or 15 percent, and the increase continued in 1940. On August 11, 1940, Dr. Funk, the Minister of National Economy, stated that the savings deposits of German savings banks at the end of June 1940 were 24 billion marks or an increase of 5,140,000,000 marks over June 1939. These figures include deposits of Austria and Sudetenland but still for Germany alone the increase has been estimated at over 3 billion marks during this period.⁶⁹

The easy condition of the money market and the availability of funds for government borrowing are explained by the general economic policies of the government, some of which were described above. Specifically, the following factors have been of greatest importance:

1. The accumulation of excess purchasing power by the public (as a result of strict rationing of food and the shortage of most consumer commodities) has led to the large increase in savings deposits.

2. The shortage and strict rationing of raw materials and labor, and the reduction of operations by many industrial and com-

mercial firms has resulted in an accumulation of large liquid funds by these concerns.⁷⁰

3. The government control of capital issues by private corporations. The Reich Government has practically put an embargo on stock issues, and has allowed plant expansions only through bond issues in cases where expansion is needed for national defense and under the Four-Year Plan.⁷¹

Currency Expansion

With the memory of the postwar inflation of 1921-23 still rankling in the minds of German citizens, it is understandable that the Reich Government had tried to hold currency expansion to a minimum. Still the government had recourse to the printing press, especially during the first months of the war. Between September and the end of December 1939 the total currency circulation in Germany expanded by 3,645,000,000 marks or 33 percent. From January to March 1940, the increase in currency was 198,000,000 marks or 1.4 percent. The increase in currency circulation during these months is shown in table 6.

Table 6.—Currency Circulation in Germany, August 1939—March 1940

Kind of currency	Aug. 23, 1939 (RM)	Dec. 30, 1939 (RM)	Mar. 31, 1940 (RM)
Reichsbank notes-----	8,710,000,000	11,798,000,000	12,176,000,000
Rentenbank notes ¹ -----	372,000,000	967,000,000	850,000,000
Coin-----	1,780,000,000	1,742,000,000	1,579,000,000
Total-----	10,863,000,000	14,507,000,000	14,705,000,000

¹These notes in denominations of 1, 2, and 5 RM were issued by the bank to replace the metal coins withdrawn from circulation in order to create a "metal reserve fund."

⁷⁰The liquidity of industrial and commercial enterprises has been an important influence in the upward movements of the German stock market, at times approaching speculative boom conditions. This, as well as several other phases of the general financial developments of the year, is not considered here for lack of space and time.

⁷¹According to the Deutsche Bank, *Wirtschaftliche Mitteilungen*, Heft 6, 1940, bonds in the amount of 600,000,000 marks were issued by 27 corporations during the first half of 1940. A large part of these issues was for the construction of new factories under the Four-Year Plan for the production of synthetic gasoline. According to the *Frankfurter Zeitung*, the industrial bond issues in 1940 amounted to 883,000,000 marks as compared with 553,000,000 in 1939. See *New York Times*, January 27, 1941. It is also reported that lately there has been a shift in industrial financing from bonds to shares.

⁶⁹*Frankfurter Zeitung*, August 15, 1940. The *New York Times* reported that Dr. Kurt Lange, Vice President of the Reichsbank, estimated the increase in savings deposits since the beginning of the war at 8,500,000,000 marks. See *New York Times*, January 27, 1941.

Table 7.—Financial Condition of the Reichsbank, by Months, 1940

Year 1940	Gold and foreign exchange reserve (RM)	Bills and checks discounted (RM)	Collateral loans (RM)	Eligible securities (RM)	Note circulation (RM)	Call deposits (RM)	Miscellaneous assets (RM)	Note cover (percent)
Jan. 31-----	77,433,000	11,142,877,000	32,592,000	373,550,000	11,505,192,000	1,627,726,000	1,950,466,000	0.67
Feb. 29-----	77,336,000	11,824,795,000	37,327,000	172,194,000	11,877,237,000	1,559,289,000	1,779,330,000	0.65
Mar. 30-----	77,632,000	12,241,518,000	30,693,000	143,604,000	12,175,551,000	1,759,768,000	1,821,856,000	0.64
Apr. 30-----	77,509,000	12,187,588,000	30,901,000	220,683,000	12,479,837,000	1,714,187,000	1,926,893,000	0.62
May 31-----	77,329,000	12,568,503,000	30,926,000	141,851,000	12,594,182,000	1,470,017,000	1,434,368,000	0.61
June 29-----	77,150,000	12,611,194,000	25,064,000	143,003,000	12,765,345,000	1,853,646,000	1,862,584,000	0.60
July 31-----	77,574,000	12,613,054,000	28,459,000	114,277,000	12,749,607,000	1,820,436,000	1,814,364,000	0.61
Aug. 31-----	77,202,000	12,890,778,000	30,617,000	55,882,000	13,026,452,000	1,607,597,000	1,851,426,000	0.59
Sept. 30-----	77,550,000	13,206,452,000	15,765,000	49,833,000	12,846,549,000	1,794,870,000	1,796,875,000	0.60

Source: Based on reports published in *Foreign Commerce Weekly*, Bureau of Foreign and Domestic Commerce.

The increase in the note circulation of the Reichsbank during 1940, as well as the changes in the other items which reflect the various financial operations of the government, are shown in table 7.

Nazi officials deny that the increase in note circulation is evidence of currency "inflation" in Germany. They justify the increase on the grounds (1) that German currency is being used in the Polish incorporated provinces, in Alsace and Lorraine, and (2) that the armed forces are keeping large cash reserves to meet current payments.

Whether this is a full explanation or not, technically inflation may be said not to exist since none of its usual manifestations can be observed in Germany. But the essential relationship underlying inflation—an excess of purchasing power as compared with available goods—is there. Its overt manifestations are held in check by the system of rationing, price control, heavy taxation, and corraling of all unused funds in the service of the government. So far as the living conditions of the people are concerned the results are not very much different.

Public Works and Housing

After 1935 the Nazi program of public works became linked largely to rearmament and military aims. The building of residential houses and dwellings declined, and during 1938-39 there was an increasing shortage of dwellings.⁷²

⁷²The deficiency in dwellings (as measured by the number of families not having a dwelling of their own) was estimated by the Reichskreditgesellschaft at 1½ million. See "Public Works and Employment Planning in Germany, 1933-39," footnote 91, p. 37.

The war accentuated the tendencies indicated above. Priority in public construction in Germany was given to military purposes such as the extension of the West Wall to the North Sea, the fortification of the southern defenses, the building of new plants for munition factories, and the making of synthetic materials. Work on the *Reichsautobahnen* (National Super-Highways) was considerably reduced.

Public construction was also carried on in the occupied territories following the exigencies and events of the war. In Poland bridges and railroads were rebuilt, but very little was done to reconstruct the Polish cities. After the collapse of France, thousands of workers who had been occupied on the West Wall were shifted to the work of repairing the war damage to bridges, canal locks, railroads, and ports, in France, Belgium, etc. Prisoners of war were used in large numbers for this work.

It was the intention of the Nazi Government to carry on as much public construction and housing in Germany during the war as possible. It was planned that the volume of public construction in 1940 should be about 75 percent of peacetime activity in recent years. It was also considered necessary to maintain the building of dwellings, especially to meet the new needs created by the war as a result of changes in the location of industry.

The government building program was upset at first by unfavorable weather conditions. The severe frost during the winter 1939-40, which lasted well into March, paralyzed all open-air building activities. The frost also created transportation

difficulties which affected adversely the distribution of building materials.

It thus became necessary to execute the building plans made for the whole year in a much shorter period. To carry out the original building plans would thus have meant employment of the construction industry at almost peacetime levels during the short building season. This was impossible in view of the shortage of labor and of the requisitioning of construction machinery for military purposes.

Priorities were therefore introduced. On February 16, 1940, Dr. Todt, the Reich's General Commissioner for the Building Industry, issued a decree prohibiting all new building (*Neubauverbot*). The purpose of the decree was to subject all building activity to a more rigid control and to effect a better adjustment of the limited supplies of material, labor, and equipment at the disposal of the building industry.

The decree provided exemptions from the general prohibition of new buildings in the following order: (1) projects of military importance, (2) building projects the value of which did not exceed 5,000 marks as well as all repair work necessary for the maintenance of existing buildings in proper condition, and (3) construction for which special permits had been issued by the Commissioner. The latter group comprised mainly industrial plants built in order to strengthen Germany's self-sufficiency in respect to essential raw materials, such as new factories for the production of gasoline, rubber, and other synthetic products.

With regard to residential building, it was planned to complete about 200,000 dwellings in 1940 as against 220,000 in 1939. The carryover of unfinished buildings from 1939 was unusually large (about 150,000 dwellings whose completion was interrupted by the war). The greater part of the remaining 50,000 dwellings were workers' dwellings in places with rapidly growing war industries and inadequate housing facilities.

After the military developments of May-June, 1940, the Nazi Government at once took steps to increase its building activities. A large, though unknown, number of building-trades workers engaged in the construction of land fortifications were released for other construction work. This permitted some resumption of private building, in particular of residential construction. Work was also resumed in Berlin and other large cities on some of the unfinished public buildings. Contingents of war prisoners were put to work on the construction of several sections of the *Reichsautobahnen* (National Super-Highways) on which work had been suspended or curtailed after the outbreak of the war. The government began the building of a power plant on the Dunaec River in Poland, which is to be one of the largest in Europe, and several dams on the Vistula. Steps were taken to hook up the Dutch power plants with the power system of western Germany. It is also to be kept in mind that much of the work done under the Four-Year Plan falls within the scope of public works.

As in other industries, so in the building trades, the Nazi Government has used the devices described previously to marshal as large a labor force as possible. In July 1939 the number of building workers in Germany was estimated at 1,900,000 of whom some 250,000 were employed in other industries. Between September 1939 and April 1940 about one-fourth of all building-trades workers were called to the colors. In August 1940, according to estimates, there were only a million men in the building industry, and the number could not be increased either through voluntary enlistment or conscription. The German Government was to make up for the shortage by using prisoners of war and foreign workers.

The results achieved in 1940 are not known so far as construction for military or strategic purposes is concerned. As to residential building, it is reported that between January and the end of June 1940, about 57,000 dwellings were completed, and

21,350 new ones started. The number of unfinished dwellings decreased from 170,000 on December 31, 1939, to 134,350 on June 30, 1940, and to 122,000 in August 1940.

The Nazi Government is featuring a large-scale housing program as one of the main tasks of postwar reconstruction. The German workers are promised "social residences" as one of the rewards for their contribution to the prosecution of the war. No details have been published as to the type of housing, financing, or any other aspects of the promised program.

The Organization of the War Economy

It has been pointed out repeatedly that the Nazi plans and policies during the first year of the war were largely a continuation of those which had been carried on since 1936 under the Four-Year Plan. The transition was from a state of preparing for war to the active prosecution of war, and the change was not a very radical one. In building up their Preparedness Economy (*Wehrwirtschaft*) the Nazis had had in mind the need for, and the ways of, bridging the change to a full war economy (*Kriegswirtschaft*).

This is true in matters of organization, as in those of policy. In September 1939 the Nazis had at hand instruments of economic and social control which could readily be turned to the purposes and uses of war. In a preceding section the structure of the Agricultural Estate was described and it was indicated how this structure, reinforced by the Food Control Offices, was used for the regulation of food rationing and for stimulating the wartime production of food and raw materials. The present section describes the industrial structure built up between 1934 and 1938 and the new agencies created in 1939-40 by means of which the Nazi Government is exercising its wartime control of production, prices, profits, wages, and of other aspects of the German war economy.

The Nazi Industrial System, 1933-39

In building their new industrial system, between 1933 and 1938, the Nazis were guided by four main considerations. First was the idea of a centralized and "coordinated" economy, subject to the political aims of the Nazi party and to the will of the state. The National Socialists rejected, of course, the liberal concepts of a "free" economy and they set politics above economics. The interests of the Folk (as interpreted by the leaders) were to determine economic policy, and this meant that state direction and regulation were to supersede "economic laws." Even the new economic organizations created by the National Socialists themselves were not to exert undue pressure on the formation of economic policy which was the prerogative of the party and of the state.

Second in importance was the accepted need of preparing for an eventual war. The National Socialists had clearly and definitely, from the very beginning, made the destruction of the Versailles Treaty their goal. An eventual war was thus more probable than not. This was taken into account at every point in their economic activities. After 1935, and certainly after the fall of 1936 which saw the inauguration of the Second Four-Year Plan, the tendency towards increasing state economic control was part of the expanding war preparedness. The rearmament of Germany in itself reacted on the economy as a whole, pushing it in the direction of state intervention. The preparations for economic mobilization were made just as carefully and elaborately as those for the mobilization of the armed forces.

A third influence was the effort of the Nazis to use older forms of economic organization as much as possible. German industry had been highly organized before 1933, and had been subjected to considerable governmental regulation. The associations of German industry had exercised an economic control far surpassing anything known in the United States. Industrial combinations

or cartels were an important factor in the control of production, marketing, and prices. It was good psychology on the part of the Nazis to take over some of the older forms and to mould them after their own new patterns.

A fourth factor was the spirit of opportunism in which the Nazis dealt with the industrial world. Largely supported at first by business interests and eager to fight only one war at a time, the Nazis made compromises with the industrial and business groups and introduced changes only gradually, in contrast to their energetic procedure in regard to labor and the farmers. While the first step to reorganize industry on Nazis lines was taken in the fall of 1934, the process was not fully completed until January 1938 when Dr. Schacht was replaced by Dr. Walther Funk, a prominent member of the Nazi party, as Minister of Economics.

In accordance with these considerations and on the basis of their general principles, the Nazis evolved between 1932 and 1939 a rather complex system of functional and regional organizations which were to canalize and guide all social economic activities. The central place in the system is given to the five so-called "estates." These are supplemented by the cartels and by a number of special agencies which deal with price fixing and with other economic problems.

The five "estates" (*Stände*) are as follows: (1) The Estate of Agriculture (*Reichsnährstand*),⁷³ (2) The Estate of Industry and Trade (*Organization der Gewerblichen Wirtschaft*), (3) The Estate of Handicrafts or Craft Guilds (*Reichsstand des Deutschen Handwerks*), (4) The Labor Front (*Deutsche Arbeitsfront*), and (5) The Estate of Kultur (*Reichskulturkammer*). For the purposes of the present report, importance attaches to the Estate of Industry and Trade and to such supplementary agencies as the cartels.

⁷³Described in the section of this report "Securing the Food Supply."

The Estate of Industry and Trade

The first step in the new organization of German industry was taken on February 27, 1934, when Reich Minister of Economy, Dr. Schmitt, promulgated the Law for the Preparation of the Organic Reconstruction of the German Economy. The law was a general one, authorizing the Minister of Economy to: (a) recognize associations as the sole representatives of their branch of trade or industry; (b) establish, dissolve, or amalgamate associations; (c) change and supplement the statutes and agreements of associations, and in particular to introduce the principle of leadership; (d) appoint and dismiss leaders of associations; and (e) compel employers and undertakings to join associations.⁷⁴

The organization did not, however, get under way at once in its present form. There was confusion in the minds of the Nazi leaders as to just what they should do with the authority they had given themselves in this law. At first, German business was organized into 12 or 13 main groups, at the head of each of which were the Leader of Business (*Leiter der gewerblichen Wirtschaft*) and his deputy.⁷⁵ These men were, in the main, industrialists or persons of a recognized conservative economic outlook, and it did not appear that the "organic reconstruction" of German economy would present a radical departure from the already existing set-up.

The Estate of Industry and Trade was organized more or less in its present form by the First Executive Decree (under the Law for the Preparation of the Organic Reconstruction of the German Economy), promulgated on November 27, 1934. This decree organized German economy both functionally and territorially into a unified structure

⁷⁴Associations for the purposes of the law are associations and federations of associations which are charged with the safeguarding of economic interests of employers and undertakings. See E. C. Donaldson Rawlins, *Economic Conditions in Germany to March 1936*, Dept. of Overseas Trade, London, p. 87.

⁷⁵H. Rolf Von Fritzsche, *Die Wirtschaft in Deutschland, 1937*, p. 26.

under the Ministry of National Economy. The organization embodied the three principles of compulsion, leadership, and "self-administration" which the Nazis have proclaimed as basic. The organization was made compulsory for all German economic enterprises. Failure to belong to it made any undertaking, or its responsible head, subject to heavy fines and to other penalties and disabilities. Each grouping within the Estate has a leader (*Leiter*) who is appointed, on the nomination of the leader of the next higher formation, by the leader of the formation which stands directly above the latter. In the case of the highest groups, the leader is appointed by the Reich Minister of National Economy himself. The leader or his deputy is the representative of the group, even for legal purposes. He gives all instructions to the manager or managers (*Geschäftsführer*) of his group in matters of current business.

All enterprises in industry and trade are assigned to some one branch of the Estate, in accordance with the type of economic activity in which they are engaged. Each enterprise has also to belong to the territorial organization in the district in which it is situated, and in case a business enterprise has plants in several districts, the management of each plant has to belong to the corresponding territorial unit. Both functional and regional units come together in the Reich Chamber of Economy which is under the direct control of the Minister of National Economy.

National Groups, Main Groups, Trade Groups, and Specialty Groups

The functional set-up of the Estate of Industry and Trade consists of six national groups (*Reichsgruppen*). These are industry, power, banking, insurance, trade, and handicrafts.⁷⁶ Of these, the national group *Industry* is the most important, and is

subdivided into seven main groups (*Hauptgruppen*) described below. The other five national groups have no main groups, but are subdivided into trade groups (sometimes called economic groups—*Wirtschaftsgruppen*) which, in turn, are subdivided further into specialty groups (*Fachgruppen*) and specialty sub-groups (*Fachuntergruppen*). Thus, the national group *Power* has two trade groups (electricity; gas and water); the national group *Banking* has six trade groups (private banks, public banks, savings banks, etc.); the national group *Trade* also has six trade groups (wholesale, import, and export trade; retail trade; restaurant and hotel trade; agents and middlemen, etc.). The national group *Handicrafts* has no trade groups, while *Transportation* is divided into seven trade groups (sea-going shipping, motor carriers, rail vehicles, etc.). Altogether the six national groups and transportation are divided into 55 trade groups which are further subdivided into 400 or more specialty and sub-specialty groups.

The national group *Industry* has the distinctive feature of being divided into main groups (*Hauptgruppen*). There are seven main groups: mining and metallurgy; machine manufacture and construction; iron and metalware; building and building materials; chemicals, paper and printing; leather, textiles and clothing; food and drink. The seven main groups are subdivided into 32 trade groups. Thus, mining and metallurgy are divided into mining, iron production, foundries, etc.; machine manufacture is subdivided into iron and steel making, vehicles, aircraft industry, etc. The trade groups are further subdivided into specialty groups and specialty sub-groups. Thus, the trade group, "machine construction," has a specialty group, "textile machinery," with a specialty sub-group, "spinning machinery." The individual concern belongs to the specialty sub-group in accordance with the type of production in which it is primarily concerned. Each of the above subdivisions maintains branch offices where these are necessary to the expeditious conduct of business.

⁷⁶There is also a transportation group. The latter, however, is subject to separate regulations since most of the transportation facilities of Germany are publicly owned and operated.

The trade (or economic) groups are, generally speaking, the most important functional subdivisions of the Estate of Industry and Trade.⁷⁷ Each trade group collects contributions from its members for the support of the apparatus, and draws up the budgets for the specialty and specialty sub-groups under it. The leader of each trade group may levy fines on the members (not to exceed 1,000 RM), and appeals in such cases may be made to the leaders of the national groups, whose decisions are final.⁷⁸

The leaders of the different groups and sub-groups are, in some degree, subject to control of the members. From time to time the latter may pass votes of confidence or lack of confidence in their leaders, but adverse votes may be overridden by the leader of a higher group. Each leader has an appointed advisory council, the functions of which are limited. The council must be consulted before the budget is drawn up or the assessments on the membership fixed. The council examines the group's accounts, and its opinion must be heard before decisions are taken with regard to expenditures, purchases of real estate, appointment of managers, or the issuance or amendment of existing statutes. All formations or groups must call assemblies at least once each year at which the membership is informed of the activities and financial situation of the group. At this time the members may also pass their vote of confidence in their leader.

The functions of this complex apparatus, as has been stated above, developed gradually between 1934 and 1938. The organization was not intended by the Nazis to plan German economy, but merely to afford the state a means by which it could effectively control all phases of economic life

⁷⁷As indicated above, the main groups exist only in the Reich group Industry, and are merely internal subdivisions of this Reich group, having no independent legal status. They are loose councils bringing together from time to time leaders of allied industries.

⁷⁸Rawlins, *op. cit.*, p. 88.

so far as the necessity of such control might arise. The Estate of Industry and Trade was also forbidden to deal with matters pertaining to the control of prices or to the regulation of marketing. The Nazis did not wish the Estate to become a sort of giant trust or cartel with monopolistic powers over the national economy. Price and market regulation was reserved to other authorities and organizations described below. Wage problems also fall within other jurisdictions.

Specifically, the trade groups of the Estate of Industry and Trade were assigned the following tasks by the Minister of National Economy by an order dated July 7, 1937:

1. Technical instruction and enlightenment of the members; instruction regarding the introduction of new technical processes, new manufacturing materials, and technical progress in related fields.
2. Economic instruction of the members as to the important economic questions of their special field (state of the market for processed and raw materials used in the manufacture of their products).
3. Advising the members with a view to improving methods of work and management to increase efficiency (advice to members on shop management and cost accounting).
4. Aid in cartel questions but with the proviso that the organization of industry may not, until the issuance of rulings to the contrary, carry out measures for the control of markets.
5. Dealing with technical questions of tax policy.
6. Dealing with questions of transport rates having more than local importance.
7. Dealing with questions of trade policy and foreign exchange.
8. Promoting research and training institutes whose work benefits the special branch in question.
9. Dealing with questions of defense economy and air-raid protection.
10. Giving expert opinion on matters within the special field of the trade group.

11. Aid in all other questions of commercial law and social policy within the special field.

12. Collaboration in the training of new workers.

13. Collaboration in the organization of exhibitions and fairs.⁷⁹

The national and trade groups also have a territorial form of organization. They form 14 district groups (*Bezirksgruppen*) in the 14 industrial districts into which Germany is divided. Each of the district groups may form sub-groups (*Bezirksuntergruppen*) which in turn may form local sections (*Ortsgruppen*). Such territorial groups are formed where, and as required by, the nature of the trade or industry. Thus, the national group *Trade* has a wider territorial structure than other national groups. On the whole, the Nazis have permitted these organizations to remain relatively flexible. Not all functional groups have exactly the same structure. In some cases the specialty sub-group may be much bigger and more important than the specialty group itself, or a regional office of a specialty group may be more important than the Berlin office, due to the concentration of the whole industry in a particular region.

The function of the local and district groups is to attend to matters of interest to the members of a trade group within a given locality and to report to their respective national groups.

The Chambers of Industry and Commerce

Side by side with the functional set-up, the Estate of Industry and Trade has a widely ramified territorial organization. The basic units of the territorial system are the Chambers of Industry and Commerce (as well as the Chambers of Handicrafts described below) referred to also as Chambers of Commerce. There are over 100 of these Chambers, and every industrial or

commercial concern must belong to one of them.⁸⁰

The Chambers of Commerce are statutory corporations and are the representative bodies of industrial and trade enterprises in a district. The duty of the Chambers of Commerce is to attend to all matters which jointly affect their members and to advise the latter. In addition to questions of a general economic-political nature the Chambers deal with questions of taxation and foreign exchange, export promotion, vocational training, training of apprentices, and commercial arbitration. They also have competence, in connection with government orders, for assisting the authorities in the promotion of trade and industry. By decree of the Minister of National Economy of August 20, 1934, the Chambers of Commerce were remodelled on the leadership principle. Their leaders, or presidents, are appointed and recalled by the Minister of National Economy who controls the Chambers. The presidents are assisted by an Advisory Council, whose members the Minister appoints.⁸¹

The 100 or more local Chambers of Commerce are organized into the Central Association of Chambers of Industry and Commerce (*Arbeitsgemeinschaft der Industrie- und-Handelskammern*)⁸² which has its seat in Berlin. Its leader and his deputies are also appointed by the Minister of National Economy to whom they are responsible. The Central Association acts as an agency for the exchange of observations and experiences reported from the different territories. It also furnishes material made available by the work of other Chambers. Each individual member cannot always determine from his own standpoint whether local

⁸⁰Chambers of Commerce existed in Germany under the Weimar Republic. They were taken over by the Nazis in August 1934, given a public statutory character, and reorganized so as to fit into the general scheme of the Estate of Industry and Trade.

⁸¹Rawlins, op. cit., p. 91.

⁸²The Central Association is also sometimes designated as the Cooperative Working Corporation of the Chambers of Commerce. This is a literal translation of the German name.

⁷⁹Dr. Heinz Müllensiefen, *Freiheit und Bindung in der Geordneten Wirtschaft*, p. 164.

economic circles express views held generally throughout Germany, or whether the matters with which it is concerned are of importance only to certain sections of the economy or to the German economy as a whole. It is also frequently difficult to determine within the territory of an individual Chamber whether the fact that local firms feel government measures to be burdensome is due to the actions and attitudes of subordinate departments only, or to orders issued by the central authorities. It is also most useful for local Chambers to know how other Chambers have dealt with the problems with which they are confronted. The Central Association thus makes possible a constant exchange of experience between the individual Chambers of Industry and Commerce, both with regard to matters beyond the regional scope of the individual Chambers and to those of purely local interest.

The Central Association is financed by contributions from the member Chambers. One of its most important functions is that in it are represented not only the German Chambers but also the economic associations of German industrialists and merchants abroad as well as the foreign trade offices.

The Chambers of Commerce play an important part in bringing members of the local business community together and in linking them with the central economic and political authorities.

The Chambers of Handicrafts

Handicrafts are one of the six national groups, but with a somewhat different organization. The national group Handicraft has no trade groups, but is subdivided into 52 Reich Guild Associations (*Reichsinnungsverbände*). It also has a territorial set-up consisting of 60 local Chambers of Handicrafts (*Handwerkskammern*) which are unified into the Association of Handicraft Chambers.⁸³

⁸³ This territorial organization forms the Estate of Handicrafts which cooperates with the Estate of Industry and Trade.

At the head of the national group *Handicrafts* is the Reich Master Handicraftsman (*Reichshandwerksmeister*) who is Director of the Reich Group *Handicrafts* and chairman of the Association of Chambers of Handicrafts (*Handwerkskammer*).

The Reich Economic Chamber

The Estate of Industry and Trade is under the Reich Economic Chamber which is its supreme body. This Chamber focuses, so to speak, both the functional and geographic organizations of the Estate and gives expression to the joint interests of the organized national economy.

The Chamber is a representative body, in a sense, since it is composed of delegates from the several organizations composing the Estate of Industry and Trade. Represented in the Reich Economic Chamber are:

1. The six national groups as follows: Industry has one representative for each of its seven main groups. Trade, banking, power, handicrafts, and insurance have one representative each. This means a total of 12 from the national groups.
2. The 18 District Chambers of Economy (also known as Industrial Boards) described below.
3. The Central Association of the Chambers of Industry and Commerce.
4. The Associations of the Local Handicraft Guilds.
5. Transportation Organization.

The total number of representatives in the Economic Chamber has varied from 30 to 40.

The Chamber has an independent legal status, but is subject to the control of the Minister of National Economy. The latter appoints the Director of the Chamber and as many managers as he may deem necessary. The offices of the Chamber are in Berlin, in the former offices of the Federation of German Chambers of Commerce.

The Reich Economic Chamber has an Advisory Council composed of the leaders or directors of the various organizations

represented, as well as of representatives from several other agencies such as the Agricultural Estate and the Municipalities. It is through this Advisory Council that the Chamber carries out its task of coordinating its policy with that of other economic groupings and agencies.

Complementary to the Reich Economic Chamber are the District Chambers of Economy or Industrial Boards (*Wirtschaftskammern*). There are 18 such Chambers for the 14 industrial Districts of Germany; one for each of 10 districts and two each for 4 districts where economic activities are too extensive to be handled by one Chamber. Each of the 18 Chambers is a regional replica of the Reich Economic Chamber. It unites within itself all the economic organizations and enterprises of the district, both functional and territorial. Each District Chamber has a leader assisted by two deputies, one of whom is the regional representative of the handicraft group and the other is appointed by the Minister of National Economy.

The District Chambers have no legal status and carry out their functions through the regional offices of the national groups and through the Chambers of Commerce. But they play an important part in the territorial organization of the Estate somewhat analogous to that of the trade groups in the functional system. They are, in fact, central clearing houses for all regional problems, whether these be the problems of a group of similar industries in the region or of all economic enterprises and organizations of enterprises within a given area. Each District Chamber has an Advisory Council, composed of the leaders of its various departments, the chairmen of the member Chambers of Industry and Commerce, the local branches of the Ministry of the Interior, the Agricultural Estate, the Chambers of Handicrafts, and the Transportation Organization.

How the Estate Operates

The role which the Estate of Industry and Trade plays in German economic life

may perhaps be made clearer by a description of the relation of a typical concern to the whole organization. Thus, a manufacturer of iron pots and pans in the city of Düsseldorf is a member of the local Chamber of Industry and Commerce of the city of Düsseldorf, and is represented in the Department for Industry of the local Chamber. If he is of sufficient importance in the community he will himself sit on the Council (*Beirat*) of the Department for Industry and may even be a member of the Advisory Council of the Chamber of Industry and Commerce. Problems of local significance raised by the manufacturer will be handled through the Department for Industry of the Chamber of Industry and Commerce and if the problems are of sufficient importance will be handled by the District Chamber of Economy through its Department for Industry. If necessary the questions may be taken from there to the Reich Economic Chamber.

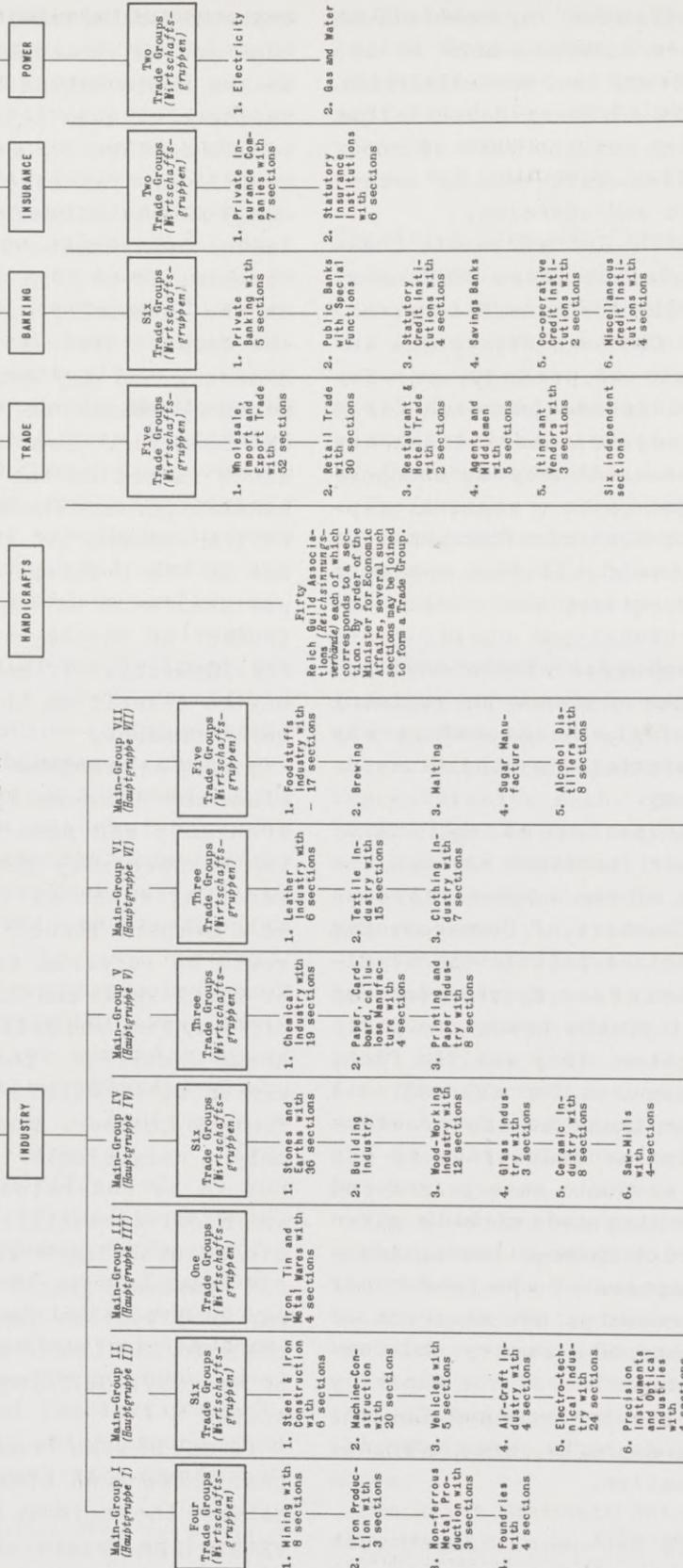
So far as problems affecting the industry alone are concerned, the manufacturer of iron pots and pans will address himself to the Specialty Sub-Group for Household Wares of which he is required by law to be a member. Thence an important question would be referred to the Specialty Group of Metal Wares and through the Trade Group of Iron, Tin, and Metal Wares to the National Group *Industry*. Thence, if the question warrants, it will be referred to the Reich Economic Chamber. This description concerns only a very simple illustration and it is not to be understood that all questions are handled similarly. For example, questions involving a large government order for armaments granted to the Krupp interests may very well be handled directly between the individual manufacturer and the Minister of Economy, omitting all the intermediate steps.

It may be seen from the above description that there is no clear line of demarcation between the regional and functional systems within the Estate of Industry and Trade. In case of jurisdictional disputes between them, the Reich Ministry of National Economy

ESTATE OF INDUSTRY AND TRADE
FUNCTIONAL STRUCTURE

MINISTER FOR ECONOMIC AFFAIRS

SIX NATIONAL BRANCHES OF BUSINESS:
(Reichsgruppen)



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may decide the point. A commission of nine members has been formed in the Reich Economic Chamber to investigate and render advisory decisions in such matters. The entire structure may perhaps be more easily visualized by examining the three charts (pp. 78, 80, and 82).

The "Estate of Industry and Trade," the Cartels, and the Price Commissioner

German industry had been highly cartelized under the Weimar Republic. In contrast to the attitude prevailing in this country, cartelization was not, in itself, regarded as an evil. The government had passed certain measures by which it hoped to nullify some of the worst abuses of economic concentration, but on the whole it regarded economic combinations as a means for maintaining order in the economic life.

During their struggle for power, the National Socialists had been outspokenly opposed to the cartels in Germany as the representatives of "demo-plutocratic" capitalism. They appealed to the small independent producer and businessman, promising to dissolve the cartels when they came to power. With the assumption of the government, however, the Nazis found that the cartels were one of the most convenient instrumentalities for the establishment of far-reaching control over German economy, and they accordingly took a new line with regard to them.⁸⁴

The basis of National Socialist cartel policy was laid in the Compulsory Cartel Law of July 15, 1933 (*Zwangskartellgesetz*). Under this law the Reich Minister of National Economy was authorized to regulate existing combinations, form new ones, etc.⁸⁵ The most important provisions of the law were sections one, seven, and eight. Section one read:

"The Reich Minister of Economy can, in the interest of market regulation, combine

concerns into syndicates, cartels and other forms of combination and agreement, or he may compel concerns to join already existing associations when it seems necessary with due consideration of the interests of such concerns as well as the interest of the economy as a whole or of the general welfare."⁸⁶ Section seven contained provisions to the effect that when the special needs of any branch of industry demanded, the Minister of National Economy could prohibit the creation of new enterprises, the increase of plant or of production in existing plant for as long as he deemed necessary. Section eight gave the Minister the power to determine the extent to which existing plant was to be utilized.

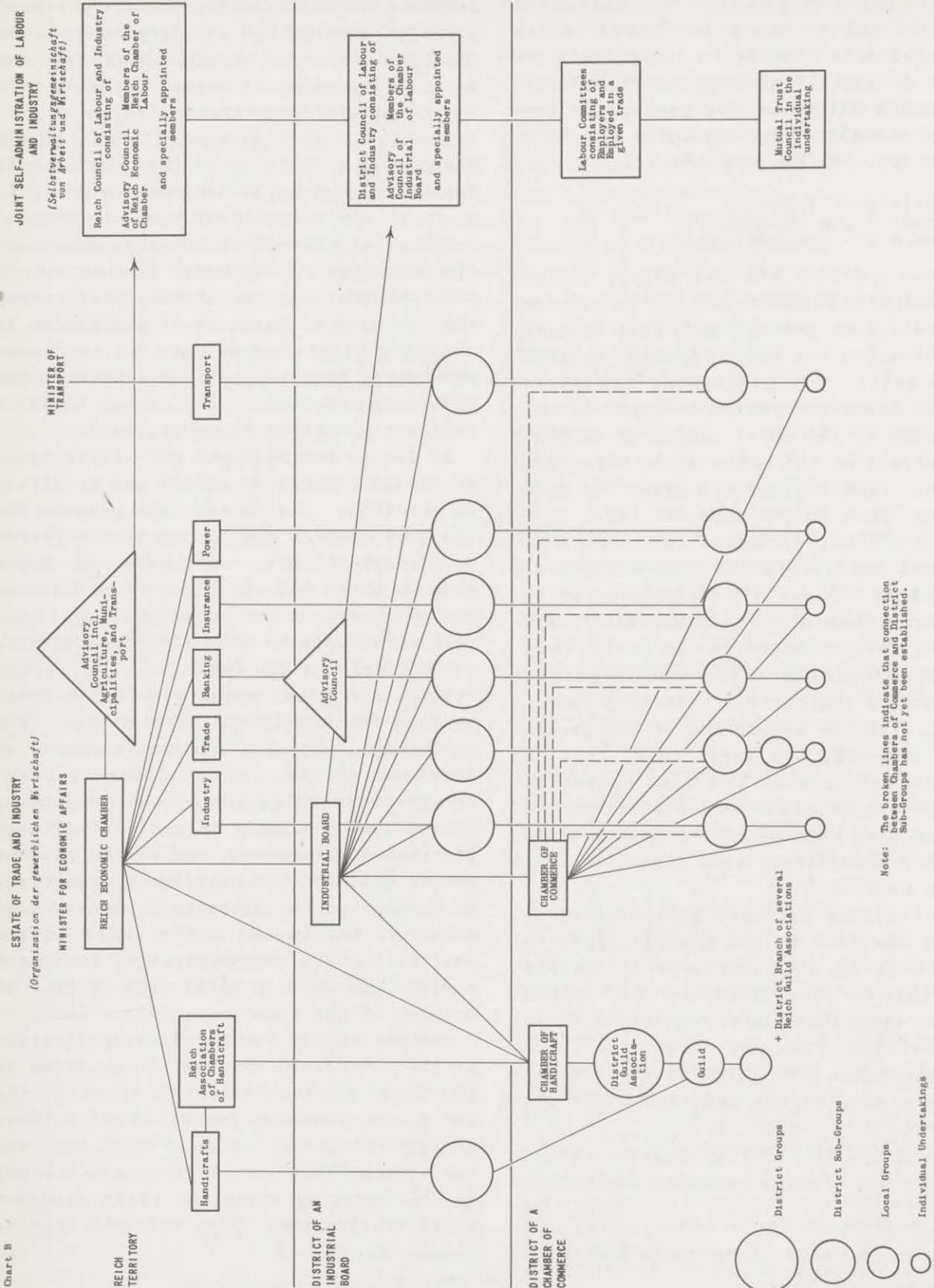
At first, the National Socialists tried to use the Compulsory Cartel Law as little as possible. One of the main reasons for the government's caution was that it feared to disturb the price structure. The Nazis wished, above all, to increase production and decrease unemployment. This, they felt, could not be done if prices were to rise. Prices and wages were to remain stable, and total wages were to increase through the employment of more men. But the cartels showed a constant tendency to increase prices. As a matter of fact, after the promulgation of the Compulsory Cartel Law, industry seemed to feel that its chance had arrived, and wanted to raise prices quickly. The government intervened or threatened to intervene at once. Nevertheless, the cartel price index of the *Institut für Konjunkturforschung* indicated a rise from 76.9 in April 1933 to 79.7 in October of the same year (1928 = 100).

Another reason for the slow application of the new Cartel Law was the attitude of the small businessman. In general, the small concerns were fearful of the effects of cartelization, as they believed, and not without cause, that the cartels would be the means by which the large concerns would swallow them. They believed that in

⁸⁴ See Fritz Ermarth, *The New Germany*, p. 111.

⁸⁵ Tillmann, Alexandre. *L'Organisation Economique et Sociale du III^e Reich*, pp. 155-156; Doctoral Thesis, University of Paris, 1935.

⁸⁶ Müllensiefen, op. cit., p. 158.



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the setting of marketing, raw material, and other quotas, their own output would be restricted to a point at which they would not be able to maintain their independence. Most industries petitioning for compulsory cartelization wanted to assume the form of quota and price-fixing cartels, but were often unable to come to any agreement due to the reluctance of the smaller concerns to deliver themselves to the mercies of their larger competitors.

A third reason was the fact that the passage of the Compulsory Cartel Law, and the measures taken under it, gave industry a great impetus to voluntary cartelization and the formation of agreements of all kinds. The Minister of National Economy thus could use his powers sparingly.⁸⁷

In November 1936 it was estimated that there were 1,700 individual cartels in Germany. Under the Compulsory Cartel Law, the cartels had assumed an entirely new character. They were no longer private bodies serving private interests. They possessed a public legal personality and were constituted mainly to serve the purposes of the state.⁸⁸

The cartels were supposed to deal with a variety of problems: They were to prevent over-production in industry; to bring an industry easily into new production when this was necessary as a result of a change in consumer tastes or other market disturbances; to adapt industries to new raw materials; to smooth out seasonal fluctuations; to improve the conditions of domestic industrial workers; to maintain the balance among small, middle, and large undertakings in a given industry; to safeguard the independence of a given process against other ones; to place certain tasks necessary to the national welfare on the "broad shoulders" of large concerns; to prevent over-mechanization in the interest of highly

skilled craftsmen; to bring about a division of labor among similar undertakings in order to avoid the waste involved in each one's producing a small amount of a product necessary to all of them, etc.

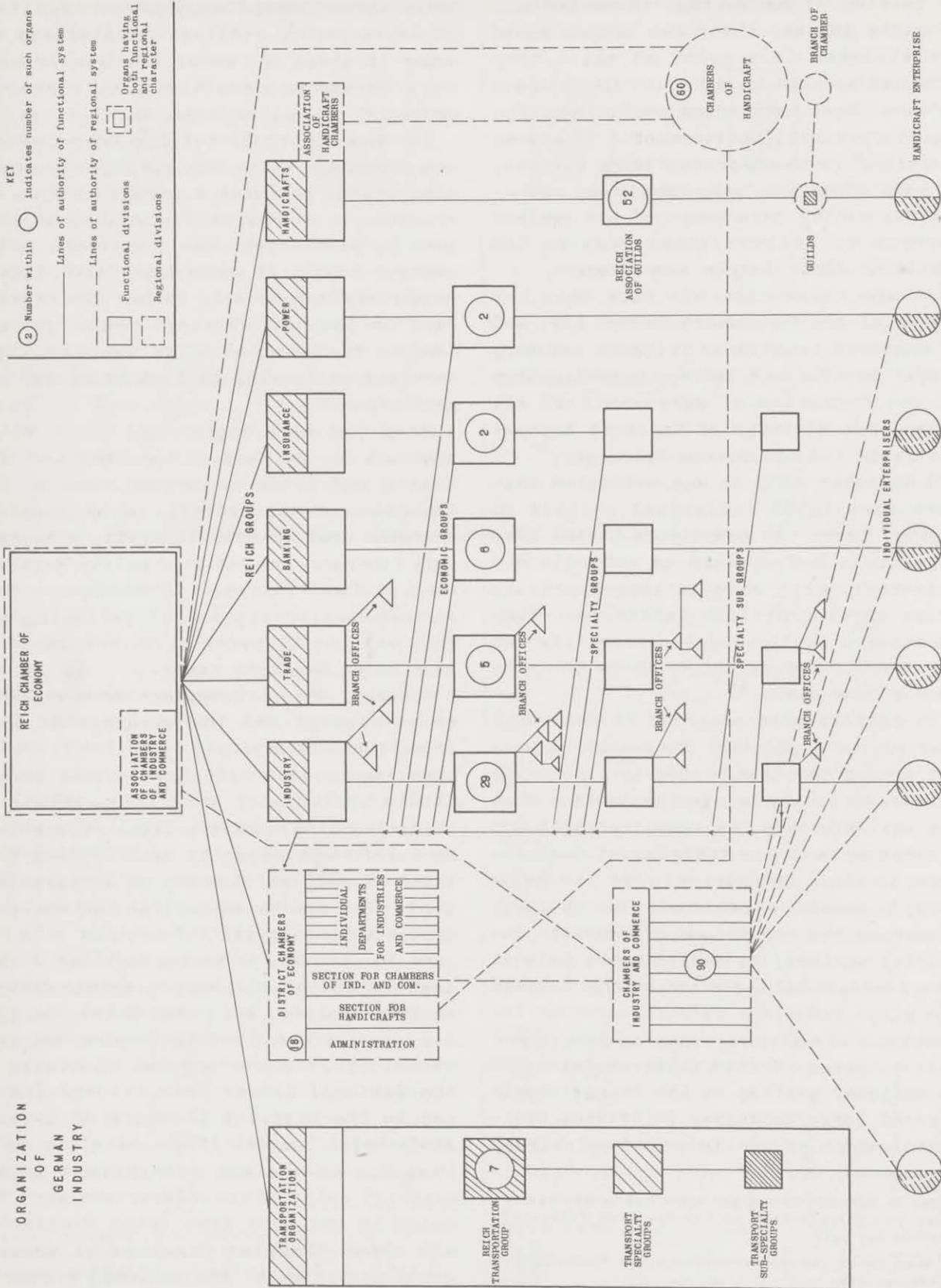
The Compulsory Cartel Law thus created two means by which the government could control the national economy. First, as creation or extension of plant became subject to permission, the government could control supply in accordance with demand requirements. Second, regulations necessary in individual cases could be made binding for the whole of an industry, thus insuring uniformity of conditions for all participants.

From the very beginning, there was a tendency on the part of the Estate of Industry and Trade to assume some of the functions of the cartels, or at least to exercise control over them. To counteract this tendency, the national and trade groups were at first expressly forbidden to deal with market regulation or price fixing. They were to be parallel to the cartels, performing separate tasks.

However, this arrangement was soon found to be clumsy, and the authorities felt themselves increasingly compelled to assign some supervision over the cartels to the Estate of Industry and Trade. Finally, this situation was given legal recognition in a decree promulgated by the Reich Minister of National Economy on November 12, 1936. The decree authorized the national groups to obtain all information with regard to cartels, to keep a register of all cartels and of all market agreements of whatever nature, and to represent the public interest in all cartel-forming negotiations. This authority was to reside in the National Groups *Industry and Trade*, and in the District Chambers of Economy (Industrial Boards) if the cartel in question was to include enterprises in one district only; if the enterprises were located in not more than three districts, all three District Chambers of Economy could participate. The national groups of

⁸⁷See Dr. Carl Billich, "Vier Jahre Nationalsozialistischen Kartellopolitik" in *Der Deutsche Volkswirt*, September 24, 1937.

⁸⁸Paul Hövel, *Grundfragen Deutscher Wirtschaftspolitik*, p. 156.



the Estate of Industry and Trade were also to advise the Reich Minister of Economy on regulations dealing with cartels.

The decree of November 12, 1936, brought the cartels under the control of the government, or, in the words of German commentators, "incorporated them into the folk-economy." It was understood that in order that the supervision of the national groups over the cartels be effective, the personnel of the cartels and of the groups would have to be different, i.e. no individual closely connected with a cartel should also be an officer of the supervising group. The national and trade groups were to act in the public interest, and the government was to give its full support only to such persons in the groups as proved to be unaffected by any selfish or private considerations.⁸⁹

Since 1936 the cartels have exercised the tasks assigned to them in collaboration with and under the supervision of the Estate of Industry and Trade and of the Price Commissioner. The development of the Office of the Price Commissioner was described in a previous report, but may be restated here to complete the picture.

During 1934 the Nazi Government issued decrees setting maximum prices for various commodities, and a multitude of government agencies were set up to enforce them. As overlapping and conflicts developed, the government on November 6, 1934, appointed a Reich Commissioner for Price Control whose powers were several times extended to cover more articles. All price increases had to have the approval of the Commissioner.

Still, during 1935, discrepancies developed between the official prices fixed by the government and those actually paid by manufacturers, dealers, and consumers. There were various kinds of "concealed" price increases and much "bootlegging," especially in the form of illicit direct dealings between farmers and urban consum-

ers. Also, while many prices remained fixed, inferior goods were substituted for those for which the prices were fixed. Despite all regulations, the indexes of prices for all goods rose during 1935.

On June 30, 1935, the control of prices was decentralized and handed over to various ministries. Forty-nine price-control commissioners (generally the governors of the provincial states) were entrusted with the supervision of the price regulations. Propaganda was intensified under the slogan, "Production Boom, (*Mengenkonjunktur*) but not Price Boom (*Preiskonjunktur*)." But the problems persisted, and on October 29, 1936, a new Reich Commissioner for Price Control was appointed.

In view of the needs of the Second Four-Year Plan, the Reich Government made a new and more determined effort to keep prices stable. On November 21, 1936, a "price-stop" decree was issued which was followed by an executive order to the same effect on November 30, 1936. The decree prohibited any increase in prices of commodities or services above the level of October 18, 1936, though some exemptions were allowed. The decree was to be enforced by the Reich Price Commissioner.

Price control was exercised rigidly during 1937-39. It amounted practically to an elimination of market price as determined by supply and demand factors. The prices fixed allowed for costs plus a reasonable profit to the producer, and costs were strictly supervised.⁹⁰

Retail prices of consumers' goods were kept down by reducing the operating margins of distributors. From time to time, prices were forcibly reduced in various branches of industry where the Price Commissioner thought that costs could be lessened by better utilization of plant and otherwise. So far as domestic prices were affected by changes in world prices of imported goods,

⁸⁹Herr Wagner, the Reich Price Commissioner, claimed that market price was being supplanted in Germany by "economically justified price" (*Volkswirtschaftlich Gerechtigter Preis*).

⁸⁹Müllensiefen, op. cit., pp. 144-147.

adjustments in German domestic prices were made.

In developing their price control, the Nazis emphasized that what they had in mind was not market regulation but market organization (*Marktordnung*). The latter could be achieved only by developing principles of "price-formation," which would result in a sort of "just price" and in price stability. The Price Commissioner would presumably obtain such results by "a constant coming to terms with the price-determining factors,"⁹¹ that is, partly by controlling conditions of supply and demand and partly by taking them into account in fixing prices in accordance with the needs and policies of the government.

The Estate of Industry and Trade, the cartels, and the Price Commissioner cooperate, with regard to prices, in the following manner: The national groups of the Estate of Industry and Trade establish and promote uniform bookkeeping and cost-accounting systems; The cartels on the basis of such systems establish "guiding prices" which help the Price Commissioner to fix prices. The national group and the cartels cooperate also in efforts to standardize commodities and thus to eliminate unjustified price differentials.

Other Control Agencies

Though the Estate of Industry and Trade, the system of cartels, and the office of the Price Commissioner would seem to supply adequate instruments with which the German Government could control the national economy, this was actually not the case. The German economic situation between 1933 and 1939 became more difficult every year with regard to the outside world, and stringent regulations had to be passed for the control of foreign currency, the control of foreign trade, and as a logical result of this policy, for the control of all products within the country which either came from

abroad, or were destined for the foreign market. This control of foreign trade brought also with it the necessity of controlling the prices of internal production, as well as wages, in order to maintain the German price level independently of world price levels and yet adjust the cost of living and export prices in accordance with National Socialist policy.

The agencies created to deal with wages, imports, and exports can be described here only very briefly. Wage rates and conditions of employment are supervised and controlled by 14 Labor Trustees who are officials of the Ministry of Labor and who are assisted by Advisory Councils. The methods used for the allocation of the labor supply have been described in part I of this volume, and in two sections of this part, "The Control of the Labor Supply," and "Wage, Price, and Profit Policies."⁹²

The supply and allocation of raw materials has been controlled through a special set of agencies. An Act of March 22, 1934, had empowered the Reich Minister of National Economy to supervise and regulate the trade in certain industrial raw materials and semifinished goods, and later ministerial decrees made the acquisition of some of these materials subject to permission of the Ministry. By September of the same year, however, these measures were found inadequate, and the then Acting Minister of National Economy, Dr. Schacht, introduced the "New Plan."⁹³ Under this plan, regional exchange offices were set up which were centralized under one Reich bureau for the distribution of foreign currency (*Reichsstelle für Devisenbewirtschaftung*).

"The *Reichsstelle* is headed by a board composed of representatives of various government departments and industries under the chairmanship of the president of the Reichsbank. The Reich bureau issues orders and rules of guidance, determining the

⁹¹ See article by Dr. E. Flottman, "Prices and Principles of Price Determination," *Der Deutsche Volkswirt*, December 15, 1939, p. 305.

⁹² See part I of this volume, "Public Works and Employment Planning in Germany, 1933-39," pp. 30-33.

⁹³ *Ibid.*, pp. 20-23.

principles and quotas according to which the twenty-five bureaus are to distribute the available amount of foreign currency among the individual applicants. Under the new plan an actual government monopoly for imports was established * * *. The government of the Reich, through this mechanism, has power to direct foreign trade in whatever direction it wishes."⁹⁴

In addition, 27 National Control Boards were established to supervise imports. These boards (*Reichstellen*) soon proved to be in a position to control also domestic industries through the allocation of raw materials to manufacturers. These boards could likewise prevent the establishment of new concerns by refusal to grant permission for the purchase of necessary raw stuffs.

As the situation with regard to the supply of raw materials became more acute, the government in 1938 appointed special commissioners for the key industries. The control of raw materials was thus exercised through several agencies with which the Estate of Industry and Trade was expected to cooperate.

Even these agencies, however, do not comprise the whole of the National Socialist economic control apparatus. Through its ownership of certain transportation facilities, and through rigid control over the private ones by way of the Transportation Organization, the government has the power to fix freight and passenger rates, to permit or prohibit the transport of certain types of goods as it sees fit, or to order industries and firms to purchase their raw materials and dispose of their products within a circumscribed area in order not to burden the transportation facilities of the country excessively.

Retail and wholesale trade have also been subjected to extensive control through rigid licensing provisions, taxes on certain types of enterprises considered unnecessary or harmful to the economy in general, and other measures of a similar nature.

With the inauguration of the Second Four-Year Plan in 1936, yet another agency was created with large powers, namely the Office of the Four-Year Plan. This office under Marshal Herman Göring, has been concerned more directly with the creation of *Ersatz* industries and with the preparation of the German economy for war than with the regular day-to-day operation of the economy.

As indicated, all these agencies have close relations with the Estate of Industry and Trade. To a great extent, the latter has become the administrative apparatus of the Price Commissioner, the Import Control Boards, and the Office of the Four-Year Plan.

Within the whole economic apparatus, there seems to have been a marked tendency to shift functions to the Estate of Industry and Trade. Even where the Control Boards, the Price Commissioner, and the Office of the Four-Year Plan are concerned, it seems that they more and more have come to rely on the Estate of Industry and Trade as the administrative agency through which their policies are put into effect.

Special Wartime Agencies

On the eve of the present war, German economy was seemingly well organized for carrying out many of the economic activities which the government might consider necessary for war purposes. Practically all economic concerns and the whole labor supply were embraced by the existing economic organizations: the Agricultural Estate, the Estate of Industry and Trade with its national groups, main groups, trade groups, specialty groups, and subgroups, the Reich Guild Associations and other handicraft organizations, the Industrial Boards and Chambers of Commerce, etc. These formed the organizational basis for the control of the flow of capital, price fixing, control of the labor supply, of foreign trade, of agricultural policy, of the rationing of raw materials, which was regarded as necessary during the period of preparedness and which could also be used in case of war.

⁹⁴Ermarth, op. cit., p. 118.

Thus, when war broke out, it was not found necessary to create an entirely new apparatus. But the Nazis deemed it necessary to further coordinate their economic agencies, and to speed up the operations of the administrative machine. On August 27, 1939, Dr. Frick was appointed Supreme Plenipotentiary for Reich Administration. On August 28, 1939, the Führer issued a decree dealing with the simplification of public administration. The most important provisions of this decree were the following:

Decisions were to be made rapidly and with as much disregard for red-tape formalities as possible. All authorities were to cooperate as much as possible with each other. At every level of government, defense measures were to be given preference over all other matters, and to be carried out with dispatch. Subordinate officials were authorized to make administrative decisions on certain matters for which the authority had formerly inhered in the highest authorities only. In the interest of the expedition of business, the operation of administrative law was virtually suspended. Complaints could be brought to the proper authorities, but not to the courts. Public corporations (municipalities, etc.) were subordinated to the highest authorities who heretofore had been entrusted with their supervision. Subordinate officials were given administrative powers over agencies over which they had formerly enjoyed supervisory powers only. The highest Reich authorities were to limit or cease their employment of private organizations for the conduct of public business, except so far as these private organizations were indispensable to the government's work. The Supreme Plenipotentiaries for Administration and Economics were authorized, upon consultation with the Minister of Finance, to regulate the budgets and make dispositions regarding the incomes of public and private organizations. These same authorities could, upon consultation with the other government agencies, make all further necessary changes in administrative apparatus or procedures.

Further, the Nazis felt that the war necessitated a greater coordination of economic and administrative agencies, and the creation of a supreme policy-making body.

The Ministerial Council of Defense

The first step they took was to create a central authority empowered to issue all decrees and orders necessary for the prosecution of the war. This was done in the Führer's decree of August 30, 1939, which established a standing committee of the Reich Defense Council to be called "Ministerial Council for the Defense of the Reich." Permanent members of this committee are: Göring (as chairman), the Führer's personal representative, the Supreme Plenipotentiaries for Reich Administration and Reich Economy, the Chief of the Chancellery, and the Chief of Staff of the armed forces.⁹⁵ The chairman had the power to call upon other members of the Reich Defense Council or on other persons for advice. The Ministerial Council for the Defense of the Reich may issue decrees which have the force of law.⁹⁶ The structure of the Council is outlined in the chart on page 87.

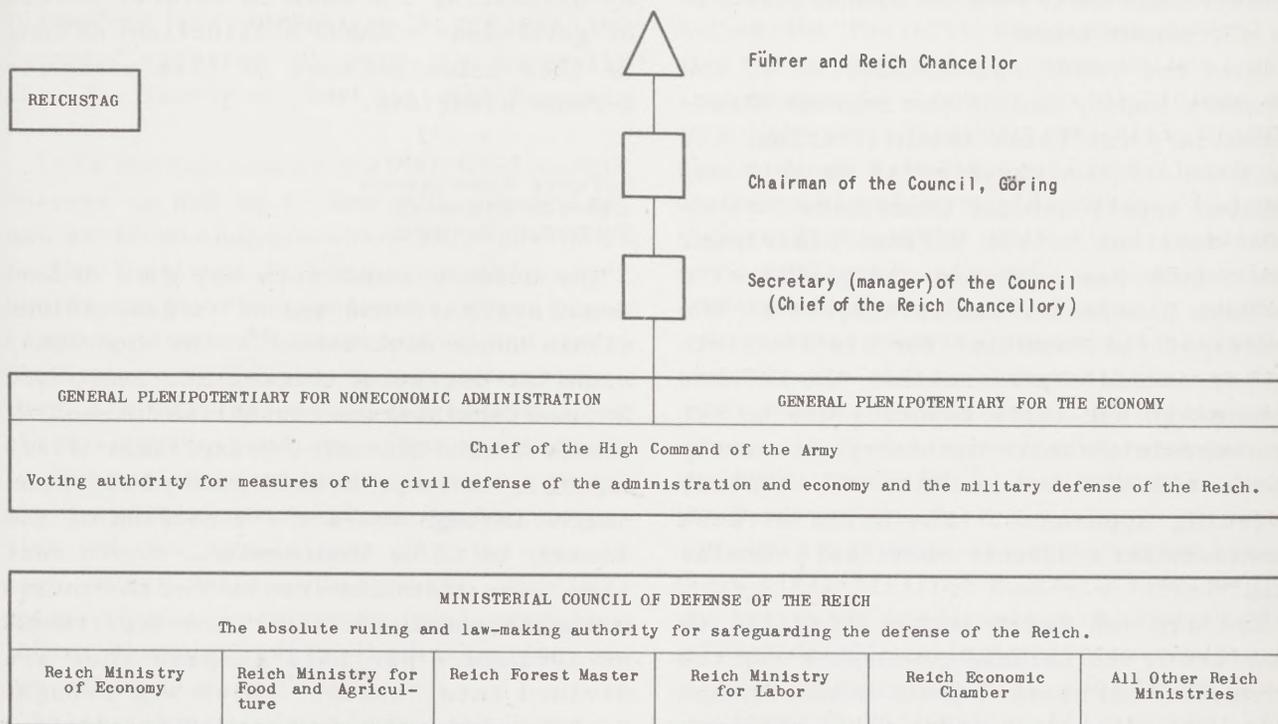
This Ministerial Council is thus a small body of men with lawmaking powers, the membership of which includes the highest leaders not only of the national economy but also of the army. All necessary laws and orders could be issued by this body without the friction and delays which attend the usual lawmaking procedures even in totalitarian countries.

The Ministerial Council for Defense determines basic lines of policy to be followed in the conduct of the war. But special

⁹⁵ Besides Göring, the council included Funk, Frick, Hess, Dr. Lammers, and General Keitel. The Chief of the Chancellery is secretary of the committee.

⁹⁶ Göring retained the authority granted him by the decree for the fulfillment of the Four-Year Plan of October 8, 1936. These powers have since been renewed by Chancellor Hitler.

PLACE OF MINISTERIAL COUNCIL FOR DEFENSE OF THE REICH IN THE GERMAN GOVERNMENT STRUCTURE



offices were set up to coordinate the detailed work of the economic and administrative agencies.

Offices for Unifying Economic Administration

In accordance with a decree of August 27, 1939,⁹⁷ the intermediate administrative direction of all economic measures which are decreed by the Commissioner for the Four-Year Plan, by the General Plenipotentiary for the Economy and by the authorities immediately subordinate to them, was delegated to specially authorized (*bevollmächtigte*) higher administrative authorities in each of the Reich Defense Districts.⁹⁸ Their headquarters are situated at the seat of the headquarters of the District Military Command, and their authority in all economic matters extends over the corresponding military district.

Most of these administrative chiefs were given the title of Reich Defense Commissars, and drew their authority directly from the Ministerial Council of Defense. In some cases in which the Defense Commissars were not identical with the above-mentioned officials, they had no special personnel or facilities allotted them for the carrying out of their tasks, and had to fulfill them with the assistance of the offices and departments of these administrative chiefs.

Though supreme within their defense districts, the Defense Commissars were subject to instructions and directives issued to them by a number of functional offices operating directly within the special competence of the Reich Ministry of National Economy.⁹⁹ These in turn issue directives within the framework of the authority given

⁹⁹ These offices (the so-called "authorized offices") include the Control Boards, VII to XXIX; Reich Control Office for Electric Power; the Special Commissioner for Textiles; the Plenipotentiary for Machine Construction; and the Reich Commissar for Scrap Materials.

⁹⁷ As amended by the decree of November 28, 1939.

⁹⁸ These officials are usually Reichsstatthalter, Landesministern, and Oberpräsidenten.

them by law or through decree. They were directed, at the beginning of the war, to decentralize their work as much as possible on a district basis.

Upon the joint recommendation of the Führer's Deputy and of the Supreme Plenipotentiary for Reich Administration, the Chairman of the Ministerial Council may appoint deputy Defense Commissars for certain sections of the Defense Districts. The deputy may exercise the powers of a Defense Commissar, but is subject to the orders of the Commissar for his district. As was stated above, neither the Defense Commissars nor their deputies are to set up new administrative machinery, but merely to coordinate and utilize the already existing apparatus. The Reich Defense Commissar has a defense committee to advise him.¹⁰⁰

The supreme Reich authorities are to make use of the Defense Commissars for the conduct of all basic defense measures, and to acquaint the latter with other measures which are being taken. The Commissars are to keep in touch with the military authorities, and all civilian defense measures are to be taken after an agreement has been reached between the military and civilian authorities. The Defense Commissars act as liaison officers between the civil and military authorities in the Defense Districts, and all communications between the two pass through their hands.

Thus the Reich Defense Commissars and their deputies are the administrative agencies of the Ministerial Council for Defense. The main thing that was accomplished by this set-up was to create a civil agency which parallels the military in the Defense

Districts. This was accomplished without the creation of new administrative agencies, by allocating the task to several levels of government without distinction, as long as they coincided more or less with the Defense Districts.¹⁰¹

Defense Commissars and the District Economic Bureaus

The Defense Commissars may give orders to all state or "independent" organizations within their districts.¹⁰² In accordance with the decree of August 27, 1939, the Defense Commissars may establish "Directing Staffs for the Economy" (*Führungsstäbe Wirtschaft*). These are both advisory bodies and bodies through which the direction of the economy is to be implemented. Their real task is to coordinate the work of the intermediate economic administrative departments or offices. For this purpose they are divided into "Groups" which are brought together under the direction of an official called "Leader of the Directing Staff for the Economy." The groups deal with the problems of industry and trade, food and agriculture; forest and wood industry; construction and regional planning (*Raum-planung*); prices, and labor problems. The intermediate authorities of the state economic administration whose area of competence falls in part or in full within the district may receive directives from the "Staff."

The Reich Defense Commissars have set up District Economic Bureaus as the intermediate administrative organs of the Ministry

¹⁰¹The material in this section is based largely on an article by G. Albrecht in the *Jahrbücher für Nationalökonomie und Statistik*, vol. 150, No. 5, November 1939.

¹⁰²These bodies are: the Chambers of Economy together with the District Equalization Board attached to it (Board for distributing state contracts among the enterprises in the district); Chambers of Industry and Trade; Chambers of Handicrafts; the district organizations or offices of the Reich groups, specialty groups, and specialty subgroups of the Estate of Industry and Trade, which are not included in a Chamber; the Foreign Trade Offices; the Foreign Exchange Offices; the Offices for Technical Supervision; as well as the *Oberbergämter* in Prussia and the highest authorities of the mining industry in the different states.

¹⁰⁰The following officials belong to the defense committees ex officio: the Supreme administrators of occupied territories (Reichsstatthalter) and the Provincial chiefs (Landeshauptmänner) in the Ostmark, the Gauleiter, Provincial administrators, Prime Ministers and Ministers of the States, the higher S.S. and police officials, State Labor Office Administrators and Reich Labor Trustees whose districts lie in whole or in part within the Defense District, and other men who may be appointed either by the Chairman of the Ministerial Council or by the Reich Commissar himself.

of National Economy. This means that this ministry now has its own administrative substructure throughout the Reich.¹⁰³ The leader of the "Directing Staff for the Economy" referred to above is generally also the leader of the District Economic Bureau.

It is the business of the District Economic Bureaus to see to it that all enterprises and sections of the economy which are vital to the "national life" run smoothly. They are to see that the necessary labor, means of production and transportation, and credit facilities are available to such enterprises. They are also to ensure the provision of electric current and gas. They participate in the rationing and control of raw materials and semimanufactures; in the execution of the regulations for the use of coal, motor fuels, rubber tires, textiles, shoes, soap, and other industrial products.

They also deal with the collection and use of scrap materials.

In carrying out these tasks, the District Economic Bureaus operate through the Chambers of Industry and Commerce as well as through the Chambers of Handicrafts. These Chambers are an important wheel in the mechanism. The presidents of the Chambers of Industry and Commerce have been made Reich Commissars and the business managers are now Deputy Commissars. They are honorary officials who receive their appointments and powers from the Ministry of National Economy, and their directives mainly from the District Economic Bureaus. In matters connected with labor they work closely with the Labor Offices. Where contracts are concerned, they work with the military supply authorities and with the District Contract Equalization offices.

The Chambers of Industry and Commerce are especially important in matters of transportation, and their officers are the

"Transportation Deputies of the Economy" (*Transportbeauftragten der Wirtschaft*). They have their offices at the seat of the Reichsbahn District Headquarters. It is their business to inform themselves of the transportation needs of the *whole economy* (not only of Industry and Trade) in their district, to bring these needs as much as possible into line with the available facilities, and to see to it that the railroads and other transport agencies do their work efficiently. For this the Chambers receive orders either from the highest Reich authorities through the Directing Staffs, or directly from the latter. The Chambers of Economy and the territorial offices of the Trade Groups¹⁰⁴ also take orders from the District Economic Bureaus.

There is a close working relationship between the District Economic Bureaus and the Estate of Industry and Trade, in the carrying out of production plans or plans concerned with shifts in production made necessary by the war. Such plans are prepared by the trade groups or by their specialty and specialty-subgroups in agreement with the Reich Control Boards.¹⁰⁵ In preparing the plans dealing with industrial shifts, the District Economic Bureaus must be consulted, and the plans must also be approved by the Reich Minister of National Economy, who consults with the General Staff of the army in matters of interest to them. After approval, the Minister or the trade groups of the Estate of Industry and Trade transmit the plans to the District Economic Bureaus. The latter then inform the industrial concerns affected, and in general must see to it that the plans are carried out.

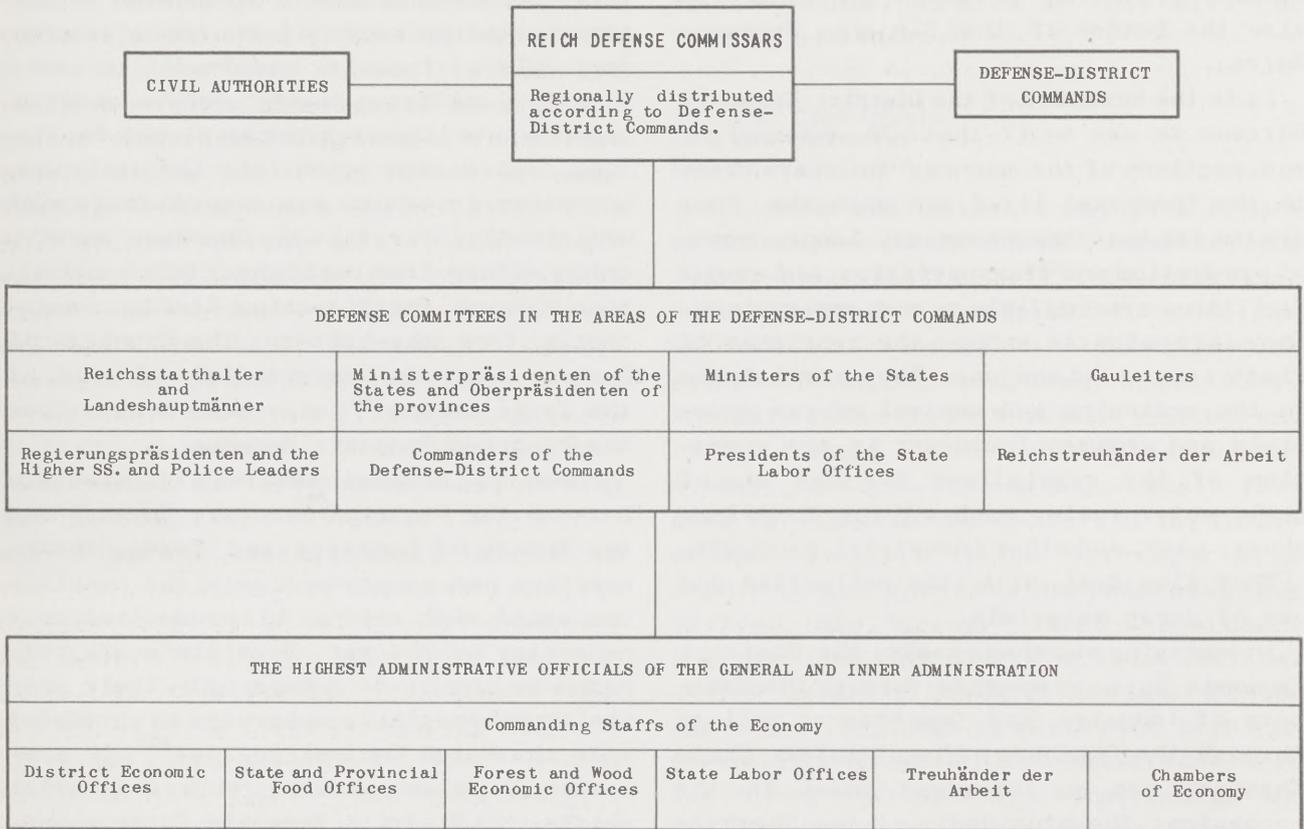
A similar procedure is followed with necessary modifications, with regard to banking, power, insurance, and the other main groups. A more or less parallel or-

¹⁰³ Formerly, it seems, the work of this Ministry had been conducted in the main via a constantly growing number of special bureaus and agencies and through the estates described above.

¹⁰⁴ See pp. 73-79.

¹⁰⁵ These, as indicated previously, have as their function the supply and allocation of industrial raw materials.

THE ACTIVITIES OF THE REICH DEFENSE COMMISSARS IN THE HIGHEST ADMINISTRATIVE AGENCIES (BEHÖRDEN)



ganization has also been set up for the forestry and lumber industry.¹⁰⁶

The General Council of War Economy

While the intermediate and regional war economic administration has been centralized in the District Economic Bureaus, the direction of all national economic activities is now centered in the General Council of War Economy established on January 4, 1940. One of the first Nazi acts, on the eve of

¹⁰⁶ In this industry one should substitute the title "Reich Forest Master" for "Reich Minister of Economy" and "Forest and Wood Bureaus" for "District Economic Bureaus."

The data given in this section are based on an article by Dr. Vollweiler, "Der Ausbau der Staatlichen Kriegswirtschafts-Verwaltung," Reichsarbeitsblatt, June 15, 1940.

the war, was to appoint Dr. Funk, the Minister of National Economy, as Supreme Plenipotentiary for Reich Economy (parallel to the appointment of Dr. Frick as Plenipotentiary for Reich Public Administration). In this capacity, Dr. Funk was given the job of coordinating the work of all economic institutions concerned with the war effort. These included the Ministry of National Economy, the Ministry for Food and Agriculture; the Ministry of Finance, the Reichsbank, the Reich Forestry Office; the Ministry of Labor; the Ministry of Transportation and the Reich Price Commissioner.

However, on December 7, 1939, the Commissioner for the Four-Year Plan, Marshal Göring took over the supreme direction of the economy

and limited the "Supreme Plenipotentiary's" powers to control over the Ministry of National Economy and the Reichsbank. On January 4, 1940, Göring issued a decree establishing the General Council of War Economy as the supreme coordinating agency, the purpose of which was to assure a constant and close collaboration among the more important government administrative branches. Göring appointed himself chairman; the other members of the council are Secretaries of State of the economically important ministries, the Price Commissar, the Chief of the Economic Office of the Supreme Command of the Army, and a representative of the Führer's Deputy. Others may be included from time to time as necessity arises.¹⁰⁷

The General Council is a "coordinated working staff" (*Arbeitsgemeinschaft*) with clearly defined tasks: Its duties are to bring into accord the work of the different departments; to receive and study reports; to clarify important war-economic questions; and to lay down general lines of policy for the solution of war economic problems. The execution of the measures determined by the General Council is left to the departments which have the trained personnel and functional apparatus for the job. This arrangement was intended to give a maximum of elasticity and striking power (*Schlagkraft*) to the state's administration of the war economy, and to eliminate red tape and bureaucratic complications.

Comments

The survey of German planning during the first year of the present war suggests a number of general observations which may be summed up as follows:

1. A great deal of the effectiveness of the wartime planning in Germany is due to the fact that it is largely a continuation of the planning of 1933-39. Owing to this continuity the Nazis did not have to improvise much during 1939-40. They could use the economic and administrative mechanisms built up previously and apply the

methods which they had tried out before 1939 and which they had learned to use. Neither are the Nazis drawing too sharp a line between peace and war, and their assumption is that what they achieve in war will serve as a basis for policy also after the war.

2. The Nazis have made efforts to maintain their consumption-goods industries, their system of public works and public housing, and to carry on another Four-Year Plan. As one reads current reports from Germany, one has the impression that the Nazis had incorporated the war into their economy, instead of vice versa, and are using the war merely as another instrument of general economic policy.

It may also be of some interest to note that in awarding armament and other contracts to war industries, the Nazis started out with a policy of placing the great mass of orders with the largest, most efficient concerns. This policy was quickly reversed and orders spread out among medium and small concerns. The reversal of policy was made because the Nazis began to realize that (a) even for the purposes of immediate production many bottlenecks could be broken if all equipment in the country, efficient or otherwise, were placed in use, and (b) from the long-range point of view it was of the utmost importance to keep the whole of German economy in as good condition as possible lest the postwar period find it badly unbalanced and thus capable neither of coping with the problems attendant on demobilization and resumption of peacetime production, nor of garnering the economic fruits of military conquest.

3 The methods used by the Nazis with regard to rationing, taxation, public borrowing, etc. reveal little concern for traditional economic theories, and an attitude of directness in handling the problems with which they are faced. They seem to strip economic processes to their bare forms, and to apply techniques accordingly. They are frank to say, for instance, that under German conditions, war means less

¹⁰⁷Der Deutsche Volkswirt, March 15, 1940, p. 767.

food and less clothing, more taxation, and more appropriation of savings by the government. They are taking one-third of the national income in taxation, and a fourth or more in public borrowing.

4. The mechanisms for carrying on the war economy seem very complex and cumbersome. There are frequent references in the German press to "bureaucracy" and "red tape." From an administrative point of view, it is especially interesting to note the extent to which the Nazis have found it desirable to decentralize the war economy regionally and at the same time to coordinate it locally and regionally.

5. On the other hand, there has been an increasing tendency to subordinate autonomous bodies to state administrative departments. With the introduction of consumer rationing and the appointment of District Economic Commissars with plenary powers to whom all other agencies were subordinated, the economic functions of the autonomous "Estates" were made more dependent on governmental agencies.

6. Nazi war planning is not altogether a smooth and easy process. There is friction between agencies and persons, and there is economic and social conflict which affects policies. The handling of the wage problem described above as well as the repeated warnings to those who violate price regulations and the severe penalties for "profiteering," illustrate the point. These measures also illustrate, however, the effort made by the Nazis to make all the people share fairly equally in the burdens of the war, that is, in relation to the existing inequalities of economic and social status and of the varying importance of the different groups of the population for the prosecution of the war. It is also worth noting how the Nazis have

made use of special devices to throw much of the burden of war plant extension on private industry.

7. Finally, and what is extremely important, the Nazis are proceeding now with plans for tomorrow and with activities for shaping postwar conditions. It is known that some of their strongest men are engaged in preparing plans for the reorganization of Europe after the war. Dr. Funk, the Minister of National Economy, has announced that he had been entrusted with this task. Dr. Schacht has been reported to be engaged on a similar job.

But what seems even more important is that the Nazis are not waiting for the end of the war to carry out their ideas and plans. That is one of the essential differences between the present war and the last world conflict. Hitler is not waiting for the end of the war to make political, economic, or social changes in Europe. He is making them as he goes along. Populations are being shifted, frontiers realigned, industries reorganized, trade recanalized—all in the midst of war and as part of the war. The Nazis are making these changes ready to build up the Imperial structure they have in mind. Their idea is that even if they are totally defeated, the changes they are making now will be there to deal with.

In this lies the greatest challenge of the Nazi war planning to the cause of democracy. It changes the problem of "postwar reconstruction." It makes it more imperative than ever for the democratic countries to prepare today for what will have to be done tomorrow by organizing their own forces for a comprehensive survey of postwar problems and of possible methods for meeting them in a free and rational spirit.

PART III

STABILIZATION PLANNING IN SWEDEN, 1929-1939

Introduction

The purposes and methods of the anti-depression planning in Sweden, including consideration of the backgrounds of this planning and some of its effects, is the concern of part III of this report.

Sweden is a small¹ but socially progressive country which, for a century or more, has had no aims of political or territorial expansion and no desire to impose a particular doctrine or destiny upon the rest of the world. Toward the end of the last century Sweden had entered upon the path of industrialization which transformed it from a poor into a relatively rich country with a standard of living comparing favorably with that of the advanced nations of Europe and America.

During the two decades before 1929 Sweden was, on the whole, expanding its industrial activities and foreign trade.² It was also reshaping its economic and social institutions to strengthen its democratic government, to spread more equally the benefits of economic advance,³ and to provide greater security for the mass of the people.

The Swedish people would be the last to claim that they had solved all their economic and social problems or that their

country had become a paradise on earth.⁴ Sweden had accepted generally the idea that such problems must be solved gradually and in a spirit of live and let live. Peaceful change, compromise, and tolerance became the predominate features of Swedish social-economic development. Private enterprise was supplemented by public investments and state enterprise (the electrification of railroads, development of water power, etc.); industrial relations were largely shaped by negotiations between highly organized federations of employers and workers (collective bargaining was sanctioned by law);⁵ the consumers' buying power was enhanced through a wide network of cooperative societies;⁶ and the people were protected against the hazards of life by a well-developed system of social insurance.⁷

This highly developed and progressive democratic civilization has attracted world-wide attention in recent years. Sweden has been accepted as an example of efficient

⁴ One of the best statements of the Swedish point of view on Sweden is that presented by various representatives of Swedish political and economic life in *Social Problems and Policies in Sweden*, published as vol. 197 of the *Annals of the American Academy of Political and Social Science* in May 1938. This volume will be referred to herein as *Annals*.

⁵ The National Federation of Trade Unions of Sweden, organized in 1898, had 840,000 members in 1937 out of a total of 860,000 organized workers. The Swedish Association of Employers in 1937 had 4,300 members employing 347,000 workers. See Paul H. Norgren, "Sweden: Where Employers Compromise," *Harvard Business Review*, Summer, 1938. In 1936 there were in force 7,000 collective agreements covering 28,200 employers, and 770,000 workers.

⁶ The Kooperativt förbundet (the central cooperative organization of Sweden) in 1936 had 710 affiliated societies whose total sales amounted to 437.8 million Kronor. Together, these cooperatives owned 4,340 stores. See *Annals*, p. 175. There is also a widely developed consumer credit movement and a cooperative agricultural marketing organization.

⁷ The various forms of social insurance, (such as old age pensions, workmen's accident compensation insurance, etc.) were introduced during and soon after the First World War. Unemployment insurance was established in 1934.

¹ The total population of Sweden increased from 5,136,000 in 1900 to 5,904,000 in 1920 and to 6,142,000 in 1930

² Swedish industry and foreign trade are based on water power, timber and mineral resources, on special technical skills, and on the high educational level of the people. Sweden produces and exports all over the world such raw materials as lumber and high-grade iron ore, and such industrial products as matches, telephones, ball bearings, measuring instruments, calculating machines, kerosene stoves, etc. Despite a rather poor soil and climate Swedish agriculture has been highly developed through scientific investigations and processes of rationalization. See Bertil Ohlin, "Economic Progress in Sweden," *Annals of the American Academy of Political and Social Science*, May 1938, pp. 1-4.

³ * * * the number of rich people for each million inhabitants is very small in Sweden." Bertil Ohlin, *op. cit.*

democracy, as the land of social-economic progress, and as the exponent of a sensible "Middle Way."

The prestige of Sweden has been enhanced by the way in which it handled its problems during the "great depression." Confronted with industrial stagnation and increasing unemployment after 1929 Sweden was apparently able to develop a method of recovery in accordance with its democratic spirit and institutions. The "anti-crisis" policy of Sweden has become an illustration of the success with which Sweden managed to keep to the "Middle Way."

Post-War Unemployment Policy, 1919-1929

Efforts of the Swedish Parliament (*Riksdag*) to treat unemployment as a problem of national policy may be traced to the early years of the century. The outbreak of the First World War in 1914 and the resulting dislocations caused the government to take a decisive step. On August 10, 1914, the government set up the State Unemployment Commission (*Arbetslöshetskommissionen*, generally known in Sweden as the "AK"), an advisory body on problems of unemployment,⁸ which was active during 1914-15.

The Unemployment Commission was called into action again in 1921-22 when Sweden experienced a serious post-war deflation crisis.⁹ Unemployment increased rapidly. The average percentage of trade-union members unemployed rose from 6.5 in 1920 to

34.1 in 1921, and to 28.0 in 1922, for the production-goods industries; and from 4.1 in 1920 to 22.5 in 1921, and to 19.0 in 1922, for the consumption-goods industries.¹⁰

The Unemployment Commission adopted three lines of activity which it was to pursue also in later years.¹¹ First, it provided unemployment relief in cash. Second, it supplied employment combined with vocational training for young workers. Third, it provided public reserve works for unemployed.¹² A description of these three forms of activity is given in the next section.

After 1924 the Unemployment Commission was faced with a new problem. Between 1922 and 1928 Sweden had readjusted herself to the post-war situation, had returned to the gold standard, and had reorganized and "rationalized" her productive mechanism. Sweden entered upon a new period of industrial expansion which reached its peak in 1927-29.

This economic development was accompanied, however, by two disturbing facts with regard to employment. In the first place, employment was not keeping pace with industrial expansion. Until 1928 the number of workers in industry did not exceed the 1920 level, but at the same time the volume of production in industry was 40 percent above that of 1920.¹³ Second, an increase in the number of unemployed was seemingly connected with the intensified processes of "rationalization." The number of unemployed, which had decreased between 1923 and 1925, rose again in 1926-27, and, while dropping in 1928-29, was at a considerably higher level than in 1920. (See table 1.)

These facts stimulated renewed interest in the problem of unemployment, and a special committee, appointed to study the

⁸ See Marquis W. Childs, *Sweden: The Middle Way*, 1936, p. 149. Also Svenska Handelsbanken's Index, "Measures to Combat Unemployment in Sweden," Supplement of June 1938.

⁹ After the first shock due to the outbreak of the war in 1914, Sweden adjusted herself to the war situation, and her production and foreign trade continued to develop. During 1917-18 Sweden experienced an inflationary boom due to demand of the belligerent countries, which manifested itself in a rapid growth of the production-goods industries, in rising prices, and in large profits. In 1919-20 Sweden had a speculative boom with its usual attendant problems. In general, Sweden profited by the World War; she ceased to be a borrower of funds and became a capital exporting country. By the end of 1921 over 80 percent of Swedish state bonds were in the hands of Swedish citizens compared with 8 percent before 1914. See Brinley Thomas, *Monetary Policies and Crises*, 1936, pp. 33-34.

¹⁰ *Ibid.*, p. 166.

¹¹ Between 1920 and 1925 the Commission was reorganized several times and became a central government agency with executive as well as advisory powers.

¹² The maximum number employed on reserve works was 21,000 in 1921, 31,000 in 1922, and 14,700 in 1923.

¹³ Arthur Montgomery, *How Sweden Overcame the Depression*, 1938, p. 25.

Table 1.—Unemployment in Sweden, 1920-1929

[Average percentage of trade-union members unemployed]

Industry	1920	1923	1925	1926	1927	1928	1929
Production-goods industries—	6.5	15.3	12.1	14.1	14.0	11.5	11.3
Consumption-goods industries—	4.1	10.1	8.0	9.0	8.9	8.4	8.3

Source: Brinley Thomas, *Monetary Policies and Crises*, 1936, p. 166.

situation, prepared a number of reports dealing with Swedish post-war economic development and problems.

The Work of the Unemployment Commission, 1929-1933

For various reasons¹⁴ Sweden did not begin to feel the effects of the depression until about the middle of 1930. However, by the turn of 1930-31 the situation was definitely more serious. The index of production, especially in the industries producing for export, began to fall rapidly, both the volume and value of exports showed serious declines, and the trade balance became so unfavorable as to cause concern about the foreign exchange position.

The situation was aggravated during 1931 by the financial failure of the Kreuger and Toll Syndicate, later by the collapse of the *Credit-Anstalt* in Austria, and by the German Standstill Agreement.¹⁵ After a futile struggle to maintain the gold standard, Sweden followed the example of England and went off gold on September 27, 1931. This eased the monetary situation and made possible the unemployment policies adopted later, but the decline in production and employment continued. The average percentage of trade-union members unemployed rose from 8.6 in 1930 to 13.2 in 1931, and to 19.0 in 1932. The number of unemployed reported to the Unemployment Commission as

¹⁴The main reasons given are the somewhat conservative policies of the banks and business enterprises which helped to prevent the industrial expansion from assuming a pronounced speculative character, the favorable export position of Sweden due to the demand for her forest products and specialized industrial products, and the movement of prices in 1929-30 which depressed import prices more heavily than export prices, thus helping Swedish industry to carry on.

¹⁵Sweden had invested considerable sums in Germany and was affected by the Standstill Agreement to the extent of 90 million Kronor.

applying for relief increased from 16,600 in January 1930 to 40,200 in January 1931, and to 103,700 in January 1932.

To meet this situation the Unemployment Commission developed its activities on an extended scale. These activities fell into three groups: (1) reserve works, (2) cash relief, and (3) youth work programs.

Reserve Works

The Unemployment Commission sponsored and organized two types of reserve works: (1) state reserve works and (2) state-aided municipal reserve works. The former were financed by the state and carried out directly by the Unemployment Commission. The latter were carried out by the municipal authorities, subject to the control of the Unemployment Commission. The municipalities had to apply to the Unemployment Commission for permission to carry out reserve works. The Commission then determined the amount of state aid to be granted to the municipalities and fixed the wage rates and other terms of employment to be observed on the work projects.

The general wage-rate policy provided that state wages should be lower than those paid in the free-labor market, to prevent competition with private industry. As a rule, wages on reserve works were fixed at about 75 percent of the wages usually paid in the locality for unskilled labor. Reserve workers unable to live at home were given free lodging, free light, and fuel. Workers away from home, with families to support, were given an allowance to make up for the difference between the wages paid in their home districts and those prevailing at their places of work.

In accordance with the principles developed by the Unemployment Commission, all reserve works had to fulfill, as nearly as possible, the following conditions:

1. They were to be of benefit to the state, municipality, or some public institution, and economically or culturally justified.

Table 2.—Reserve Works by Type and Cost
[July 1, 1929–June 30, 1933]

Type of work	Cost in Kronor	Percent of State contribution
State reserve works—total	92,861,000	82.1
Roads	73,140,000	78.3
Forestry	6,530,000	89.9
Canals	5,325,000	99.9
Railways	3,941,000	100.0
Aerodromes	1,477,000	100.0
Other Works	2,488,000	
State-aided municipal works—total	36,989,000	43.5
Roads	11,902,000	41.3
Ground improvements, ditching, etc	9,830,000	49.8
Drinking water supply and sewerage	6,191,000	32.8
Aerodromes	2,301,000	54.8
Harbours	745,000	43.2
Other Works	5,960,000	

Source: Based on tables given in *Svenska Handelsbanken's Index*, Supplement of June 1938, p. 4.

2. They were to be of such a character as to warrant the expectation that they would not be undertaken by private industry at least within a period of 3 years. The idea of this provision was that reserve works were to add to the work opportunities within the community.

3. Works were to be of such a nature that wages would constitute a large proportion of their total costs so as to give employment to the largest possible number of workers.

4. They were not to require special skill and were to be capable of being performed by average workers.

5. They were to be preferably of such a nature as to permit their being carried out also in winter when unemployment reaches a peak.

6. They were to be such as to allow for expansion and contraction in accordance with changes in the extent of unemployment.

As a matter of fact, the reserve works undertaken between 1929 and 1933 were the familiar types of work-relief projects. The kinds of work done and the cost are shown in table 2.

The number of workers employed on these projects varied during the period covered. In the period January–June 1933 the average number employed was 18,780 workers on state reserve works and 10,366 persons on state-aided municipal works; also 14,981 persons were employed during this period on municipal reserve works unsupported by the state.

Cash Relief

The Unemployment Commission favored work relief as opposed to direct relief, and every person aided was required to accept reserve work when offered, refusal involving the risk of forfeiting cash relief. The number of persons applying for aid was far greater than the jobs offered by the reserve works, and the Commission had to resort to considerable cash-relief payments. Between January and June 1933, cash relief was paid to 65,401 persons.

Direct relief was given in two forms: as unemployment relief, computed on the basis of days out of work and intended as aid toward the costs of bare subsistence, chiefly for food and clothing; and as a rent contribution, payable monthly. The unemployment relief was fixed between 2 and 3 Kronor a day. As in the case of reserve works, the municipalities could grant cash relief only with the consent of the Unemployment Commission. The municipalities received state aid for the purpose to the extent of about 60 percent.

Youth Work Programs

As a means towards alleviating unemployment among young workers, the Unemployment Commission organized a voluntary labor service and a system of special vocational courses. Six thousand youths were engaged in such work at the peak.

The Financing of the Program

From 1929 to 1932 the state and the municipalities spent a total of 136 million Kronor on reserve works and cash relief, while about 548 million Kronor were spent

Table 3.—Expenditures for Unemployment Relief, 1929–1932
[In Kronor]

Year	Total cost of reserve works and cash relief			Cost of poor relief to municipalities
	To state	To municipalities	Total	
1929	4,400,000	6,800,000	11,200,000	104,500,000
1930	4,700,000	7,800,000	12,500,000	114,400,000
1931	13,800,000	18,600,000	32,400,000	122,400,000
1932	39,000,000	41,500,000	80,500,000	132,100,000

Source: Based on data given in *Svenska Handelsbanken's Index*, Supplement of June 1938, pp. 16–17.

Table 4.—Government Income and Expenditures in Sweden, 1929-33

[In Kronor]

Fiscal year	Actual income	Actual expenses	Surplus or deficit
1929-30	778,300,000	708,600,000	+69,700,000
1930-31	762,900,000	739,600,000	+43,300,000
1931-32	736,500,000	777,400,000	-40,900,000
1932-33	741,000,000	816,300,000	-75,300,000
Capital investments			
	Productive	Unproductive	Total
1929-30	40,600,000	6,500,000	47,100,000
1930-31	37,100,000	5,900,000	43,000,000
1931-32	67,900,000	11,600,000	79,500,000
1932-33	81,200,000	15,100,000	96,300,000

Source: League of Nations, *Delegation on Economic Depressions*, Statement by Mr. Wingforss, Minister of Finance in Sweden, Nov. 3, 1938. Mimeographed.

for poor relief. Even in terms of the Swedish public budget, this was not a very large sum. The details are shown in table 3.

In accordance with traditional Swedish budgetary practice,¹⁶ the greater portion of the sums spent by the state for relief had to be covered out of current tax revenues, but the state appropriations for the relief of unemployment during 1931 and 1932 resulted in budgetary deficits and in the need of borrowing. The financial situation may be seen in table 4.

The Scope of the Commission's Work

The work of the Unemployment Commission, during the period considered, was primarily concerned with unemployment relief. The policies pursued aimed to give relief to as many unemployed as possible and to those most in need. Relief was given in such form as to maintain the incentive on the part of the unemployed to transfer to private industry as quickly as possible. The Commission was not concerned with the relations of its policies to the problem of stimulating economic recovery.

The relief given by the Commission met only part of the need. Between January and June 1933, at the peak of the activities described above, the number of unemployed reported to the Unemployment Commission was

171,267. Of these, 44,127 or 25.8 percent were given employment on reserve works; and 65,401 or 38.2 percent received cash relief. Together, those aided by the Commission numbered 109,528 persons, or 64 percent of the unemployed reported.

Besides their limited coverage, the reserve works were criticized on a number of points. It was claimed that they became chiefly projects in which unskilled labor could be employed. Technical and occupational skills were thus allowed to waste. The unemployed were frequently assigned to jobs at a considerable distance from their homes, which worked hardship on families. The rules applied by the Commission made the choice of work projects inflexible and their expansion very difficult.¹⁷

Some Findings of the Economists (1931-34)

The limitations of the work of the Unemployment Commission were only one element in the heated discussions which took place in Sweden in 1931-33 on the problems of dealing with unemployment and with economic recovery. There had been going on for sometime a struggle on these issues. On the one hand were the supporters of the traditional view that society cannot successfully influence economic trends by an "unemployment policy," and that the best policy was to help "natural adjustment" by curtailing state expenditures, balancing the budget, and reducing costs, especially wages, within the productive system. On the other hand was the group who claimed that a government policy which aimed at a reduction of expenditures had a deflationary tendency and aggravated the depression, and that the way to fight a depression was to carry out extensive public works and public investments financed through borrowing in order to stimulate consumption and production.

¹⁶ This practice demanded that current expenditure be covered out of actual income, and that "nonproductive" expenditures on state capital investments also be paid out of taxes. "Productive" state investments were to be financed by long-term loans.

¹⁷ See Gustave Möller, "The Unemployment Policy," *Annals*, pp. 47-72.

This discussion was carried over into the political campaign of 1932. Before that date, the majority of the Rikstag, consisting of Conservatives, Liberals, and members of the Farmer Party, were convinced that the budget should be balanced according to traditional methods. The Labor Party instead wanted an expansion of public capital investments in the hope or expectation of creating a substitute for stagnating private enterprise. Its proposals touched both income-yielding state enterprises and nonincome-producing ones, such as public buildings, schools, hospitals, scientific institutions, water and sewage disposal plants, highways, bridges and harbors, reforestation and silviculture, drainage, etc. In addition, the government was urged to expand its activity by a more vigorous housing program, the improvement of dwellings, promotion of home ownership, etc. The conservative parties were especially afraid that the widening of the socialized sector of economic life, which this policy would bring about, might tend to become permanent.

The new policy, nevertheless, won such strong support in the Rikstag elections in the fall of 1932 that a change of government became necessary. A new government under the leadership of the Labor Party came into power in 1933, and it inaugurated the new policies to be considered in the next section.

In the midst of this discussion, late in 1931, the Unemployment Commission invited four Swedish economists to consider the problem of economic policy in relation to unemployment and to formulate practical proposals for an extensive treatment of the "economics of unused resources." The main question was: What would be the effects of a given policy under conditions in which considerable quantities of the productive factors were unemployed?

The four economists prepared monographs, each on some special aspect of the problem, which were published late in 1933 and early

in 1934.¹⁸ These monographs supplied a theoretical basis for the new economic policies which have since become associated with Sweden. The fact that the four writers, while differing on many points, could reach agreement in essentials, is traceable to their common intellectual and social antecedents.

The monographs were written in Swedish and have not been translated into English. Professor Ohlin has given a résumé of the main ideas of what he calls the "Stockholm School" in articles in the *Economic Journal*, March and June 1937. On the basis of these articles and of other sources quoted in the text the following statement has been prepared. While sketchy and incomplete, this statement may be helpful as giving some of the theoretical reasoning which influenced the making of "the new policy" in Sweden.

Processes of Economic Contraction and Expansion

The economists centered attention on the processes of the general expansion and contraction of economic activity, connected with variations in total demand in terms of money. Some of the specific views on which their analysis of changes in employment, output, and prices is based are summarized briefly below.

Some Aspects of Process Analysis

To analyze and explain what happens or may happen under certain circumstances, a system of bookkeeping which registers the relevant events over stated periods of time is necessary. The time-sequence of events and the time-lag are equally important. At the end of each period of time these registrations provide an account *ex post* (looking backward) of what has occurred.

¹⁸Dag Hammerskjöld, On the Spread of Business Cycles; Alf Johansson, Wage Development and Unemployment; Gunnar Myrdal, The Economic Effect of Public Financial Policy; Bertil Ohlin, Monetary Policy, Public Works, Subsidies, and Tariff Policy, as Remedies for Unemployment.

This, however, explains nothing, for it does not describe the causal or functional relations. As economic events depend on man's actions, one has to investigate what determines these actions. They always refer to a more or less distant future. Hence one must study those expectations about the future which govern the actions, keeping in mind that expectations are based on the experience of the past, although only partly of the immediate past. This analysis of the forward-looking type can be called *ex ante*. It is understood that actions depend not only on ideas about the future but also on actual conditions at the moment of action; e.g. the supply of capital instruments and commodity stocks, the character of existing contracts, etc. The *ex-post* description supplies knowledge about these things directly, and at the same time it throws light on those past events which influence expectations to a greater or lesser extent. Obviously a combination of *ex-post* and *ex-ante* analysis amounts simply to this: a description of actual events during a certain finished period, and of the differences between these events and the expectations which existed at the beginning of the period, is followed by an account of those expectations for the future which more or less govern actions during the next period. The registration of events during this second period reveals again that expectations do not all come true, a fact which influences expectations and actions during the third period, etc.

The *ex-ante* phenomena, i.e. the psychological causation, may be illustrated as follows: Purchases of goods and services are either intended for investment or for consumption purposes. Consider first investment purchases. The entrepreneur has certain *expectations* concerning future events beyond his control and a certain knowledge about his productive apparatus, contracts, etc. On this basis he makes certain *plans* concerning his own investments during the coming period, and these

plans are actually carried out as far as *his own* actions during this period are concerned. Plans are regarded as a special sort of expectations. The difference is that plans concern his own actions, while other expectations do not.

The *investment plans* are based on profit expectations. Of all possible investments which seem profitable, only some are planned for the next period and actually begun. It is clear that the cash and credit resources, which the firm has at its disposal at the beginning of a period and acquires during the period, provide an upper limit for its *ability to buy*, and that the expectations concerning them set a limit to its investment plans; while the profit expectations and the expectations with regard to future cash and credit resources influence *the desire to buy*. As long as the latter does not touch the former limit, it determines the investment plans.

Like investment purchases, *the demand for nondurable consumption goods and services* is influenced by expectations and by knowledge concerning the actual situation of the consumer. On the basis of these circumstances, consumption plans are made for the future. The important thing for an analysis of changes in employment, output, and prices is the sum total the consumer plans to spend and does actually pay out. The sum total of planned consumption depends on what the consumer expects to earn over a long period in the future. Consumption plans are also influenced by expectations concerning future prices, and concerning future needs in comparison with the consumer's present needs. The present and expected future position with regard to cash or credit plays the same role for consumption demand as for investment demand.

The upper limit for purchases is fixed only by the available purchasing power. The more people buy, the greater the total purchasing power in use. The holdings of cash and the amount of unused credit available can be said at any given moment to

indicate "unused purchasing power"; it is not reduced by purchases, only transferred. What, then, determines purchases and thus price movements as far as the demand side is concerned? An individual's present cash or credit, plus what he receives during a period, sets the upper limit for what he can spend during that period, i.e. governs his ability to buy. His expectations, etc., determine his willingness to buy within that limit.

A similar analysis of expectations, etc., is required to explain supply as to explain demand, but this is chiefly only another side of the entrepreneurs' investment plans.

By keeping the *ex-ante* and *ex-post* concepts clear, it is possible to give account of various processes. Consider, for instance, the relation of planned savings to planned new investment. Anticipated or planned net income equals planned consumption plus planned savings. There is no reason, however, to assume that planned savings should equal planned new investment. But when the period is finished, new investment is equal to savings. How does this equality occur? The inequality of planned savings and planned investment sets in motion a process which makes realized income differ from expected income, realized savings differ from planned savings, and realized new investment differ from the corresponding plan. Unexpected income, unexpected new investments, and unintentional savings arise. The businessman who, after the closing of his accounts, finds that he has had a larger net income than he expected, and that the surplus over and above his consumption is greater than his planned savings, has provided "unintentional savings" which is equal to this extra surplus. Unexpected new investment which, like unintentional saving, may be negative can mean simply that stocks at the end of the period are different from what the entrepreneur expected. The discrepancy between planned savings and planned investment can be regarded as the cause of the process. A similar develop-

ment (that is, an expansion of economic activities) will follow if the original change is an increase of planned investment unaccompanied by any growth in planned savings.

This, however, is only one side of the story. Even if planned savings and planned investment should happen to be equal, a process of expansion is possible. The only thing required is that expected incomes grow, and that consequently consumers increase their purchases.

An important factor in these economic processes is the speed of reactions. Obviously, in each case, one has to study the actual transactions in their relation to the plans and expectations. The different reactions depend on this. As these reactions often go in opposite directions, it is necessary to consider the relative strength and speed of these tendencies.

Obviously, the effects of a certain primary change varies with the time sequence and the speed of the secondary reactions. The consequences of changes in wage rates, tariffs, etc., will be different under different conditions.

The reactions of purchases, for instance, depend on (1) the speed with which profit and other income expectations are affected; (2) the speed with which (a) the amounts of cash in the hands of different firms or individuals are changed, and (b) the willingness of credit institutions and others to give credit; (3) the actual cash and credit position when the primary change occurs.

What is the source of increased savings during a process of expansion? If the interest level is reduced, or the profit expectations raised or public works started, and thereby the total volume of investment expanded, while the planned saving is, to begin with, unchanged, how then is a larger volume of saving—corresponding to the increased investment—called forth? The answer is simple. At the end of each period some individuals and firms find that they have had larger incomes than they expected.

In other words, realized savings exceed planned savings. Secondly, the negative incomes which reduce the net savings for society as a whole are reduced. Thirdly, as incomes and expected incomes rise, planned savings grow also.

There is in this explanation no room for such expressions as the common one, that "the expansion of investment has been financed by credit expansion," e.g. the printing of new notes, "injection of new money," and the like. Whether the note circulation is increased or not is immaterial and has nothing to do with the question of how the savings which correspond to the increased investment are called forth. Even when the state finances public works with the printing of new notes, the increased investment is matched by increased "real" savings. At the end of the period some people hold more cash than at its beginning. This is evidence that they have had an income which they have not consumed, i.e. that they have saved. *Ex post* there is *ex definitione* equality between savings and investment. The usefulness of this construction is that one has to show through what process it is "brought about," even though, as in this case, planned savings differed from planned investment. This process has little or nothing to do with the question of whether or not new notes are printed. It is just as possible during a period of constant quantity of money. Naturally, in that case, the velocity increases. But to say that either the quantity of money or its velocity, or both, must increase is a truism and no explanation.

Savings, Interest Rates, and Investment

Obviously the rate of interest cannot—with the terminology used above—be determined by the condition that it equalizes the supply of and the demand for savings, or, in other words, equalizes savings and investment. Savings and investment are equal *ex definitione*, whatever interest

level exists on the market. Nor can one say that the rate of interest equalizes planned savings and planned investment, for it obviously does not. How, then, is the height of the interest level determined? The answer is that the rate of interest is simply the price of credit and is therefore governed by the supply of and demand for credit. The banking system can, and to some extent does, affect the level of interest rates. This does not mean that the height of the interest level has no connection with the disposition of individuals and firms to save and with other elements in the price system. The connection, however, is indirect.

Given a certain disposition to save and certain income expectations, i.e. certain consumption and savings plans, the level of the rate of interest relative to profit expectations determines the volume of investment and the way in which production, trade, and prices develop. Thus, incomes are made to differ from expected incomes, savings from planned savings, and investment from planned investment in such a way that savings and investment agree. *Caeteris paribus*, increased investment without a corresponding increase in planned savings raises the sum total of purchases and, thus, production or prices or both. The *caeteris paribus* assumption includes "constant income expectations." If they rise, and consumption with them, an expansion will result even if planned saving should happen to be equal to planned investment. The essence of the matter is simple; how do consumption purchases plus investment purchases vary from one period to another? To explain this, plans and expectations and their relation to the "realizations" of earlier periods have to be considered.

Other things being equal, a change in the interest level will cause a different kind of economic development. An important conclusion follows. Whichever rate of interest one wants to call "normal" depends on what kind of economic development one

considers "normal." Some people regard a constant price level of some sort as natural, and they are then entitled to call the rate of interest "normal"—if there is one—which leads to this constancy. There is, of course, no special reason for looking at the price situation alone instead of at the economic situation in general. In brief, the rate of interest, or rather the combination of rates of interest, which is compatible with the economic development one chooses to call "normal," is also normal, and so is the volume of savings and of investment which goes with it. If the interest level should be lower and the volume of investment greater than what corresponds to this development, then a process of relative expansion—of output or prices or both—is the outcome. Thereby the total quantity of savings is increased. As this economic development is *ex definitione* not "normal," the extra savings can also be called "not normal." Part of them is of the "unintentional" kind, the rest is planned on the basis of income expectations which are enlarged by the process in question.

The important thing to stress is that the distinction between "normal" and "not normal" interest rates and savings depends on arbitrary assumptions that one kind of economic development, e.g. a constant wholesale price level, is "normal." Besides, it is far from certain that there is always one interest level which guarantees the existence of this normal development. On the one hand, it is possible that *no* interest level can do this. On the other hand, a great many and rather different interest levels may satisfy the condition of being compatible with this development. Obviously, in a dynamic analysis one has to give up the idea of an equilibrium rate of interest in the sense of the static equilibrium theory.

The reasoning so far is only an indication of the effects produced when the banking system fixes certain interest rates. The banking system alone does not determine

the height of these rates; only the discount rate is usually fixed by the central bank. As to the other rates, e.g. the bond yield, the banking system is only one of many factors which affect demand, supply, and price. This requires further explanation.

It is important to distinguish between an *ex-post* and *ex-ante* analysis. *Ex post* one finds equality between the total quantity of new credit during the period, and the sum total of positive individual savings. (Of course, a person who uses his own savings is then said to give credit to himself; this supply and this demand offset one another and exert no influence on the price of credit.) Thus, there is a connection between the rate of interest, which is the price of credit, and the process of economic activity, of which the flow of saving is a part.

To explain how the rates of interest are actually determined, we need a causal analysis which runs chiefly in *ex-ante* terms. What governs the demand and supply of credit? Two ways of reasoning are possible. One is *net* and deals only with *new* credit, and the other is *gross* and includes the outstanding *old* credits. The willingness of certain individuals during a given period to increase their holdings of various claims and other kinds of assets minus the willingness of others to reduce their corresponding holdings gives the supply curves for the different kinds of new credit during the period. Naturally, the quantities each individual is willing to supply depend on the interest rates. In other words, the plans are in the nature of alternative purchase and sales plan. Similarly, the total supply of new claims minus the reduction in the outstanding volume of old ones gives the demand for the different kinds of credit during the period.

The demand for claims of different sorts can be explained partly in terms of the same expectation-analysis as for demand for investment goods. In discussing this

latter question above, nothing was said about the former, i.e. the way people planned to handle their own savings and "free capital." Except when they want to use them for direct investment—purchases of goods for investment purposes—they must decide in favour of acquiring claims, including cash. The psychology behind the choice between the different possibilities in this respect has been much illuminated by Keynes' discussion of "liquidity-preference."

A similar kind of reasoning can, of course, be applied *gross*, i.e. including the old claims which were outstanding when the period began. People's willingness to hold the different claims and other kinds of assets every day governs the supply of credit. The total supply of claims, etc., governs the demand for credit. In each market for the different claims, etc., supply and demand are made equal by price. These prices for interest-bearing claims on certain fixed sums determine the rates of interest. It is quite obvious that this reasoning in gross terms leads to the same result as the net analysis above.

The theory of interest can be regarded as falling into three parts: (1) an analysis of the markets for claims and other assets, where their prices and, thus, the rates of interest are determined, which includes the phenomena of credit policy by banks, e.g. open-market operations; (2) an explanation of what kinds of processes, with regard to the quantities of planned and unintentional savings and investment, result from the existence of certain interest rates, or rather, from certain movements in interest rates; (3) an account of the connection between these processes and the transactions on the markets first mentioned. One process is apt to increase the willingness to hold long-term bonds, while another process reduces it, and this changed willingness is much dependent on the changes in incomes and in planned savings. Consumers buy consumption goods, businessmen buy capital

goods, i.e. invest in a real sense, but there is a third kind of purchases to be explained—"financial investment," i.e. the purchases of bonds, shares, and bank deposits, and the failure to use savings either for real or financial investment, which is identical with an increase in cash.

Wages and Employment

Permanent unemployment need not be "due to" a failure to reduce wages. In other words, it is far from certain that a reduction in wage rates would reduce unemployment to what is called a "frictional" minimum. In the post-war discussion economists have sometimes *assumed* that there is an equilibrium wage which would make demand equal the available quantity of labor and, thus, lead to a state of no unemployment, except of the frictional type. Thereafter, they proceeded to state that the existence of chronic unemployment is a *proof* that "wages are too high." Once the static equilibrium reasoning is given up, it becomes obvious that the relation between wages and unemployment is much more complicated. The level of wage rates is only one element of many, which have to get into certain relationships in order that the available labor force shall be employed.

When labor is set free through labor-saving technical changes, there is no automatic compensation in increased employment elsewhere. What is set free is not "purchasing power," which will buy more of other goods than those cheapened by the invention, so that the expansion of output of such goods will provide employment for the discarded laborers. On the contrary, it is "productive power" which is made available, and it will not be reemployed unless some new impulse to expansion comes forward.

Wage increases can lead to larger output and employment. The effect depends chiefly on how the investment demand of entrepreneurs reacts. Under certain conditions it will grow when wages go up, e.g. because

people expect prices to rise later on. Under other conditions the opposite is true. The reaction of consumption demand is easier to determine. The outcome with regard to output and employment depends much on the speed of the various reactions of different kinds of investment demand and of consumption demand. The possible rise in employment has nothing, as such, to do with a rise in prices or of living costs. The Stockholm theory thus denies the validity of the "orthodox" thesis that an increase in employment must be accompanied by a reduction in the real wage.

The Report of the Unemployment Committee emphasizes the fact that the total demand in terms of money will be increased (a) if foreign countries buy more, (b) if investment is increased, and (c) if consumption purchases are increased. The possibilities of increasing investment are particularly studied. But the Committee is careful not to assume that measures to maintain investment are all that is needed to guarantee practically complete employment. Even the largest volume of investment which during a certain period is compatible with a desirable stability in price conditions and in the external value of the currency may leave considerable unemployment if the mobility of labor is small, or if wage rates are "too high." It is not much less dangerous to concentrate attention exclusively on the volume of investment, in its relation to the propensity to consume, than to think only about some of the other relationships involved, e.g. wage flexibility.

The Budget and Business-Cycle Policy¹⁹

Every budget is formally balanced since the sum of the items on the expenditure side must always be covered exactly by

¹⁹ This section is a summary of Professor Myrdal's views as presented by Erik Lindahl in *Studies in the Theory of Money and Capital*, pp. 351 ff. (Appendix: *The Problem of Balancing the Budget*.) Lindahl's method is to proceed by way of comment on the extensive investigations of the problem carried out by Professor Myrdal at the request of the Unemployment Commission.

revenue. A demand for a balanced budget must, therefore, mean that the sum of certain kinds of revenue must be equal to the sum of certain kinds of expenditure. The most natural procedure is to start either from total current revenue, i.e. revenue other than that arising from the sale of capital assets or from borrowing, or from total current expenditure, i.e. expenditure that does not lead to an increase in the aggregate net assets of the community. Myrdal introduces the term "financial soundness" in order to characterize "the long-term trend of development of the net assets of the body public." His intention is to make it clear that the problem of balancing the budget is concerned primarily with the question whether, and to what degree, the state (and other public authorities) should increase or reduce their total net assets.

Myrdal points out that there are a number of advantages in a relatively high degree of "financial soundness" as far as long-term policy is concerned. He shows that it is particularly desirable to increase "soundness" when the net property of the state is small or negative, and current taxes are therefore so high that their incidence is necessarily unsatisfactory.

In general, a rising net value of public assets must be advantageous to the working classes, so long as the relief from taxation thus made possible is not offset by a flight or other loss of capital. On the other hand, the program must tend to encounter opposition from the rich, who are forced to finance tax relief in the future by a reduction of their property now, but who will have to share the benefits of the tax reduction with the whole community. A real divergence of political interest thus arises from the fact that an increase in the net assets of the state implies some mitigation of the inequality of the present distribution of wealth.

The long-term solution of the problem of public investment is of primary importance for the distribution of wealth. Its direct relevance for the problems of the labor

market, especially the unemployment problem, is, comparatively speaking, less.

The mitigation of economic fluctuations means, so far as the labor market is concerned, that unemployment is reduced in depression but in the boom may perhaps be somewhat greater than it would otherwise have been. The advantage of such a policy is that the reduction of unemployment is presumed to be much larger than its increase, so that there is a reduction in the average degree of unemployment in the long run.

Myrdal appears to assume that the application of financial policy to the ironing out of trade fluctuations will leave the scope and extent of private activities unchanged in the long run. The Unemployment Commission is still more positive on this point. Its report is profoundly influenced by the view that government activities should not be expanded at the expense of private activities, but should take place through the employment of productive resources that would otherwise have been (wholly or partly) idle.

Any smoothing out of trade fluctuations regarded as desirable should be attained, in the opinion of Lindahl, primarily through monetary measures. The primary responsibility for trade-cycle policy must accordingly lie with the Central Bank, since it is intimately concerned with the responsibility for the care of the monetary system. Public finance can therefore only be a supplementary instrument and should, if possible, be coordinated with the policy pursued by the Central Bank. Myrdal and the Unemployment Commission seem to be of the same opinion on this point.

If such a financial policy is to be successful, it is important that it should not come up against difficulties arising from the relation of the country to other countries. There must accordingly be what Myrdal terms an "international margin" for an independent policy. Also, the technical budgetary apparatus and the character of public administration must be such as to

make the policy feasible. Finally, there must be grounds for believing that fairly reliable short-term economic forecasts can be made.

The least that can be demanded of public policy is that it should not aggravate fluctuations, but should remain *neutral*.²⁰ This implies that the total volume of public works and purchases should be adjusted to a normal trend of development. They should accordingly not be made to depend on annual fluctuations in the business situation. The unavoidable surpluses and deficits on the revenue side in different years would then be evened out through transfers from and to a fund created especially for this purpose, or by short-term borrowing.

The authors of the Commission's report and Lindahl are in agreement with regard to the following main points as to budgetary policy:

1. The trade cycle should not be allowed to affect normal public activities. This means that the tendency to reduce expenditure in bad years and increase it in good years should be resisted in respect to normal activities. Any modification of financial policy in this direction which may be required for a special reason should be effected through adjustments in the earnings of the factors of production rather than through variations in the volume of their employment.

2. Public constructional work, whether self-liquidating or not, should be distributed between depression and boom years in such a way that the best budgetary result is attained, i.e. the lowest costs with given advantages. Such works should be concentrated in depression years with their comparatively low level of costs, so far as such a policy does not hinder the public bodies from carrying out their

²⁰ The majority of the Unemployment Commission took this cautious position. In Mr. Lindahl's opinion, it would be inconsistent and unfortunate to commit oneself to this "neutral" financial policy so completely as to preclude the possibility of a more active policy when it is clear that it would give favorable results.

duties. Public action will then automatically give rise to a "counter-trend" with a stabilizing influence on the general trend.

3. The tax burden should, on the whole, be lighter during the depression and heavier during the boom. This presupposes that the budget is "underbalanced" in the former case and "overbalanced" in the latter. The degree of "overbalancing or underbalancing" should be determined in consultation with the Central Bank, to ensure that budgetary policy is in conformity with the program of monetary policy. Budgetary policy will then influence the supply of savings available for private investment, ensuring a better correspondence with the variation in demand during the different phases of the trade cycle.

It appears to be a general rule that the gold standard increases the need for a cyclical budgetary policy, but diminishes the feasibility of carrying it out. The opposite is true in respect to independent currencies. If it is on the gold standard, a small country like Sweden must, for the most part, adjust itself to international trade fluctuations. The opportunities for an independent policy are very limited. The rules of budgetary policy laid down above must be applied with caution. The difference in the case of a country with a free currency is that it remains possible to exercise a decisive influence on the future internal price level. The possibility of carrying out a financial program of rational business-cycle policy is thereby substantially increased.

The main problem of budgetary technique is to ensure that a budget "deficit" in one year will really be counterbalanced by a corresponding "surplus" in another, so that the long-term net rise in assets will not fall below the desired figure.

Myrdal has linked his proposed solution of the budget problem with a demand for a recasting of the Swedish system of budgetary accounting so as to make it more comprehensive. Such a reform would in the first

place imply that besides the direct monetary expenditures of the various departments the annual value of the services obtained through the utilization of real capital assets owned by the government should be included in the accounts. This more comprehensive accounting system has the advantage that the principle now adopted in Sweden for balancing the budget can be formulated more flexibly. Even nonremunerative capital investment can to some extent be financed out of loans since future budgets will bear the charge for depreciation.

It is of fundamental importance that the budget should be drawn up in such a manner that the degree of "overbalancing or underbalancing" can be clearly perceived in every case.

The Limits of Deficit Spending²¹

Whether deficit spending will have self-perpetuating effects and whether it can, therefore, be utilized as a "starter" which can later be safely discontinued, depends on whether the general trend of production and national income is unbroken, as it is in Sweden, or broken as in America; that is, whether we are dealing with a depression in the sense of a temporary setback or with a prolonged stagnation.

Business stagnation points to specific maladjustments in the structure of the economy and, therefore, calls for radical changes in the whole institutional framework of that economy. The most that can be asked from fiscal policy in such a situation is that it procure the necessary breathing space for reforms attacking the deeper causes of maladjustment. The effect of deficit spending on the increase in private investment will naturally be much weakened, if not reversed, during a stagnation in which business confidence in the future is at a low point. To state it more

²¹This is a summary of the views of Professor Myrdal whose work has greatly influenced recent budgetary policy in Sweden.

specifically: if dealing with a predominantly capitalistic economy like that of the United States, where, in addition, public economic activity is by tradition very narrowly restricted, and public spending in profitable investment particularly limited; if, furthermore, that economy is experiencing an economic stagnation with business fluctuating around a trend of production reaching only two-thirds or perhaps one-half of its potential capacity; if, in such a situation, deficit spending, frustrated and driven into the very narrow channels remaining open to it, is utilized to uphold national consumption (and production) but the more fundamental causes of maladjustment are mainly left unattacked; then it should not be surprising if a decrease of public spending is immediately followed by a new downward turn.

The shortcomings of the new fiscal policy as it has been tested in various countries during the last depression are, to a considerable extent, to be explained by the fact that this policy was frustrated as a result of being superimposed upon a budgetary system which had been built on principles contradictory to this very policy. It is, therefore, at present an important problem of economic engineering to construct a new scheme of legal and institutional regulations which at the same time will guarantee to a satisfactory degree the "soundness" of public finances in the long run and will allow enough flexibility from year to year for fiscal policy to serve its purpose, among other things, to mitigate fluctuations in business activity.

One of the obvious shortcomings of deficit spending during the last depression was the adverse reaction of business confidence which has too often restricted or even possibly reversed its stimulating effects. It might seem astonishing that business should react in this way. In a depression with falling demand, decreasing production and increasing unemployment there is temporarily a harmony of interests in society. Farmers, workers, businessmen, all should

be interested in keeping up purchasing power, production, employment, and prices.

If business and public opinion more broadly are afraid of a deficit spending program, it must be because people fear a less sound trend of financial development in the long run. Some sort of arrangement giving guarantees for a corresponding overbalancing of the budget in good times should, therefore, be made.

That would mean that the budget reaction to changes in business activity should be built on a fixed pattern, regulating deficits and surpluses in budget balancing by a fiscal policy which is integrated and regularized into a system of long-range budget planning.

Only by integrating the fiscal policy during depression into a long-range scheme will it be possible to give deficit spending the magnitude actually needed in the situation. Only by organizing it into a permanent budget system will a more courageous fiscal policy during depressions be possible.

The idea behind such a financial system (in which the budget is directed into a pattern more compatible with the purposes of business-cycle policy) is not only to take away the irrational inducements to be parsimonious during depression years but also to make the budget situation seem difficult in boom years. Deficit spending must be accounted in such a way that it mortgages the otherwise ample resources of good years. The deficits are, therefore, to be made visible, and a technique must be invented by which the deficits are carried forward until they are liquidated.

That is, of course, the real issue: How to tie the hands of government and legislators in good times and hinder them in expansion beyond the trends and then be able to release their hands and spur them to action in depressions?

The New Antidepression Policy (1933-35)

The social-democratic government which came into power in 1933 did not have a

majority in either House of the Riksdag, and it formed an alliance with the Farmers' Party representing the agricultural interest. It was this coalition, under the leadership of Premier Branting and of Finance Minister Wingforss, that carried through the 1933 Riksdag a program based on its own conception of the proper means for combating unemployment and overcoming the crisis. The series of measures carried out during 1933-35 and the principles on which they were based are the essence of the program which has since been referred to as Sweden's "new" or "active" anticrisis or antidepression policy.

The basic ideas of the "new policy" were that economic recovery could be stimulated by an expansionist economic program and that, to be successful, the "anticrisis" policy must consist of political-economic measures supporting each other and so conceived, each independently, and all jointly, as to serve the same end. The more important measures adopted included agricultural price policies to maintain the purchasing power of the farmers without increasing too much the cost of living for other population groups; a public works policy financed through loans; a housing policy; a monetary policy which aimed at a reflation of the price levels of raw materials and of industrial products; and a foreign exchange policy which was to promote increased exports and yet help preserve relative freedom in the trade with other countries. These policies will be considered here briefly.

Agricultural Price Policies

During 1932-33 prices of agricultural products grown in Sweden fell to very low levels. Measures had been taken before 1933 to support an increase in the prices of cereals, sugar, and milk. Despite these measures the effects of the agricultural crisis were serious; the annual number of farmers declared bankrupt doubled between 1930 and 1932.

The Labor Party, before 1933, representing the consumers' interests, had shown an unwillingness to give up the benefits of low prices for foodstuffs. In 1933, however, a change occurred in the Labor Party's attitude. It took the position that the price level for agricultural products was unduly low, and that the lessened purchasing power of the agricultural classes had an unfavorable effect upon demand in general. It advocated measures for raising agricultural prices to some extent.

The measures adopted in 1933-34 were expected to raise the prices of agricultural products to 75 percent of the average prices of 1925-29. This was a conservative aim and still meant low prices in relation to the predepression period. It was assumed to be in the interests of both the general public and the farmer that prices of farm products should not be permitted to rise faster than the increases in the income from wages. It was considered of the greatest importance that improvements in the condition of the farmer and of the wage earner should be so directed that they would parallel each other as much as possible, so that the two groups would not be antagonistic to one another.

It was part of the agricultural policy to aid not only the farmers but also the landless agricultural workers. They were to receive a reasonable share of the increased revenues brought to agriculture by the government program. Because of this, a proposed reduction in agricultural wages was postponed at the request of the government.

Changes in Work-Relief Policy

Though the "new policy" shifted the center of gravity of the government's program to public works proper, the work-relief activities of the Unemployment Commission were continued. Several important changes were made after July 1, 1933, with regard to wage payments, place of employment, and character of the reserve works allowed.

In line with the new aims of the government, the Unemployment Commission ruled that the same wage rates should be paid on reserve works as were being paid for unskilled labor in the locality on the open market. Efforts were to be made to find employment for the unemployed in or near their home districts.

With regard to the character of the reserve works, it was permitted to initiate projects which might also be undertaken by private enterprise in less than 3 years. Furthermore, "white-collar" projects were undertaken to provide employment for office and professional workers and for women. The policy was also adopted of increasing the proportion of state-aided municipal reserve works.

The results of these changes were shown in larger expenditures for reserve works and in their employing a larger proportion of the unemployed. From July 1, 1933, to December 31, 1935, the Swedish Government spent 122,945 Kronor on state reserve works and 92,971 Kronor on state-aided municipal reserve works.²² The number of persons given employment on these works and on unsupported municipal reserve works was 44,861 in 1933; 44,208 in 1934; and 29,781 in 1935. This was 28.6 percent of the unemployed reported in 1933, 38.5 percent in 1934, and 48.4 percent in 1935.²³

The Unemployment Commission also continued to pay cash relief. The number of unemployed receiving such relief was 54,174 in 1933 (34.5 percent of unemployed); 32,196 in 1934 (28.1 percent of unemployed), and 10,112 in 1935 (16.4 percent of unemployed). Small sums were also spent for the relief of young workers.

Emergency Works

The main item in Sweden's unemployment program during 1933-35 was the scheme of public works undertaken by the state, called

"emergency works" in contrast to the "reserve works." The emergency works had as their chief aim the increase of employment in the capital-goods-producing industries. The works were so selected as to require the use of the products of the timber, brick, tile, and stone industries and, to a lesser extent, those of the metal and machinery trades.

The public works projects undertaken during 1933-35 may be classified under the following headings: (a) advance state emergency works; (b) advance municipal emergency works; (c) communications; (d) agriculture and forestry; (e) workers' housing, and (f) government buildings.

The advance state emergency projects involved chiefly the construction of fishing ports and work for scientific institutions and purposes. From July 1, 1933, to December 31, 1935, about 7,595,000 Kronor were spent on 1933 enterprises. The procedure was to grant the funds to state-owned undertakings and state authorities or, in exceptional cases, to certain public associations or foundations.

The municipal advance emergency works included schools, hospitals, municipal buildings, church restorations, sports grounds, cemeteries, etc. They had to be entirely municipal in purpose, not suitable for municipal reserve works, and of such a character as not to permit state support otherwise. In granting state support for works, account was taken of the extent of unemployment in the municipality, and of the financial position of the municipality (especially the "burden of taxation"). The assistance given by the state to the municipalities was either in the form of loans or of contributions without liability of repayment.

The scope and character of the public works carried out from July 1, 1933, to December 31, 1935, are shown in table 5.

The principle of wage payment adopted on the public works was that of the "prevailing wage," which made the wage costs on these works much higher than on reserve

²²As against 92,861 and 36,989 Kronor respectively during 1929-1933.

²³See Svenska Handelsbanken's Index, Supplement of June 1938.

Table 5.—Type and Costs of Public Works in Sweden, 1933-35

Type of public works	Number of enterprises	Total costs (in Kronor)	Percent of total costs	
State advance emergency works-----	133	7,595,000	15.7	
Municipal advance emergency works---	365	47,213,000		
Communications-----	270	41,821,000	13.9	
Elimination of level crossings----	91	10,536,000	17.8	
Bridges-----	42	8,553,000		
Harbours-----	43	8,314,000		
Paving-----	23	4,000,000		
Permanent-way improvements-----	15	962,000		
Road construction-----	56	9,556,000		
Agriculture and forestry-----	38,283	53,707,000	4.6	
Rationalization of manure deposits--	8,652	6,272,000		
Drainage-----	1,846	16,950,000		
Ditching-----	9,434	10,208,000		
Grain elevators-----	6	1,809,000		
Rafting channels-----	392	2,657,000		
Afforestation-----	17,838	15,100,000		
Road making in newly developed areas--	115	710,000		
Workmen's small holdings-----	2,780	13,900,000		10.4
Government buildings-----	58	31,168,000		
Housing construction-----	39,609	113,543,000		
Total-----	81,498	301,470,000	100.0	

Source: Svenska Handelsbanken's Index, Supplement of June 1938, p. 10.

works. The average earnings during 1933-35 were between 4 and 5 Kronor a day on state reserve works, between 5 and 6 Kronor a day on state-aided municipal reserve works, while they ranged between 8.76 and 9.22 Kronor a day on public works depending on the type of project and skill required.

It was expected that the increased costs per worker would be compensated for in a stronger indirect effect on employment due to the increased purchasing power consequent upon the payment of higher wages.

Low-Cost Housing

One of the most important items in the public works program was the large number of projects for home repairs and housing construction. In rural areas, old and more or less unhealthful dwellings were to be replaced by more hygienic houses. In urban areas, house construction was to provide better facilities at lower rentals. The special program proposed in 1934 was to provide families having many children with roomy dwellings at reasonable rents.

As shown in table 5, 37.6 percent of the total spent for public works in 1933-35 was appropriated for housing construction. During this period 39,342 rural dwellings were improved or built at a cost of 66,630,000 Kronor; while in the urban cen-

ters 267 enterprises were subsidized at a cost of 46,913,000 Kronor. In rural areas, housing construction was subsidized either by loans for new construction or by contributions toward improvements. State aid for housing in towns and cities was given only in the form of loans. Such loans were granted to private owners and to building contractors as well as to cooperative housing enterprises.

Financing and Budgetary Policy

Before the "new policy" was inaugurated in 1933, the Swedish budget was based on the principle that each year's current expenditures should be covered by the actual income for that year. It was assumed that the largest part of the government's expenses should be covered by taxes. The government was supposed to borrow for productive purposes only. As a matter of fact; the Swedish Government had for years been engaged in large enterprises; it owned and operated railroads, the postal service, telephones, hydroelectric power stations, forests, paper and pulp mills, and had placed capital investments in loan funds and in stocks. In addition to its tax receipts, the Swedish Government thus had considerable income from profits, fees, and other charges. The income derived from productive investments, as a rule, exceeded the interest paid on the public debt.

When the first effects of the depression began to be felt during 1930-32, the government, in accordance with traditional principles, proceeded to cut ordinary public expenditures and to increase taxes. To meet the expenses of cash relief and of reserve works for the unemployed, it used the surpluses accumulated in the treasury during the previous boom years. Nevertheless, a deficit could not be avoided and the government borrowed, on a small scale, for "productive" and "unproductive" investments.

The situation is shown in table 6.

Table 6.—Income, Expenses, and Budget Position of Sweden (1929-1933)
[In Kronor]

Year (July 1-June 30)	Tax receipts			
	From income and property	From con- sumption	Motor vehicle	Total
1929-30-----	209,700,000	335,600,000	44,300,000	589,600,000
1930-31-----	226,300,000	320,500,000	51,400,000	598,200,000
1931-32-----	214,700,000	321,500,000	58,800,000	595,000,000
1932-33-----	201,300,000	328,800,000	72,800,000	603,900,000
Budget position (expenditures)				
Total current expendi- tures	Capital investments			Total
	Productive	Unpro- ductive		
1929-30-----	770,500,000	40,600,000	6,500,000	47,100,000
1930-31-----	781,400,000	37,100,000	5,900,000	43,000,000
1931-32-----	826,100,000	67,900,000	11,600,000	79,500,000
1932-33-----	823,900,000	81,200,000	15,100,000	96,300,000
Income and expenditures				
	Actual income	Actual expenses	Surplus (+) or deficit (-)	
1929-30-----	778,300,000	708,600,000	+69,700,000	
1930-31-----	782,900,000	739,600,000	+43,300,000	
1931-32-----	736,500,000	777,400,000	-40,900,000	
1932-33-----	741,000,000	816,300,000	-75,300,000	

Source: Based on tables given by Ernst Wingforss, "The Financial Policy During Depression and Boom," *Annals*, pp. 32-36.

The "new policy" reversed the former budgetary practice and adopted the idea of using the budget as a means of reducing economic fluctuations by expanding public expenditures during depression and reducing them in times of prosperity. The principle for balancing the budget introduced in 1933 was that the budget was not to be balanced per year, but per business cycle by increasing deficits during the depression phase of the cycle and surpluses during the boom years.²⁴ That meant a policy of borrowing for productive and unproductive purposes during depression years on a far larger scale than before.

This is what the government did during 1933-35. During these 2 years, when

²⁴ "Nothing in Swedish experience, either with regard to production or with regard to interest rates, contradicts the opinion that in financially strong countries it is sound and practicable to resort to large-scale borrowing during periods of depression. The idea that the Budget must be balanced each year, and that otherwise inflation is bound to ensue, is one of those popular maxims which are true in certain circumstances but not in others. The fact that they have been preached as a general gospel without qualifications, especially by bankers, has done much harm. For if an economic policy is believed to be unsound the practice of it cannot fail to call forth certain unfavourable 'confidence reactions.' In Sweden, particularly, influences of this kind have been very slight. It is wise to learn the lesson of recent experience that intelligent and sound public finance does not require the Budget to be balanced each year, but only over a number of years,

unemployment was at its peak, the government appropriated a total of 702,000,000 Kronor for work projects. In addition, municipalities and private persons invested 130,000,000 Kronor. Thus, total capital investments made or stimulated by the state during these 2 years amounted to 832,000,000 Kronor. This was 567,500,000 Kronor more than had been invested for such purposes during 1929-31.²⁵ Of the 702,000,000 Kronor appropriated by the state, 340,000,000 were directly earmarked for purposes of relieving unemployment. This sum included 145.5 million Kronor for reserve works to be carried out by the Unemployment Commission. The largest part of these funds was obtained by borrowing.²⁶

The effect of the public works policy on the Loan Budget was that total expenditure, taking the Ordinary and the Loan Budgets together, grew from 1929-30 to 1934-35 by 42 percent. In the 4 financial years 1928-29 to 1931-32 a little over 1/20 of the total expenditure was met by borrowing, but in the 2 years 1933-34 to 1934-35 one-quarter of the total was financed in the Loan Budget. New loan expenditure for nonself-liquidating public works constituted 15 percent of the total budget in 1933-34.²⁷ Some of the relevant figures are shown in table 7.

including both good and bad business conditions." Bertil Ohlin, *International Labour Review*, vol. XXXI, No. 5, May 1935, p. 685.

²⁵ Gustave Möller, *op. cit.*, p. 53.

²⁶ "The fundamental problem was whether the budget was to be balanced in the orthodox manner, year by year, by rigid economy and a stiffening of tax rates, accompanied by a deflation of wage incomes, or whether the budget should temporarily be unbalanced by a resort to loan-expenditure. Any attempt to enforce a considerable cut in wages would have been met by powerful resistance and the threat of social upheaval. Mr. Wingforss in his first budget estimate of January 1933, decided to borrow 160 million Kronor to finance public works which are not self-liquidating and to raise the death duties to yield 40 million Kronor to provide for the amortization of the special loans within 4 years. The government's second budget, tabled in January 1934, provided for further borrowing to the amount of 120 million Kronor to be spent on 'unproductive' public works. The redemption period was extended to 7 years. The Minister was of the view that, as the depression had worked itself out and the forces making for recovery were still weak, a large volume of loan-financed public investment would be of the utmost value." Brinley Thomas, *op. cit.*, p. 205.

²⁷ *Ibid.*

Table 7.—Budgetary Condition, 1933-35¹
[In Kronor]

Year	Tax receipts	Actual income	Total actual expenditures	Surplus (+) or deficit (-)
1933-34-----	615,900,000	782,700,000	877,400,000	-94,700,000
1934-35-----	689,600,000	902,900,000	1,022,200,000	-119,300,000

¹For source and detailed figures see table 10.

In adopting a policy of borrowing, it was assumed that no great burden would be shifted to the distant future. The plan was that the loans should be repaid during the next boom period. The amounts to be borrowed for the battle against unemployment were to undergo a rapid amortization. For the loans of 1933 the amortization period was estimated at 4 years. In order to assure such rapid repayments there were introduced higher taxes on inheritance and gifts, to be used for the amortization of the short-term loans. This policy was continued in 1934, when the special nonincome-yielding unemployment appropriations were estimated at about 167 million Kronor. It was estimated that the loans of both years could be repaid during a 7-year period.

Monetary Policy

The essential instrument of the Swedish antidepression planning, as pointed out above, was the use of the budget for expansionist purposes, that is, deficit spending by borrowing. In carrying out this policy, the Swedish Government was helped by favorable conditions in the money market. During 1933-34 the Swedish money market was easy and funds were plentiful. Interest rates were favorable, both short-term and long-term rates being among the lowest in the world (the rediscount rate of the Riksbank, the Central Bank of Sweden, was 2½ percent in December 1933 and 2 percent in 1934). Large governmental loans could be floated without detriment to private capital investments.

This condition was in large measure due to the change in monetary policy effected between 1931 and 1933. After Sweden went off the gold standard in September 1931,

a struggle ensued with regard to the aims and methods which the Riksbank should pursue in its policy of "monetary management." Owing to the fear of inflation, it was first decided to try to maintain a stable price level based on a cost-of-living index. In 1932 it was determined to keep interest rates low. In 1933, as a result of conditions described above, the policy was shifted so as to reflate the wholesale price level. The Riksbank relied chiefly on the rediscount rate and on manipulating foreign exchange rates. It did not engage to any significant extent in open-market operations, which was an untried procedure in Sweden.²⁸

The Labor Party which sponsored the "new antidepression policy" was of the opinion that the monetary management of the Riksbank before 1933 had not helped either to raise prices or to accelerate recovery, and that, in general, reflation could not always be effected by banking policies alone but required the support of an expansionist budgetary policy on the part of the government. At the same time, the party accepted the view that to the extent to which an expansionist fiscal policy is carried out by a single economy without collaboration with others, the basic requirement was a free currency not tied to gold. An expansionist credit policy during a depression could not be carried through if the condition for monetary policy is that of a fixed rate of exchange, or an internal price level, fixed in relation to that of other countries where possibly a different monetary policy prevailed. A coordination of monetary and fiscal policies was thus required.

In accordance with its plan for public works and financing by borrowing, the Labor Party modified the policy of the Riksbank to permit a reasonable increase in wholesale prices so long as this did not produce any important rise in living costs.

²⁸For details see Richard A. Lester, "Sweden's Experience with Managed Money," Supplement to Svenska Handelsbanken's Index, January 1937.

The New Policy and Economic Recovery, (1935-37)

Coincident with and following upon the introduction of the new antidepression policy, Sweden experienced a rapid and remarkable recovery. At the end of 1936 activity in Swedish industry "had reached a level without equal for the past 20 years,"²⁹ the year 1937 was "the best business year that modern Sweden has ever enjoyed."³⁰ The volume of industrial production in October 1937 was estimated to be about 46 percent above that of 1929. Both imports and exports increased considerably in volume and value, from 1,095,900,000 Kronor in 1933 to 2,123,269,000 in 1937 for imports; and from 1,078,700,000 Kronor in 1933 to 2,000,012,000 Kronor in 1937 for exports. The average number of unemployed decreased from 164,000 in 1933 to 18,000 in 1937.

It has been claimed by those who were responsible for the Swedish anticrisis policy that the policy has been justified by the extent and nature of the recovery which followed it. This claim is supported by reference to reemployment, prices, wages, and other economic data for the years 1933-1937, which may be briefly summarized here.

Reduction of Unemployment

The number of unemployed decreased greatly between 1933-1937. Table 8 gives average monthly figures as well as the maximum and minimum number of unemployed during each year.

The course of recovery and its effects on unemployment have been described as follows:

"It can be safely said that the peak of unemployment was reached in March 1933. During the summer of that year a slow improvement was noticeable, but not until

Table 8.—Number of Unemployed in Sweden, 1930-1937

Year	Maximum number unemployed		Minimum number unemployed		Average monthly number of unemployed ¹
	Month	Number	Month	Number	
1930-----	December--	31,901	July-----	5,824	14,000
1931-----	December--	89,761	July-----	30,520	47,000
1932-----	December--	161,156	July-----	94,687	114,000
1933-----	March-----	166,561	July-----	138,855	164,000
1934-----	January----	171,005	September-	78,918	115,000
1935-----	January----	93,419	September-	41,190	62,000
1936-----	January----	61,400	August-----	20,783	36,000
1937-----	January----	33,509	August-----	9,577	18,000

¹These figures must be regarded as minimum. Exact figures are never available, and a considerable amount of unemployment does not reach the attention of the authorities. At the bottom of the depression, probably about 250,000 persons were out of work; in the summer of 1937 about 35,000. See *Annals*, p. 52.

Source: Based on tables given in *Annals*, pp. 51-52.

the spring of 1934 did economic conditions show a great improvement. * * *

"Beginning in May 1934, the upward economic swing got under way and progressed rapidly. The year 1936 was decidedly a boom one, and in 1937 Sweden experienced the greatest boom which its economic history has perhaps ever known. The fact that the number of registered unemployed was a little higher in 1937 than in 1930 depends upon special circumstances; partly on the continued paralysis of the paving stone industry; partly on the determined rationalization of the lumber products and wood-pulp industries; and partly on the more liberal public assistance policy which has encouraged a higher frequency of registrations that in 1929 and 1930."³¹

The number of workers increased about 20 percent between 1933 and 1936. The index of industrial employment showed little gain as compared with the index of industrial production for the period 1929-1936. The index of industrial employment, taken as 100 in 1929, was 85 in 1933 and 102 in 1936. The volume of industrial production, on the other hand, increased 35 percent during the same period. The explanation of this phenomenon, all too familiar in other countries, is that it "is due to the rapid technological and other improvements ('rationalization') within industry proper." Because of this, the increase in employment is said to have taken place in the "secondary

²⁹U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *World Economic Review*, 1936, part II, p. 96.

³⁰U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *Economic Review of Foreign Countries*, 1937, p. 94.

³¹*Annals*, p. 52.

fields" (communications, service industries, etc.) which are dependent upon industry for their development.³²

Besides this technological problem, the recovery of 1933-37 left in its trail problems of unemployment in two provinces, Bohuslan and Vasternorrland, Sweden's "depressed areas."

Prices, Wages, and Living Standards

The heightened activity of 1935-37 found expression in an increased national income. In 1925 the national income of Sweden was estimated at 7.3 billion Kronor and in 1930 it had risen to 8.3 billion. The national income dropped to 7 billion Kronor in 1932-33, but was about 9 billion Kronor in 1936.

In this increased income the various groups of the population shared in a fairly equal degree. As pointed out above, between 1933 and 1937 prices of farm products were allowed or stimulated to rise. As a result, the farmers of Sweden are said to have obtained between 1933 and 1936, 838 million Kronor more than they might have received had no measures been taken to increase their purchasing power.³³ At the same time, an improvement was brought about in the condition of agricultural laborers by maintaining or increasing their wages and by regulating downward their hours of work.

The modest increase in the price of food products did not prevent the other objectives of the new policy from being attained. Owing to the fact that the prices of other consumers' goods which influence living costs continued to drop, there was an increase in real wages. The index of real wages (1929 = 100) which was 104 in 1930 and had dropped to 99 in 1932 rose to 105 in 1934, to 106 in 1936, and to 107 in 1937.

A considerable improvement was also made in housing conditions. From 250,000 to 300,000 persons in rural areas benefited from the government's housing program, and many more in the cities. The building program of the government also gave the popu-

³²Ibid, p. 60

³³Ibid. p. 67.

Table 9.—Income From State Enterprises and Interest on the Public Debt (1929-1937)

[In Kronor]

Year	Income from state productive investments	Interest paid on the public debt
1929-30	148,000,000	86,000,000
1930-31	144,000,000	82,000,000
1931-32	102,000,000	81,000,000
1932-33	94,000,000	91,000,000
1933-34	106,000,000	99,000,000
1934-35	140,000,000	97,000,000
1935-36	152,000,000	94,000,000
1936-37	190,000,000	91,000,000

Source: *Annals*, p. 26.

lation more and better schools, hospitals, etc.

Budgetary Position

As related in the preceding section, the program of the government in 1933-35 was financed by means of loans. The public debt was increased from 1,805 million Kronor in 1930 to 2,237 million in 1937. The interest on the public debt increased to some extent, but it was more than covered by the income of the state from its productive enterprises.

The plan adopted was to have the loans repaid during the next boom period. For the loans of 1933 the amortization period was estimated at 4 years, that is, they were to be repaid by 1937. The loans of both 1933 and 1934, it was estimated, could be repaid in 7 years.

To carry out this plan, the government introduced higher taxes on inheritance and gifts. Its financial position was helped by the extraordinary and rapid recovery of 1935-37. Profiting by this situation, the government proposed to liquidate the loans of 1933-34 by July 1, 1937.³⁴

³⁴True to his conception of the role of budgetary policy in the trade cycle, the Finance Minister framed his estimates for 1935-36 without any extraordinary loan expenditure * * *. A period of 'under-balancing' must be followed by years of cautious finance. The 1935 budget, though it did not raise any taxes, provided for the expenditure of 50 million Kronor on public works to be paid for out of current revenue. Expenditure in the Loan Budget was 136.6 million Kronor compared with 282.1 in 1934-35.

The budget proposals for 1936-37 are an eloquent proof of the success of the Treasury's policy. The income tax is reduced by 12 percent, and the loans which were incurred to finance public investment are to be wholly repaid. Mr. Wingforss in the statement accompanying the estimates, points out that the total sum borrowed

How the government found the means to make this repayment may be seen in table 9. It shows that the tax receipts of the government increased from 603.9 million Kronor in 1932-33 to 854.3 million in 1936-37. During the same years the government's income from its productive enterprises increased from 94 million Kronor to 190 million. The budget which showed a deficit of 94.7 million Kronor in 1933-34 had a surplus of 170.4 million in 1936-37.³⁵ At the same time, the expenditures on unemployment relief decreased. The State Unemployment Commission decreased its outlays (on "reserve" works, cash relief, etc.) from 89,043,000 Kronor in 1934-35 to 44,146,000 Kronor in 1935-36 and to 25,626,000 Kronor in 1936-37.³⁶ Some of the details are given in table 10.

The Effectiveness of the New Policy

There would seem to be little doubt that the "new policy" had a considerable influence in stimulating economic activity in Sweden. Government spending put considerable idle funds to work. The increase in state investments during 1933-35 made up for the decline in private investments.³⁷ The government program stimulated the building industry which is one of the most important industries in Sweden. Considerably

for public works was 300 million Kroner, of which 103 million have been amortized. The funds for paying off the remainder are to be obtained as follows: 38 million from the tax on large incomes and property earmarked for the purpose, 59 million from cash reserves, 12 million from the Government's share-holdings, and 7 million from the yield of the motor car tax." Brinley Thomas, *op. cit.*, p. 205.

³⁵ In considering the increased expenditures of 1936-38, it is necessary to keep in mind that they were, in part, incurred as a result of the extension by the government of its program of social reform. Thus, the system of social insurance was extended, more aid was given to needy groups of the population, etc. This aspect of the Labor Government's policy is not under consideration here.

³⁶ The Commission gave work to 20,050 persons in 1935-38 (65 percent of all applicants) and to 11,554 workers in 1936-37 (62 percent of applicants).

³⁷ In 1933 the total investments in the country were estimated to be about 550 million Kronor below that of 1930.

Table 10.—Income, Expenses, and Budget Position of Sweden (1933-1939)
[In Kronor]

Year	Tax receipts			
	From income and property	From consumption	Motor vehicle	Total
1933-34-----	193,200,000	344,200,000	78,500,000	615,900,000
1934-35-----	219,300,000	382,800,000	87,500,000	689,600,000
1935-36-----	247,600,000	416,000,000	96,800,000	760,400,000
1936-37-----	304,100,000	443,100,000	107,100,000	854,300,000
1937-38-----	322,100,000	448,500,000	106,000,000	874,600,000
1938-39-----	364,500,000	463,500,000	115,000,000	943,000,000
Income and expenditures				
	Actual income	Actual expenditures	Surplus (+) or deficit (-)	
1933-34-----	782,700,000	877,400,000	-94,700,000	
1934-35-----	902,900,000	1,022,200,000	-119,300,000	
1935-36-----	995,200,000	976,000,000	+19,200,000	
1936-37-----	1,149,800,000	979,400,000	+170,400,000	
1937-38-----	1,141,300,000	1,120,500,000	+20,800,000	
1938-39-----	1,227,600,000	1,208,500,000	+19,100,000	

Source: *Annals*, pp. 34-35.

over 100,000 persons were employed directly or indirectly on "reserve" and "emergency" works during the second half of 1934.

On the other hand, it has been pointed out that other factors influenced the situation and played an important part in the recovery. First, the upswing of business began in the spring of 1933 before the government public works policy was put into effect. Second, the building program of the government did not get under way until May 1934 after the labor dispute in the building industry was settled. Third, there was a rise in Swedish exports in 1933 which was largely due to the building boom in England and to rearmament in Germany and in other European countries.

According to one view, the main stimulus to Swedish recovery came from the outside, i.e. from exports. This has been disputed by the spokesmen of the Swedish Government who point out that employment and wages reached higher points in the domestic than in the export industries.³⁸ The compromise view has been stated as follows:

"While the increase in exports seems to have started Sweden on the road to recovery in the late spring of 1933, the home-market industries and building really carried recovery to the heights that it reached after 1933. Compared with 1929 employment and production have been much better in such

³⁸ See Gustave Möller, *op. cit.*, pp. 61-62.

home-market industries as textiles, leather and rubber goods, and public utilities than in the lumber industry which plays such an important role in Sweden's exports. Revival probably occurred first in the iron and steel industry, but it is difficult to allocate the responsibility for that revival between external and internal factors, although the latter seem to have exerted the more important influence.

"It is also difficult to say what part purely monetary factors have played in Sweden's recovery. It is clear that recovery did not come until after the banks got out of debt to the *Riksbank*; that it was accompanied by a rise in exchange rates and an increase in the money supply; and that it occurred in the spring of 1933 when the committee of monetary experts declared that a moderate rise in wholesale prices was imperative. From then on the amount of unemployment decreased * * *. As long as business men feared that prices would fall, they hesitated to increase inventories or to buy equipment for fear that their competitors would purchase the same products later at a reduced price.

"Sweden's balance of trade began to improve as soon as gold was abandoned. Depreciation in the krona's exchange value, although failing to increase exports substantially in gold values, did permit an increase in export prices and in profits expressed in kronor. Such depreciation, by acting as a barrier to imports stimulated the domestic production of certain products, like textiles, which formerly were imported, and, by keeping krona prices up, saved the home market from the ravages of deflation that swept through the gold-bloc countries. Depreciation in the gold value of the krona, by raising the krona prices of foreign securities, stimulated Swedish sales of such securities abroad, which helped, along with the improved trade balance, to build up the *Riksbank's* exchange reserve. This increase in the *Riksbank's* exchange reserve not only eased the money market but also supplied a cushion for an

expansionist program. The same beneficial effect on the money market that resulted from export expansion could have been produced by a vigorous policy at the *Riksbank* accompanied by large purchases of government bonds or other assets.

"However, the *Riksbank* authorities preferred to follow a more passive and more orthodox policy, and since they did so, one cannot say that the *Riksbank* did much to stimulate recovery. Pegging the krona to the pound in July 1933 had a beneficial effect, but attempts to prevent depreciation in the exchange value of the krona, especially the exchange appreciation policy late in 1932, certainly had a depressing effect and retarded recovery. The net effect of the *Riksbank's* activities is, therefore, difficult to assess * * *.

"From Sweden's recent experience it would seem that there is a real possibility of improving economic conditions through a rational monetary policy."³⁹

Planning for Future Emergencies (1937-39)

On the basis of the experience of 1933-37, the Swedish Government, supported by public opinion and by economic experts, had evolved a technique for dealing with industrial depressions by using public activities to increase the aggregate purchasing power of the nation through credit expansion and other measures that employ unused resources. While admitting the importance of increasing purchasing power through cash relief or through consumption credit, preference was to be given to the increase of purchasing power by capital expenditures, by public works, or other public enterprises which take the form of concrete utilities or accrue to individuals in return for useful labor.

General Directives

With regard to the application of such a program, certain specific principles have been accepted as proved:

³⁹Richard A. Lester, op. cit., pp. 29, 30.

1. That cooperation between the monetary policy of the Riksbank and the fiscal policy of the government must be maintained. The lowering of the discount rate is not always sufficient to effect a reflation policy but requires, in addition, the support of an expansionist fiscal policy on the part of the government.

2. That a great number of small public works projects are more valuable than large projects although the latter cannot be entirely avoided. The advantage of small projects is partly that they can be rapidly liquidated in response to possible improvements in economic conditions, and partly that they can be scattered to all corners of the country to deal with unemployment wherever it may exist.

3. That a great number of emergency projects should require a large proportion of raw materials.

4. That preparation is necessary. When projects are set in motion by the community a large number of formalities must often be observed, plans and drawings must be prepared, different authorities must make reports on whether the plans are acceptable, and so on. If land is to be bought before the project can be started, it is necessary to negotiate with owners. When municipal projects are involved a waiting period must be observed before a decision takes legal effect. Such procedures may frequently require many months and considerably delay the starting of work. Such obstacles to quick action should be removed beforehand. Plans, drawings, and the necessary negotiations for a large number of projects should be constantly on file to be brought out and begun without delay when the emergency arises.

5. The extent to which the Swedish economy is dependent upon developments in foreign countries puts obvious limits on national business-cycle policy. The decline of exports directly creates unemployment and diminishes purchasing power and indirectly reduces employment and demand in general, that is, even within the industries pro-

ducing for the home market. An "anticrisis" policy should seek means to limit substantially this secondary effect upon the remainder of the economy.

6. Even in Sweden, where state and municipal capital investments embrace a relatively large sector of the national economy, it is desirable to encourage the participation of private enterprise in the effort to offset the effects of economic fluctuations.⁴⁰

Planning Measures (1937-39)

In the latter half of 1937 there was a recession in economic activity which continued through the third quarter of 1938, becoming most marked about the time of the "Munich Crisis." In accordance with its policy, the government made preparations for meeting the situation, (a) by surveying possible public works projects; (b) by enacting advance legislation; and (c) by a reform of the budget.

Survey of Public Works

In October 1937 the commission appointed by the government in 1936 to survey public works published a report containing an inventory of possible public works in the field of public buildings, road construction, municipal investments, and a program of housing. Surveys were also made of state production enterprises, such as railroads, power plants, post offices, mines, and forest preserves, which could be undertaken. The various projects were drawn up with a view to their being carried out within periods of from 5 to 10 years.

The potential public works projects listed by the commission involved estimated expenditures of 2,862,000,000 Kronor extending over the period 1937-1946.

⁴⁰ The proposal is to prevent private corporations from concentrating their real investments in boom years. A bill was introduced into the Riksdag which would allow tax exemptions on reserve funds to be used for industrial plant expansion in depression years.

Advance Legislation

The next step was to obtain power to act, without having to wait upon the reconvening of the Riksdag, the sessions of which must not take place within the first 5 months of each year. The government, therefore, prepared an emergency budget for preparedness against depression, in order that the necessary funds might be voted by the Riksdag in advance, providing the means to get work projects started at the first sign of depression. The emergency budget totalling 257,478,200 Kronor (182,051,900 Kronor for current expenditures and 75,426,300 Kronor for capital investments) was passed by the Riksdag in May 1938, effective until June 30, 1939.⁴¹

The capital investments were of the same nature as those embodied in the ordinary budget; if economic conditions continued good, they would be put through later. Their inclusion in the emergency budget merely meant advancing the date of their realization.

The Reform of the Budget

As pointed out previously, a change was made in budgetary procedure in 1933-34 on the principle that the budget need not balance yearly but over a period of years equal to the duration of the business cycle. In June 1937 the Budget Reform Bill was passed, carrying further changes in budgetary procedure.

The budget for 1938-39⁴² was presented in the new form. In place of an inclusive budgetary statement showing revenue from all sources (including borrowings) and expenditure on all accounts, the budget of 1938-39 distinguished between current revenue and money borrowed on capital account. Similarly, current expenditure is separated from expenditures on new capital investments. The estimates were thus divided into two parts, i.e. an ordinary budget

and a capital budget, and each was balanced independently.⁴³

The form in which the budget appeared was as follows:

CURRENT BUDGET	
1. Proper State Revenues: Taxes, Customs, Excise Fees, etc. 2. Income from Capital Funds: a. State Enterprises b. Central Bank c. Real Estate d. Loan Funds e. Shares, etc. Deficit to be transferred to the Budget Equalization Fund Total	1. Proper State Expenditure: Services of the Various Depart- ments 2. Expenditure for Capital Funds: a. Public Debt (Interest) b. Sums written off New Capital Investment Total
Total	Total
CAPITAL BUDGET	
Funds available Loans and Realization of Capital Assets Total	Capital investment 1. State Enterprises 2. Real Estate 3. Loan Funds 4. Shares 5. Other Funds Total

Professor Lindahl has summed up the essential features of this budgetary procedure as follows: "The essential point is that the ordinary or current budget should include only such expenditure as should normally be covered by current revenue (and not by loan or capital assets). A positive or negative difference between current revenue and the corresponding expenditure should be expressly recorded as a surplus or deficit * * *. But these surpluses and deficits are in this plan kept apart from the capital budget and transferred to a special fund, the so-called Budget Equalization Fund. In order that this fund, which should also register the difference between the budget estimate and the actual receipts and expenditure, should be kept at a certain level in the long run, it is intended that the budget for each year contain a program for the solution of the balancing problem for the succeeding 10 years * * *.

"* * * Finally we may briefly refer to the methods adopted in Sweden for the adjustment of the budget, if changed economic conditions should make a subsequent correction desirable. The traditional method was the presentation of a supplementary budget, when an increase in the appropriations proved unavoidable. This

⁴¹ H. A. N. Bluett, Report on Economic and Commercial Conditions in Sweden, April 1939. Department of Overseas Trade, London.

⁴² The fiscal year is from July 1 to June 30 inclusive.

⁴³ Bluett, op. cit., p. 6.

method was, however, not sufficient for a flexible adaptation of expenditure to business fluctuations, for after the adjournment of the Riksdag in the end of May, the government has no constitutional power to take the financial measures which might be necessary in case of a recession in trade. Therefore, in the first half of 1938, when it was difficult to foresee whether a downward phase of the business cycle would begin during the financial year 1938-39, a special 'emergency budget,' adapted to a state of depression, was passed as a complement to the regular budget which was based on the assumption that no material change in the conditions of trade would take place. The emergency budget includes conditional appropriations which may be used only in case of a substantial deterioration of business conditions. Whereas the regular budget has the character of a minimum budget, adapted to the needs of the boom, the emergency budget represents, together with the regular budget, a maximum budget adapted to the needs of depression. Since the question of how to finance the conditional appropriations is not solved in the emergency budget, it follows that it may lead to a deficit. The new system with a supplementary emergency budget has not yet been tried out, since so far it has not been necessary to put it into force. But the method seems to go a long way towards overcoming one of the greatest difficulties connected with a financial policy directed to mitigate business cycles, that of correctly judging the coming development of trade."⁴⁴

This procedure is to be followed in all future budgets.

*The Significance of the Budgetary Reform*⁴⁵

The current budget contains receipts from taxation, the yearly profits from productive state enterprises and other yearly state incomes, and all sorts of ordinary

expenditures which are not of the investment type, plus the writing off of the productive investment. The capital investment budget, on the other hand, is regularly financed by borrowed money, so far as free capital out of sinking funds in the different productive enterprises is not available; namely, so far as the state is increasing investments over normal reinvestment.

The existence of a separate capital investment budget means in itself a considerable amount of regularized flexibility of fiscal policy within the business cycle. On the one hand, the state is free during depressions to expand its investments under this capital investment budget without increasing taxation at the same time. On the other hand, the yearly subtractions from the net profits earned by these investments for payments to the sinking funds mean the carrying out of an exact long-time balance. As the payments to sinking funds are made automatically and according to technical considerations this long-time balancing is ordinarily to be considered well guaranteed.

Obviously the greater the proportion of the nation's productive investments activity that is carried on in this way, directly by the state, the greater is the flexibility of fiscal policy in the business cycle, and the more powerful is the fiscal policy as a means of business-cycle policy. The managers of the state enterprises ought to be more easily educated and, in the last instance, they are under political control, which private investment is not.

Every enlargement of the scope of the capital investment budget will increase fiscal flexibility in the business cycle. With regard to the "soundness" of the financial system in the long run, there is, in theory, absolutely no difference if expenditures are carried over from the current budget to the capital investment budget, provided only that due provisions for sinking funds are established.

Thus, a public corporation, placed on the same level as the other productive enterprises of the state, was instituted

⁴⁴ Erik Lindahl, *Studies in the Theory of Money and Capital*, 1939, pp. 378-384.

⁴⁵ This is a summary of a statement by Professor Myrdal.

to own and administer the state's public buildings, schools, post offices, hospitals, etc. The particular branch of administration has, thus, to pay to this corporation yearly rent for the use of its quarters. This rent is, of course, a yearly and ordinary expenditure on the current budget charged that particular branch of administration. The corporation, in its turn, utilizes its rent incomes for paying the upkeep of the buildings and interest and depreciation on the invested capital.

The reform means a greater flexibility in fiscal policy. During a depression construction programs for public building can be financed out of loans without violating any budget principle and without endangering the soundness of finances in the long run. The burden of the current budget is thus automatically kept upon the same level, even for the years when the building program is shrinking.

Similarly, the social housing program is gradually transferred to this capital investment budget, in which yearly balancing is not a problem and in which the long-run balancing of incomes and expenditures is automatically guaranteed by technical depreciation rules.

As the distinction between the current budget and capital investment budget must be kept fixed and cannot be changed for temporary reasons or expediencies, the rational solution must be to give up the old principle that the budget shall be balanced yearly and to make it a rule that the yearly budget shall be closed by a deficit or a surplus. During a depression a general deficit in the current budget should be allowed as part of the budgetary scheme. It is then necessary to find the technical guarantees of subsequent overbalancing when the depression is over.

To create this guarantee it is stipulated that a deficit in the current budget, shall never disappear from the budget before it is again made good. The deficit is transferred as a negative item to a special budget equalization fund which represents the continuity in public finances. This fund is made self-liquidating by the rule

that one year's deficit shall be debited to the ordinary budgets during the next 5 years by one-fifth each year, that rule providing a maximum amortization term and, of course, not preventing the state from paying off the deficit in a shorter period. There is nothing to hinder a budget deficit during two or more subsequent years, but then the amortization to be paid to the equalization fund piles up. A budget surplus is not allowed to appear in the current budget before all deficits are paid.

This budgetary system makes it possible in the next depression to carry out a much bolder expansionist program without breaking the established budgetary principles. Large increases in investments in the state productive enterprises, in public buildings, in social housing, and in roads can be carried out on the capital investment budget and in the ordinary way be financed by loans. The number of "unproductive" public works can also be increased in the current budget, and, more important, there is no need to curtail ordinary expenditures, for the current budget is not supposed to be balanced at such a time. There is, then, no need to raise taxes. On the contrary, taxes, or particular varieties of taxes, considered to have deflationary effects, may be lowered as part of the depression policy. The burden on the equalization fund will then be progressively increased. In the following boom a revised policy will be enacted.

The Effects of the War

During the winter of 1938-39 economic conditions in Sweden became more and more influenced by preparations for national defense and by the export demand created by the rearmament race in Europe. Productive activity and employment were again on the upward swing, and there was no occasion for applying the emergency measures which had been so carefully planned in advance.

After September 3, 1939, Sweden was drawn into the orbit of the European War. Planning since has been dictated by the need for self-protection and by the exigencies created by international political, economic, and military developments.

PART IV
NATIONAL PLANNING IN LATIN AMERICA

Introduction

The idea of national planning—physical, economic, and social—has played an increasing part in the making of national policy in Latin America during the past decade. In some countries comprehensive plans have been formulated for the development of natural resources and for the reconstruction of social-economic life, such as the First and Second Six-Year Plans of Mexico, the Three-Year Plan of Cuba, the National Industrialization Plan of Colombia, and the Three-Year Plan of Venezuela. In other countries, e.g. Chile, Bolivia, and Ecuador, special agencies called National Economic Councils or National Development Corporations have been established to consider national policies on a planned basis. In most Latin-American countries, partial measures have been taken for the control of the production, distribution, and pricing of individual commodities or of special sectors of the national economy, such as agriculture and foreign trade.

The stimulus to these movements in Latin America has come from several sources. If one were to go back far enough, planning ideas in Latin America might be traced to an early interest in city planning and to schemes for controlling surplus commodities, e.g. the Coffee Valorization Scheme of Brazil, the International Sugar Convention in which Cuba has a part, and the International Tin Control Convention in which Bolivia is concerned. Of significance also were the social movements in Latin America, especially the Mexican Revolution of 1917, which was concerned with basic constitutional changes involving large plans of political, economic, and social reconstruction.

However, a more specific and technical concept of planning can be said to have

emerged in Latin America only since 1929. The chief factors in this development were the necessities of economic readjustment due to the disastrous effects of the Great Depression, the movements of political and social reconstruction (as in Mexico, Venezuela, and Chile), the influence of planning ideas emanating from Spain, Portugal, and other European countries, and the example of the "New Deal" in the United States.

Owing to this variety of influences, national planning in the Latin-American countries differs considerably in content and form, but there are common elements in the planning of the separate countries which it is important to bring out in order that the general character of the trend may be clear. A survey of Latin-American planning would involve two main tasks: first, a description of the developments of national planning in the separate countries; second, an analysis of the elements which these separate trends have in common. Both these tasks are attempted here briefly, with emphasis, however, on the common features of the movement. The main body of the text deals with the common objectives, methods, and types of planning. The specific developments in the separate countries are described only briefly in the text, but are brought out more clearly in the appendices which summarize the plans of a number of Latin-American countries.

Types of Planning

On the basis of scope, national planning may be classified as: (1) integral, (2) partial, and (3) emergency planning. Partial planning may be used as a means toward the gradual achievement of a more comprehensive plan. Both integral and partial planning may be classified on the basis of social-economic aims, as business, social-

reformist, socialistic, and corporative. The planning of natural resources and of public works may be carried on with a view to the promotion of any one of the types of social-economic planning.

Integral Planning

Integral planning in Latin America, as in other countries, has aimed at a general reorganization of the social, economic, and constitutional systems. It has been associated with political and social upheavals in national life and has been one of the main expressions of the recent national reconstruction movements of Latin America (whether violent or peaceful).

Integral planning in Latin America has followed the main lines of cleavage as in other countries, finding expression in programs of a liberal business, "New Deal" reformist, corporative, and socialistic character. As in other countries, where planning has been accepted as a method of national policy, these various programs of planning have been modified by the particular national ends to be served, as well as by past social-economic patterns. They have had to be adjusted to meet immediate needs and exigencies, resulting, in most cases, in plans of a mixed and opportunist character.

The radical type of integral planning is exemplified by Mexico. The First Six-Year Plan of Mexico (1934-1940) projected a general outline of a new social system for Mexico and indicated a series of legislative measures by which that system was to be established. The features of this Six-Year Plan, which have attracted worldwide attention, are the reorganization of the land system on the basis of cooperative ownership and operation (The *Ejido*), the nationalization of natural resources other than land (oil and other minerals), and the legislation on industrial relations which aims to place organized labor in a position of economic equality with employers. In addition to these features,

the First Six-Year Plan contains far-reaching proposals for the reorganization of industrial, educational, and health institutions which would transform Mexico into an advanced social-democratic state.

The Second Six-Year Plan of Mexico (1941-47) aims to carry forward the general purposes of the First. Since the main outlines of the system to be established have been laid down in the First Six-Year Plan, the Second is more concerned with specific measures and policies for the advancement of the general program within the period indicated. The main proposals of the Second Six-Year Plan are summarized in appendix D. The outstanding proposal for "corporative" planning in Latin America was made in Brazil in the new constitution adopted in 1937. Article 13 of the constitution provided for the establishment of a National Economic Council which was "to promote the corporative organization of the national economy." (Article 61.¹) The philosophy underlying these provisions was summarized in Article 135 as follows: "In private initiative, in the power of the individual to create, to organize, and to invent, exercised within the limits of the public welfare, lies the wealth and prosperity of the Nation. The intervention of the State in the economic field is only legitimate when necessary to supply the deficiency of private initiative, and to coordinate the factors of production in such a manner as to avoid or resolve their conflicts, and to introduce into the play of individual competition the idea of the national interest, represented by the State." In further elaboration of the corporative idea, Article 140 provided that "production shall be organized into corporations and these, as entities representative of the forces of national labor, placed under the aid and protection of the State, are organs of the State and shall exercise

¹For description of the structure and functions of the Council, see the section below on "Types of Planning Agencies "

functions delegated by the public power." Though no other steps have been taken since 1937 to put the corporative plan into operation, the idea has lingered in Brazil where it is probably reenforced by the example of corporative planning in Portugal.

What may be called the "New Deal" type of planning has been projected on several occasions in Cuba since the change of government in 1933. President Grau San Martin took the first step, after the overthrow of Machado, to sponsor a series of measures to strengthen the position of labor, spread employment and raise wages, and to extend the influence of the government in the economic life of the country, and especially to extend governmental control over public utilities. A more decided move in this direction was made in 1937 with the adoption of the Three-Year Plan. Among other things, this plan provided for a national bank, tax reforms, coordination of the sugar industry, protection of farmers and distribution of lands, expansion of the agricultural industry, old-age insurance, and a progressive tax on large uncultivated landholdings, the revenue to be used to finance the distribution of land among Cubans.²

Essentially "New Deal" in character is the economic program adopted by the Popular Front Government of Chile in 1938. The plan calls for an "immediate improvement of the standard of living and working conditions of the laboring classes through agrarian reform, minimum wages, state regulation of rents, construction of sanitary workers' dwellings, regulation of hours of work, and strict enforcement of existing social legislation."³ The Corporation for the Promotion of Industry (the Fomento Corporation) was set up to devise and carry

out practical measures with these ends in view.

The Three-Year Plan of Venezuela adopted in 1938 and the National Industrialization Plan of Colombia may be cited as examples of primarily liberal-business planning. Their emphasis is on the development of the national economy within the existing economic framework. A large part of the Venezuelan Three-Year "Administrative Plan" is devoted to an enumeration of specific public works by means of which the country is to improve its system of communications and its sanitary conditions.⁴

Partial Planning

Partial planning may be applied to individual commodities or to separate segments of economic life. It consists essentially in governmental regulation and control of the economic processes involved (whether production, marketing, pricing, etc.) with a view to assisting particular groups when the national interest is presumed to require such action. Partial planning may be used for larger social purposes, e.g. as a means of transforming the national economy gradually. As a rule, partial planning has served to extend governmental supervision over and regulation of specific business activities without modifying the foundations of the economic system. It is often designated as "interventionism" in contrast with planning, but the distinction is not significant.

Partial planning has been widespread in Latin America for many years, but has developed particularly in the last decade. It has grown out of the peculiar feature of Latin-American economy, that is, the tendency towards overproduction of one or another export commodity on whose price in the world market the country was especially dependent. Its purpose has been to regulate the output and marketing of these commodities in such a way as to

⁴For Colombia see appendix B; for Venezuelan Plan see appendix C.

²Economic Review of Foreign Countries, 1937, p. 187. U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Washington, D. C. For summary of Plan see appendix A.

³Economic Review of Foreign Countries, 1938, p. 152.

secure a profitable price to the producers. The most interesting examples of this type of planning are the regulatory boards in Argentina which have been set up for wheat, corn, linseed, meat, cotton, etc.

In some of its manifestations partial planning tends to overlap emergency planning. This has been the case especially since 1933, when much of the planning in Latin America was precipitated by the disastrous effects of the world depression on export industries and on commodity prices. It is more logical, however, to apply the term "partial planning" only in cases where more or less normal and continuous situations are dealt with, and to reserve the term "emergency planning" for cases arising as a result of "abnormal" or special developments.

Emergency Planning

Emergency planning, in this sense, has arisen chiefly in an effort to cope either with industrial depressions or with problems of national defense and war. In the former case it has been concerned with what has been variously designated as "business-cycle policy," "recovery policy," or "anti-depression planning." In the latter, it has consisted in the consideration of "preparedness," "mobilization," or "war" plans in relation to a potential or actual war situation.

The emergency planning which has been widespread in Latin America in the past decade has been due primarily to the need for readjusting to changes in world economy which followed the First World War and which were brought to a climax during 1929-1933. The main task of this emergency planning has been to cope with the unfavorable trends in the international balances of payments of the different countries and with their disastrous consequences for production, employment, and costs of living.

Since the outbreak of the European War in September 1939, some steps have been taken in several Latin-American countries toward emergency-preparedness planning.

In January 1939 a decree was issued in Brazil authorizing "a special plan of public works and equipment for national defense" which was to be carried out over a period of 5 years. In September 1939 Mexico established a Council of National Economic Coordination to deal with the problems of trade arising out of the war. In the same month Chile established a National Economic Committee for the duration of the war.

Objectives of Latin-American Planning

It is significant that despite differences in scope and type, national planning in Latin-American countries has certain basic elements in common, indicating that the differences in type are due largely to intellectual preoccupations and to political preconceptions, while economic and social realities make certain common policies desirable and even inevitable.

The common elements in Latin-American planning policy are of particular importance to five aspects of social-economic life, namely: (1) governmental development of physical and natural resources; (2) land policy; (3) industrialization; (4) the nationalization of economic life; and (5) social improvements. The trends exhibited by the various Latin-American countries in dealing with these aspects of their national economy are of special importance for the future of inter-American relations.

Resource Development

For many years, but especially during the past decade, the governments of Latin-American countries have aimed to promote the development of the physical resources of their respective lands. Many of these countries are known to be, in large measure, virgin soil. Most of them have wide stretches of fertile land which has not been brought under cultivation and are endowed with mineral deposits and with capacity for producing raw materials of various kinds which are awaiting development.

The exploitation of these resources has been hampered and delayed by the physical difficulties of exploration and utilization due to natural obstacles, lack of means of communication, sparsity of population, inadequacy of technical preparation, and poverty of capital equipment. Even within the long-settled and more or less developed areas the more rapid development of economic activities is dependent on a greater supply of facilities for transportation and community living as well as upon a better planning for the mobilization of available technical and financial resources.

Land Policy and the Diversification of Agriculture

Even before 1914 there were periodic misgivings in some of the Latin-American countries as to the economic and social effects of their extraordinary reliance on world markets for one or two staple export products. The prosperity brought about by the extension of the agricultural industries during 1914-1918 as a result of the demand of the belligerent countries quieted these misgivings for a while. They were revived during the 1920's by the continued extension of the area under cultivation in different parts of the world, by the widening gap between demand and supply, and by the consequently increasing difficulties of disposing of the staple commodities in world markets at profitable prices.

The collapse of world prices during 1929-32 brought the situation to a head, and various ways were sought to maintain prices in the world market. As already indicated, this was the main stimulus for that "Emergency Planning" which was such a widespread feature of governmental policy in Latin America during the 1930's. With this in view the various regulatory boards were instituted in the different countries to limit production, to reduce the supply (by destruction of part of the output), to stabilize prices, etc.

In addition to these measures, the governments of the Latin-American countries have been making decided efforts in recent years to diversify their agricultural industries. Such diversification is to serve two purposes. On the one hand, it aims to increase where possible the number of exportable commodities. Argentina has been promoting for this purpose the cultivation of fruits; Brazil, that of cotton, oranges, etc.; Ecuador, that of bananas; Paraguay, that of cotton, and so on. On the other hand, diversification is intended to grow locally more of the food-stuffs consumed within a country, such as rice, beans, wheat, vegetables, and fruits, and thus to effect a substantial transfer of activity from staple export crops which are in danger of overproduction to subsidiary crops which can serve local needs.

Agricultural diversification is combined in some of the Latin-American countries with policies of agrarian reform whose purpose it is either to develop a land-owning farming class or to create a new system of cooperative and collective land tenure. In Latin America, as in some European countries, the agricultural export trade has for many years been based on large-scale farming, carried on by holders of large estates with the aid either of landless agricultural laborers or of sharecropping tenants. Agrarian reform in such countries, undertaken for social purposes, has often led to productive changes which resulted in a diminution of export-capacity. In such cases, there has been the loss of export markets which could be compensated for mainly by a greater diversity of crops tending to make the peasant or farmer more self-sufficient.

Though the two policies have often gone hand in hand, it is not suggested here that they are either logically or historically intertwined. In some countries, e.g. Colombia or Brazil, diversification has not been associated with changes in land tenure. In other countries, of which Mexico is the most notable example, the

reconstruction of agrarian relations was undertaken for its own sake, and only as its adverse effects on exports became evident was an effort made to free the agrarian economy to some extent from dependence on world markets by giving it greater diversity.

Both agrarian reform and agricultural diversification raise problems of governmental land planning. The governments of several of the countries have thus undertaken to study problems of better land use and have adopted measures to aid farmers in the improvement of their land and crops as well as in the extension of the area of cultivable land by means of irrigation schemes, land surveys, etc.

Promotion of Home Industries

Though a number of industries had begun to develop in some Latin-American countries about the turn of the century, it was the World War of 1914-1918 that gave industrialization its first general impulse.⁵ The difficulties of obtaining manufactured goods from Europe stimulated the production of many articles at home, and the American countries tended to become more self-sufficient in the supply of many articles of consumption. The Great Depression of 1929-1933, by reducing the capacity of Latin America to pay for imports, accentuated this tendency. To these influences have been added motives of a general social character, namely, the desire to build up a more stable social system and to increase the purchasing power of the masses.⁶

During the past decade the governments of most Latin-American countries have set themselves the task of promoting home industries by means of tariffs, import quotas,

exchange controls, subsidies to manufacturers, or by direct public financing. The industries encouraged have varied with the resources and economic structure of the country, but in a general way the industries that have grown most are textiles, leather goods, foods, building materials, toys, pharmaceutical articles, and similar consumption-goods industries. Only in a few cases has a government attempted to promote heavy industry, e. g. the iron and steel industry of Brazil. One of the features of the governmental policy is to stimulate industries based on the use of home-produced raw materials.

In general, the governments of Latin America have tried to encourage small-scale private business enterprises. This is true even of Mexico where, in accordance with the predominant social outlook, the main effort has been to develop cooperative enterprises.⁷ Thus, the *Banco Nacional Obrero de Fomento Industrial* has been founded in Mexico for the purpose of financing workers' syndicates, small industrialists, and merchants, in an effort to improve the small industry of the country. A similar institution has been created in Venezuela to provide financial aid at low interest rates to small domestic industries. The Latin-American countries which maintain exchange-control systems have used them to promote local industrial development. Furthermore the effect of foreign exchange transfer difficulties is to strengthen the local capital market for the development of domestic industry by the addition of funds which would otherwise have gone to foreign investors.

The results of this process of governmentally stimulated industrialization have been considerable in recent years. Many manufacturing plants and enterprises have been established or further developed with the direct or indirect aid of the governments of the different countries. Besides,

⁵ It is not necessary to consider here the development of the mining industries, packing plants, and public utilities which was undertaken by foreign capital.

⁶ Frank E. Williams, "Economic Diversification in Latin America," in the *Annals of the American Academy of Political and Social Science*, September 1940, p. 150.

⁷ It is Uruguay that has consistently sponsored the growth of large-scale government-owned or government-controlled monopolies.

the process is still in its early stages and is bound to expand. Almost all plans recently adopted by the governments of Latin-American countries provide, among other things, for governmental research and exploration into the possibilities of the development of home industries.

Nationalization of Economic Life

One of the most striking phases of recent economic development in the Latin-American countries has been the growing effort of governments to guide and direct economic activities so as to give domestic industry and trade a more national character. The tendency of government policy is to require substantial national representation of the boards of foreign concerns, to establish native industries by direct government intervention, and to train national technicians and experts. In Mexico, for example, foreign experts may accept employment only if nationals are not available, and in Brazil the majority of the board of directors of any concessionary enterprise must be Brazilian citizens.

The most far-reaching aspect of the movement is the growing tendency of the state itself to take a direct part in business either by setting up its own concerns or by nationalizing existing foreign ones. This policy is exemplified by Mexico, where the law of March 1937 authorized the Federal Petroleum Company to develop the petroleum industry "for the benefit of the national economy"—an attempt to transform into a national enterprise an industry which had been capitalized and developed predominantly from abroad. But examples of the same tendency can be found in several other countries. Thus, the Argentine Government has taken over the British section of the Trans-Andean Railway. In 1937 the Argentine Government obtained authority to operate the Cordoba Central Railway (a British company) under an agreement guaranteeing net profits, and soon afterwards the government took over

the line completely.⁸ Argentina has also a government petroleum industry which in 1937 produced nearly half of the total national crude output,⁹ and is seeking to develop government packing plants in accordance with the National Meat Law of 1933.¹⁰ Brazil's largest steamship company, the Lloyd-Brasiliero, is now an integral part of the Ministry of Transport and Public Works.¹¹ The port works at La Guaira, Venezuela's chief port, formerly owned by a British enterprise, were recently bought by the Venezuelan Government. Steps to bring under national control, in one way or another, the petroleum and other mining industries, public utilities, and other industries basic to national welfare, have been taken in Chile, Bolivia, Uruguay, and other countries.

Improvement of Social Conditions

A significant aspect of the planning movement in Latin America is the large place given in the plans to provisions for improving the conditions of living of the mass of the population. Since 1933 especially, one country after another has approved social legislation on behalf of the industrial and agricultural workers and has adopted measures to improve health, nutrition, and housing conditions. An interesting feature of development is the extent to which these general objectives have been set forth in national constitutions. As illustrations, mention may be made of the relevant provisions of the new constitutions of Brazil, Mexico, Uruguay, and Venezuela.

This movement towards social planning can be summarized here only in the briefest

⁸Report on Economic and Commercial Conditions in the Argentine Republic, E. R. Lingeman, June 1937, U. K. Department of Overseas Trade, 1937, p. 17.

⁹Commercial Pan-America, No. 79, December 1938, p. 14.

¹⁰Commercial Pan-America, No. 73, January 1938, p. 3.

¹¹Report on Economic and Commercial Conditions in Brazil, E. M. Harvey and W. G. Bruzard, 1937, U. K. Department of Overseas Trade, 1938, p. 126.

manner.¹² The Brazilian Constitution of 1937, for instance, sets forth a number of principles which are to be respected by labour legislation. Collective contracts concluded between legally recognized associations are to be binding upon those represented by these associations. Such agreements are required to contain provisions relating to their period of validity, to the amount of wages and methods of their payment, to the internal discipline of the undertaking, and to hours of work. Workers are to be entitled to a weekly rest on Sundays and, within the limits of the technical requirements of the undertaking, to civil and religious holidays in accordance with local tradition. After a year of uninterrupted service in an enterprise where work is continuous, the worker is to be entitled to an annual holiday with pay. In certain cases a dismissed worker is to be entitled to an allowance calculated according to his years of service. Other principles mentioned are those of the minimum wage; the 8-hour day; the remuneration of night work at an increased rate; the prohibition of employment of persons under 14 years of age, of employment on night work of persons under 16 years of age, and of employment in unhealthy industries of persons under 18 years of age or of women; and of a rest period for women before and after childbirth with retention of the right to wages. Insurance is to be established for old age, invalidity and survivors, and for industrial accidents. The right of occupational association is declared to be free, but only associations recognized by the state are entitled to represent the class of production for which they were constituted, to enter into collective agreements binding upon their members, or to exercise functions delegated to them by the public authorities. Special labour courts are to be established.

¹² This section is a summary of the material contained in the Report of the Director of the International Labour Office to the Havana Conference, November 1939, chapter II, "The Progress of Social Legislation in the American Countries."

According to the Mexican Constitution of 1917, as amended, laws relating to labour, and every contract of service, must conform with certain principles. Among these are the 8-hour day; the prohibition of employment of women and of children under 16 years of age in unhealthy and dangerous occupations or on night work in factories; the 6-hour day for children between the ages of 12 and 16; one day's rest for every 6 days' work; rest periods before and after childbirth with the payment of full wages and job retention; equal pay for equal work without regard to sex or nationality; the determination of minimum wages and of the rate at which workers are to share in profits; the payment of a double rate for all overtime; the provision of housing, schools, dispensaries, and other services by certain employers; the right to strike and to lock out; the conciliation and arbitration of industrial disputes; and the liability of employers to pay dismissal allowances in certain cases. Special insurance is declared to be of "social value" and is to be encouraged. "Cooperative associations for the construction of cheap and sanitary dwelling houses for workmen shall likewise be considered of social utility whenever these properties are designed to be acquired in ownership by the workmen within specified periods."

The Uruguayan Constitution of 1934 declares, among other things, that labour shall be under the special protection of the state; and that freedom of conscience as regards moral and civic questions, fair remuneration, limitation of the daily hours of work, a weekly rest day, and health protection shall be guaranteed by law to every person engaged in any employment or service as a worker or salaried employee. The employment of women and of persons under the age of 18 is to be subject to special regulations. The law is to provide for an impartial and equitable distribution of employment. The organization of industrial associations, and the establishment

of conciliation and arbitration boards, are to be encouraged by law. The right to strike is granted, in principle, but the exercise and consequences of this right are to be regulated. Systems of social insurance are to be organized in such a way as to ensure all workers and salaried employees adequate protection from accident, sickness, invalidity, involuntary unemployment, old age, etc., and to protect their families in case of their death.

Though there are significant differences in the above provisions there is a striking resemblance in their general character. Somewhat similar declarations also appear in the constitutions of a number of other American countries, and the tendency to adopt such provisions appears to have been general in Latin-American countries where constitutional revision has been in progress in recent years.

Methods and Techniques

Planning procedures in Latin America have, in general, been of the same type and character as in other countries. However, in view of the objectives sought, as indicated above, and of special and economic and social conditions, there has been more emphasis on regulative and restrictive than on stimulative or developmental methods.

The most important methods and techniques applied in Latin America have been:

1. Public works
2. State aid to agriculture
 - a. Farm relief
 - b. Direct subsidies
 - c. Reduction of farm indebtedness
 - d. Cheap credit
 - e. Improved marketing facilities
3. Price control
4. State aid to industry
 - a. Technical research
 - b. Subsidies
 - c. Protective tariffs and import quotas
 - d. Public financing
5. Monetary, credit, and fiscal policies
6. Exchange control
7. Extension of social services

There are considerable differences in the planning procedures of the separate countries and especially in the extent to which one or another method has been applied. As in the case of objectives, so also with regard to planning methods, the attempt here is to stress the main features which the Latin-American countries have in common.

Public Works

Conditions in Latin America have long favored the use of public works as a means of stabilizing the position of one or another government. Since 1930 public works have been used in several countries as a means of combating unemployment. More generally, public works schemes have been adopted for the purpose of national development and national defense.

With few exceptions, public works in Latin America have not been predicated on their capacity to "prime the pump" and to stimulate recovery. The special economic position of the Latin-American countries and their dependence on world markets deprive this conception of public works of much of its validity so far as these countries are concerned. Also, the condition of public finances in these countries (internal and external indebtedness), and the paucity of central banking facilities make it rather difficult to link public works with a fiscal and monetary policy in a way which would give them the economic significance they have had in other countries.

Public works in Latin America are thus more significant as a method for promoting long-range programs of national economic and social development. This explains the wide scope and varied character of projects included in the term "public works" in these countries, ranging from road making and public sanitation to the building of railroads, improvement of harbors, low-cost housing, and the building of schools.

It also explains the fact that public works projects are often planned without particular regard to the swings of business activity. Programs are adopted for a number

of years chiefly with a view to meeting what are regarded as the needs of the country, and often under pressure of political and social exigencies. The execution of the projects is carried forward more vigorously in good than in bad years, when the public revenues are larger and the possibilities of borrowing easier.

A few examples may help to give a picture of the nature and extent of public works in Latin America in recent years, and of their social-economic function. As the public works programs in most countries are carried over a number of years, the following quotations are selected for years of greater activity. The quotations are from the "Economic Review of Foreign Countries," published annually by the Bureau of Foreign and Domestic Commerce of the U. S. Department of Commerce.

Cuba

1935.—"The extensive public works program, an important feature of national efforts towards rehabilitation, gave employment to thousands on the construction of highways, parks, and public buildings throughout the country."

1938 (After Adoption of the Three-Year Plan in 1937).—"The National Public Works Program continued, with authorization being made for extensive street repairs in Habana, construction of a new dock in the Port of Cardenas, and the erection of a silver-storage vault."

Brazil

1939.—"The Government's program of national unification, which has been one of the main objectives since President Vargas came into power in 1930, was further strengthened by the issuance of a decree in January outlining a Five-Year Plan of Public Works and Equipment for National Defense. The program, as announced, called for an expenditure of 3,000,000,000 milreis (approximately \$150,000,000 at present rates of exchange) at the rate of 600,000,000 milreis annually, the funds to be devoted

to strengthening the country's defense position, carrying out important public works, stimulating the diversification of agriculture and industry, and developing natural resources. It was planned to base the financing on the tax on foreign exchange transactions, profits on certain banking operations, exchange derived from gold exports, and the proceeds of special issues of treasury obligations.

"As the year progressed, arrangements were worked on for carrying out the objectives of the plan, and questionnaires were sent to all municipalities in the country in order to obtain a complete picture of national economic needs and industrial possibilities. The Government called into conference for November the Interventors (present governors) of all the Brazilian States in order to discuss with them the best methods of solving some of the country's most pressing problems. A further conference is planned for 1940."

Mexico

1937.—In addition to millions of pesos spent in highway work, irrigation, railways, and ports, "work was continued on several large public buildings, including the Supreme Court and the Army general hospital. The provision of water, drainage, and lighting to many small towns was facilitated by the National Public Works Bank and by subventions of the Federal Government."

1938.—"Owing to reduced revenues, work on Federal construction projects was curtailed sharply * * *."

"Work was begun on a government-owned hydroelectric plant in the Valle de Bravo, State of Mexico, which is designed to supplement the current now available at Mexico City. * * * Plans were also advanced for the three small plants in the States of Guerrero, Oaxaco, and Veracruz."

Argentina

1937.—"The sums allotted for various government public projects were increased

during the year to include funds for the state railways, public buildings, navigation and ports, irrigation, and a number of miscellaneous items. Definite progress was made in carrying forward the grain-elevator project, bids being let for the first six units. * * * The construction of Federal and provincial highways was continued under the *existing 15-year plan*, which contemplates an expenditure of 1,000,000 pesos. * * * Construction of truck highways and extensive street widening in Buenos Aires was carried forward."

Chile

1937.—"The government continued public works projects, including railways, water power, irrigation, roads, schools, and public buildings."

Colombia

1933.—"In October, the Government announced a *3-Year National Public Works Program*, involving the expenditure of 12,500,000 pesos and looking to the completion and extension of present projects, and the inauguration of new ones."

1934.—"The National Government's public works program, originally planned in 1933 as a means of relieving unemployment, strengthening the military defenses of the nation, and providing some needed public facilities was carried forward in 1934. * * * Construction of a new aqueduct for Bogota was started. * * * Port improvements at Carthagena and Barranquilla were continued, and dredging work at the mouth of the Magdalena River was begun."

1938.—"In Bogota, public works projects, including several educational institutions, slum clearance, a water-works filtration plant, street and highway improvements, and sewerage systems, were pushed in an effort to complete them in time for the opening of the centennial celebrations of that city in August. * * * In mid-year, public works slackened somewhat, in line with the change in government in August. * * * Heavy rains at the close of the year

restricted public works to effecting emergency flood control, and repairing water-damaged highways, bridges, and railway lines."

Venezuela

1935.—"To relieve unemployment and stimulate industry, the government announced in December 1935, an extensive public works program to be undertaken during 1936. Outstanding projects are the dredging of a channel across the bar at the mouth of Lake Maracaibo, dock and harbor improvements at Puerto Cabello, reservoir and dam construction for the water supply of Caracas and other cities, and various public buildings, including 510 village schools. Wages of all workers on Federal projects were increased late in December."

1938.—For the extensive public works program under the Three-Year Plan see appendix C.

The extent of public works programs varies considerably from country to country and year to year. In general, the trend has been towards an increase in expenditures for public works and in the proportion of the public budget allotted for the purpose. This may be seen in table 1.

State Aid to Agriculture

Many of the public works projects in the various countries, such as irrigation, flood control, etc., have as their purpose the improvement of conditions under which agricultural activities are carried on. More specifically, state aid to agriculture consists in measures which have three main aims: (1) to help develop new agricultural products for local consumption; (2) to develop new export commodities; and (3) to protect the producers of primary export products against the vicissitudes of demand and against excessive or sudden price declines in world markets.

The chief methods used for these purposes are technical assistance, improved marketing facilities, cheap credit, direct

Table 1.—Expenditures for Public Works In Latin-American Countries, 1935-1938

[In U.S. dollars]

Country	Total expenditures		Expenditures for public works			
			Amount		Percent	
	1935	1938	1935	1938	1935	1938
Argentina -----	\$320,200,000	\$377,400,000	\$45,600,000	\$62,700,000	14.2	15.7
Bolivia -----	45,234,000	113,590,000	1,292,000	678,000	2.9	4.9
Brazil -----	238,231,000	226,455,000	247,696,000	254,466,000	20.0	24.1
Chile -----	73,610,000	183,802,000	7,912,000	11,405,000	10.7	13.6
Colombia -----	34,217,000	48,425,000	5,910,000	8,633,000	17.4	17.8
Cuba -----	73,989,000	78,092,000	6,301,000	7,600,000	8.5	9.6
Ecuador -----	6,193,000	18,989,000	1,402,000	1,323,000	22.5	14.7
Mexico -----	83,733,000	119,633,000	10,070,000	20,257,000	12.0	16.9
Peru -----	33,308,000	137,115,000	3,657,000	3,214,000	11.0	8.7
Uruguay -----	65,134,000	(*)	4,003,000	(*)	6.1	(*)

*Estimated.

†Public works and transportation.

‡1934-35; 1937-38.

§Not available.

Source: Foreign Bondholders Protective Council, Inc., *Annual Report, 1938*, New York.

subsidies, refinancing of mortgages, land distribution, etc. The specific ways in which these methods have been applied are indicated below in connection with the description and analysis of the structure and functions of the agencies created for the purpose.

Price Control

Governmental control of agricultural prices has been an increasingly important element of the agricultural policies of several Latin-American countries. It has been a significant feature, for instance, of Argentina's farm-relief program since 1933. Together with currency devaluation, exchange control, and refinancing of farm debts, it has been a conspicuous technique of the antidepression and emergency planning which has played such a large part in Latin-American economic life during the past 7 or 8 years.

As applied in Argentina, agricultural price control has consisted in the setting up of a minimum-price-guaranty scheme, whose purpose it is to prevent the prices received by producers of the basic export commodities (wheat, corn, linseed) from falling below the level which is considered necessary to cover costs of production.¹³ The government fixes the minimum prices of

wheat, corn, and flaxseed, and when the price of one or the other of these commodities falls below this guaranteed minimum, the government enters the market and buys it at the guaranteed price. The government may then resell the purchased wheat or corn abroad at a loss, or it may hold it for a rise in price. The loss, if it is incurred, is made up from the profits of foreign-exchange control. Such price control may be combined with production control or the rationing of consumption, but neither of the latter policies has been followed in Argentina.

Guaranteed minimum prices may also be used to stimulate increased production for domestic use, while maximum prices may be resorted to as a means of protecting the consumer. Both methods have been applied in Latin America in recent years, e.g. guaranteed minimum prices for coffee in Colombia and the setting of maximum retail prices of articles of consumption in Mexico, Bolivia, etc.

State Control of and Aid to Industry¹⁴

The devices used for this purpose are familiar and need not be described here. The United States Tariff Commission has recently published a series of volumes on foreign trade of the Latin-American

¹³ For a detailed description of the scheme see *Foreign Agriculture*, published monthly by the U. S. Department of Agriculture; vol. II, No. 2, February 1938, and vol. III, No. 2, February 1939.

¹⁴ The promotion by the government of the oil and other mineral industries is a phase of this general topic.

Table 2.—Latin-American Foreign Exchange Control Since 1930¹

Country	Date control was first inaugurated	"Free market" for commodity imports permitted to function without government control	Controlled by government or central bank	Black market in existence for commodity imports	Percent of exchange proceeds of exports delivered to authorities at "official rate"	Exclude various commodities not deemed essential or to favor 1 type of transaction against another	Favor trade with selected countries	Import licensing in force
Argentina----	1931		(¹)		About 90 (Varies)	(¹)	(¹)	(¹)
Bolivia-----	1931		(¹)	(¹)	(Varies)	(¹)		
Brazil-----	1931		No free market		100			
Chile-----	1931		(¹)		(Varies)	(¹)	(¹)	(¹)
Colombia-----	1931		No free market	(¹)	100	(¹)	(¹)	(¹)
Costa Rica----	1932		(Nominally) ¹		100		(¹)	
Cuba-----		(¹)						
Honduras-----	1934		No free market		100	(¹)		
Nicaragua-----	1932		No free market	(¹)	100	(¹)		
Paraguay-----	1932				100	(¹)		
Uruguay-----	1932		No free market		(Varies)	(¹)	(¹)	(¹)
Venezuela----	1936	(¹)			100	(¹)		(¹)

¹H. M. Bratter, "Foreign Exchange Control in Latin America," *Foreign Policy Reports*, February 1939.

countries in which considerable space is given to a description of tariff policies, import quota provisions, etc.¹⁵

Monetary and Fiscal Policies

This is an important aspect of Latin-American economic development which calls for special study. Lack of time did not permit even a brief survey of the subject, except as regards exchange control.

Exchange Control

Government control of foreign commercial and financial transactions has been greatly extended in Latin America since 1933. Tariff schedules, import quotas, bilateral trade agreements, and exchange control have been among the chief instruments by which the governments of these countries first tried merely to soften the impact of the depression, and then to guide national economic life towards the objectives outlined above. Exchange control, in particular, in various forms and degrees has been used to maintain some balance between exports and imports, to set limits to the depreciation of the currency, to insulate the domestic price level from too great external disturbances, and to conserve the gold and foreign exchange needed for essential commercial and financial payments. As may be seen in table 2, at least 12 Latin-American countries

had recourse to exchange control between 1929 and 1939, with emphasis on one or another of the above aims. Nine of these countries had begun to do so before 1933. Six of the exchange-controlled countries permit more or less free markets to exist side by side with the controlled transactions; and Uruguay has an official rate, a free rate, and a "free-controlled" rate which is the selling rate for certain "necessary" imports and certain financial transactions. The general procedure is that part or all of the proceeds of commodity exports must be delivered to the national bank, where they are paid for at arbitrary rates and distributed to importers according to some publicly announced criterion or according to the judgment of the control authorities. If foreign exchange gets scarce, for example, importers of commodities regarded as nonessential may be denied any allocation of foreign exchange to pay for them. And even without official measures of import control, trade may be diverted by manipulation of exchange quotas along any geographical or commodity channels desired.

The Extension of Social Services

In their attempts to improve living standards the governments of Latin America have followed, in a general way, the procedures and methods of western countries. Governmental policies have been carried out by encouraging or legalizing collective bargaining, by establishing minimum wages,

¹⁵ See United States Tariff Commission, *The Foreign Trade of Latin America*, part I, pp. 21-26, Washington, 1940.

by projecting systems of social insurance, and by giving educational and financial aid to the improvement of dietary and housing conditions.

A few examples of the measures taken by various governments in the field of nutrition and housing may here be cited. Several governments of Latin-American countries have established centers to coordinate measures relating to nutrition. Thus Argentina, Colombia, Peru, Venezuela, Uruguay, and Mexico now have national nutrition councils or similar institutes.¹⁶ The nutrition councils and other public bodies, e.g. the Municipal Institute of Argentina, have sponsored sanitary and low-cost dining rooms, have tried to prevent excessive rises in food prices, and have carried on educational campaigns among the people for the dissemination of correct ideas on diet and methods of preparing food.

So far as housing policy is concerned, many of the public works schemes contain provisions for slum clearance and low-cost dwellings for workers. In addition, a number of Latin-American countries (e.g. Argentina, Chile, Mexico) have workers' housing councils or institutes whose function it is to investigate workers' housing conditions, to estimate needs and prepare plans for the execution of low-cost housing projects, and to direct the actual construction operations. Both the central and local authorities are themselves constructing low-rent dwellings in most countries, and in many cases the governments expropriate land and grant sites free of charge to certain associations and cooperative societies for the purpose of undertaking low-cost housing projects. Other measures taken by Latin-American governments to better the housing standards of their populations include rent control; the investment of social insurance funds

in construction loans; legislation to encourage the establishment of trade-union cooperatives for the construction of workers' dwellings; tax exemptions on homes financed with loans; the exemption of building materials from customs duties; penalties imposed on the proprietors of unsafe or insanitary dwellings; and propaganda campaigns to stimulate interest in safe and sanitary housing. National mortgage banks also play an important role in some Latin-American countries by using parts of their reserves for low-cost housing construction.

Agencies of Planning

Special agencies have been set up in the several Latin-American countries for the purpose of carrying out the policies and methods sketched above. These vary considerably in scope and functions. In addition, in most countries, the elaboration and execution of various parts of the planning programs are entrusted to the general departments of the government. Most Latin-American countries, for instance, have a Department of Public Works. A number of them have Ministries of National Economy in charge of economic developmental policies. The Departments of the Interior and of Agriculture play an important part in several countries in carrying out public works projects. The Central Bank exercises in some countries some of the functions of exchange control. Most of the countries also have central statistical bureaus of varying scope and effectiveness.

Broadly, the special agencies in Latin America which have a planning function may be classified as follows:

1. General
 - a. Advisory
 - b. Advisory and Coordinating
 - c. Initiatory and Administrative
2. Special or Partial
 - a. Regulatory
 - b. Developmental
 - c. Price Fixing
 - d. Managerial and Administrative

¹⁶The conception and organization of these bodies owe a good deal to the stimulus given by the work of the Pan-American Sanitary Conference which met in Bogota, Colombia, in 1938, and to the Medical Congress of Central America and Panama, held in San Salvador.

2. Special or Partial—Continued

- e. Exchange Control Boards
- f. Social Service Boards (Nutrition Councils, Housing Councils, etc.)
- g. Public Corporations and Monopolies

Planning agencies may be classified, on the basis of structure, into *representative*, *appointed technical*, *administrative*, and *mixed*. The representative type is based on the representation of group interests. The appointed technical is composed of persons (private or officials) especially selected for their technical knowledge. The administrative type consists entirely of government officials. The mixed type may be based on a combination of one or more principles of organization. Most of the planning agencies in the Latin-American countries are of the representative or of the appointed technical type.

The extent and character of the planning agencies in Latin America may best be suggested by describing those found in the countries for which information is available. This is the method followed here.

Argentina

There is no central planning agency in Argentina. The main problems which have stimulated the increasing intervention of the government in economic matters have arisen out of the position of Argentina in world markets. The principal agencies in Argentina, concerned with partial and emergency planning, are as follows:

1. *Grain Regulating Board*.—Organized by executive decrees of November 28, 1933, and November 14, 1938. The Board consists of 14 members appointed by the President. The membership represents the Ministry of Agriculture, the National Bank, the Rural Society of Argentina, the Board of Trade, the National Grain Commission, and some growers' cooperatives.

The primary function of the Board is the purchase of wheat, flaxseed, and corn whenever market prices fall below the

guaranteed minimum established by the government.

The Board's administrative expense, as well as the financial losses incurred when it has to sell commodities in the world market at less than the prices paid for them in Argentina, are covered from a special fund created from the profit made by the government in its foreign-exchange operations. Should this fund be insufficient, additional money may be had from the National Bank.¹⁷

2. *National Meat Board*.—To promote the interests of livestock producers, the Argentine Congress in 1933 enacted the so-called Meat Law, creating the National Meat Board (*Junta Nacional de Carnes*). The Board was vested with broad regulatory powers over the operations and activities of the meat-packing establishments, including the formulation of rules for the classification of livestock, the publication of pertinent statistics, and, in general the supervision of the activities of the livestock and meat industry.

So far as the regulatory control by the Meat Board is concerned, the new law merely enlarges and strengthens the powers formerly exercised by the *Meat-Trade Control Division of the Ministry of Agriculture*. On the other hand, the creation of the *Argentine Corporation of Meat Producers*, with authority to acquire or construct a meat-packing plant, marked the culmination of a long struggle on the part of the livestock producers for a more direct participation in the slaughter and sale of their livestock. The cost of such acquisition or construction is to be defrayed from the proceeds of a tax of 1 percent on the value of all livestock sold by the producers, whether for export or for home consumption. Participation in this scheme is *compulsory* on the part of all producers.

The tax is collected by the National Meat Board, 20 percent of which is retained to carry on the functions of the Board and

¹⁷Foreign Agriculture, February 1939.

80 percent set aside in a special livestock protection fund from which transfers are made to the *Argentine Corporation of Meat Producers* (La Corporacion Argentina de Productores de Carnes).

Wine Regulating Board.—Created by emergency measure in 1934 (Junta Reguladora de Vinos) for the purpose of adjusting the production of grapes to the domestic consumption of wine.

Based on the per-capita consumption of 55 liters (14.5 gallons) the annual consumption of wine in Argentina was placed by the Board at 182.29 million gallons and the average annual production at 224.57 million gallons.

To bring about a reduction in production, the Board was authorized to purchase grapes and wine and to acquire vineyards or wine grapes for the purpose of their destruction or the substitution therefor of table or raisin grapes.

The sum of 30 million pesos (almost 10 million dollars) was appropriated for the purpose of carrying out the provisions of this law. A surtax of one centavo per liter (\$1.25 per gallon) was imposed for a period of 6 years. To discourage the establishment of new vineyards during a period of 3 years, which may be extended to 5 years by the President, a tax of 1,000 pesos per hectare (\$134 per acre) must be paid on new plantings. Moreover no indemnities shall be paid to the owners of any vineyards set out after the effective date of this law.

Regulating Board for the Dairy Industry.—The Board was created by executive decree in 1934 as an emergency measure, primarily for the purpose of assuring to dairymen the benefit of the increased prices resulting from the sale of export bills for butter and casein in the open exchange market.

By decrees of February 11 and March 10, 1938, this Board (Junta) was replaced by the *Department for the Milk Industry* (under the Department of Agriculture) and this Department was to concern itself with the

production, trade, and transport of milk products within the country, and with exportation. Registration is obligatory for all persons whose work is connected directly or indirectly with the milk industry. The Department is assisted by an advisory council consisting of officials and representatives of the producers.

National Cotton Board of Argentina (Junta Nacional de Algodon).—Created in May 1935, not as an emergency measure to cope with difficulties that had beset the cotton growers but for the purpose of providing a special organization that would devote itself to the study of the fundamental problems of cotton production and bring about an expansion in production.

Soon after its organization the Cotton Board entered into an extensive program to stimulate colonization in the cotton belt. Cotton standards were formulated and additional experiment stations were established for the purpose of developing and improving new varieties of cotton. Improved credit facilities were provided, and additional regional agronomists were appointed by the Board to educate the growers in improved methods of production and harvesting of cotton. One of the problems was the degeneration in old cotton varieties. The Cotton Board accordingly took steps to secure the production of certified seed and to distribute the seed to cotton growers. Other activities of the Board included the improvement of the marketing facilities and the more effective regulation of cotton-ginning establishments. On June 29, 1940, an executive decree issued through the Ministry of Agriculture of Argentina on May 29, 1940, authorized the Bank of the Nation to grant special loans on this year's cotton crop to farmers, cooperatives, and ginning plants. This action was necessitated by the disruption of Argentina's cotton export markets as a result of the war.

Other Agencies for the Promotion of the Production of Special Commodities.—

1. National Commission of Quebracho Extract—1933

2. National Edible Oil Commission—1934

3. Commission of National Foodstuffs Products—1934

4. Commission for Regulating the Production and Trade of Yerba Maté—1935

National Petroleum Council.—Proposed in 1937 to aid in developing Y.P.F. (government oil company) and to regulate industry.

Commission for Coordination of Transport.—This commission organized the Buenos Aires Transport Corporation in 1938.

National Commission for the Standardization of Equipment.—(Decrees of December 14, 1937, October 5-31, 1938, and October 7-31, 1938) purposes to the government after consideration, rules for standardizing agricultural equipment. It is assisted by the *Institute for the Rationalization of Equipment*, an organization for coordinating technico-scientific research.

The National Standards Commission.—Organized by the government in 1937 to standardize the products of industry.

Exchange Control Office.—Since 1931.

Bolivia

National Economic Council.—Provided for by decree dated August 31, 1937, in conformity with a constitutional referendum of January 11, 1931. The Referendum of 1931 provided that the Council should be organized to advise the Executive on matters affecting the national credit, and the Legislature—on social and labor laws. Special provision was made in the decree of 1937 for the inclusion on the Council of a member of the Legion of ex-Combatants formed following the Chaco War.

National Wool Committee.—In order to encourage the development of the national wool industry, a decree of April 9, 1940 (effective June 1), established a *National Wool Committee* which was authorized, among other things, to control exports and imports of wool.

The committee is also authorized to determine prices to be paid to wool growers, to centralize the industry and act as an

intermediary between producers and manufacturers, and to aid wool producers by promoting development of improved breeding stock, importation of pasture seed, etc.

Brazil

National Economic Council.—As indicated earlier, the constitution of 1937 provided for the creation of a National Economic Council which was to advise the National Parliament and the President in the legislative work of the nation. The composition of the Council was fixed by Article 57 of the constitution, as follows:

Article 57. The National Economic Council is to be composed of representatives of the various branches of national production, chosen from persons qualified by their special ability, by professional associations or syndicates recognized by law, equality of representation between employers and employees being guaranteed.

Sole Paragraph. The National Economic Council shall be divided into five sections:

- a. Section of industry and crafts
- b. Section of agriculture
- c. Section of transportation
- d. Section of commerce
- e. Section of credit

Article 58. The presiding officer of the National Economic Council shall be a Minister of a State designated by the President of the Republic.

1. The President of the Republic shall also have power to designate, from persons qualified by their special ability, up to three members for each of the sections of the National Economic Council.

2. In the meetings of the various sections, organs, commissions, or General Assembly of the Council, there may take part, without the right to vote, under authorization of the President of the Republic, the Ministers, directors of the Ministries, and representatives of the State Governments; likewise, without the right to vote, there may take part in these meetings representatives of the unions or associations falling within the category in any branch of

national production, when their special interest is involved.

Article 60. The National Economic Council shall organize its permanent technical councils, and may also contract for the aid of specialists for the study of specific questions submitted for its opinion or investigations recommended by the Government or necessary for the preparation of projects of its initiative.

The functions of the Council were enumerated in Article 61, as follows:

Article 61. The following are attributes of the National Economic Council:

a. To promote the corporative organization of the national economy.

b. To establish rules relative to the assistance rendered by associations, unions, or institutes.

c. To publish rules regulating collective labor contracts between the unions of the same category of production or between associations representative of two or more categories.

d. To issue opinions concerning all bills initiated by the government or by either of the Chambers which directly concern the national production.

e. To organize, by its own initiative or by proposal of the government, investigations concerning the conditions of labor, of agriculture, of industry, of commerce, of transportation, and of credit, for the purpose of increasing, coordinating, and perfecting national production.

f. To prepare the bases for the foundation of research institutes which, considering the diversity of economic, geographic, and social conditions of the country, shall have for their object:

(1) To rationalize the organization and administration of agriculture and industry;

(2) To study the problems of credit, of distribution, and of sale, and those relative to the organization of labor.

g. To give opinions upon all questions relative to the organization and recognition of unions or professional associations.

h. To propose to the Government the creation of corporations of any category.

Article 62. The rules, to which paragraphs a and b of the preceding article refer, shall become effective only with the approval of the President of the Republic.

Article 63. At any time, there may be conferred upon the National Economic Council, by means of regularly constituted plebiscite, powers to legislate upon any or all the matters within its jurisdiction.

Sole Paragraph. The initiative of the plebiscite shall be within the power of the President of the Republic, who shall specify the respective decree the conditions under which, and the matters upon which, the National Economic Council may exercise powers of legislation.

National Foreign Trade Council.—Established in 1934 and reorganized in December 1937. Exercises some of the functions of the proposed National Economic Council. Its duties are to determine problems of policy regarding Brazil's relations with overseas buyers and suppliers of commodities.

National Economic Defense Council.—A decree Law (No. 1,641) of September 29, effective October 2, 1939, created a National Economic Defense Council, with broad powers, among other things, to regulate imports and exports, according to the *Diario Oficial*, October 2, 1939.

The Council was created to protect the national economy in the present emergency arising from the European war.

The Council is also empowered to foster the exportation of products abroad; to reach agreements with other governments for the barter of merchandise; to decide matters affecting exports and imports, with a view to assuring a regular supply of goods for internal consumption, and for the proper functioning of basic industries; and to revise existing Brazilian restrictions on the production and exportation of raw materials and foodstuffs in general.

The resolutions of the Council will become effective upon approval of the President and promulgation in the *Diario Oficial*.

Simultaneously with the creation of the National Economic Defense Council, a

"Production and Supply Control Commission" was established under the Ministry of Agriculture.

The Cacao Institute of Bahia.—The difficulties that have involved Brazil's major export commodities since 1929 have resulted in a marked trend toward government intervention in basic agricultural industries, with agricultural diversification as one of the major objectives.

A particularly interesting feature has been the setting up, under Federal or state auspices, of a number of "institutes" to aid primarily in the financing and marketing of various agricultural products.

These organizations usually receive direct or indirect financial assistance from the Federal or state governments, and in turn may have delegated to them certain executive powers, such as the enforcement of trade practices and standards and the operation of inspection services. They are not infrequently engaged in a wide range of activities.

For example, the *Cacao Institute of Bahia*, which is one of the better-known of these institutions, guarantees long- and short-term credit to growers, finances purchases of farm equipment, operates an experiment station, aids in highway and bridge construction, maintains a modern warehouse in Bahia, and is active in the cacao export trade. Aside from the income from its banking and commercial transactions, the institute is financed from the proceeds of a state export tax on cacao.

National Sugar and Alcohol Institute.—By a decree of June 1, 1933, a National Sugar and Alcohol Institute was created. Its principal functions were to be the maintenance of prices on a stable level in the interior markets by means of purchases to be made by the Institute in times when there was excessive sugar production, and by the sale of stocks that may be available when prices tended to improve.

A tax on each bag of sugar produced in Brazilian mills was to be collected to provide the funds necessary for the operation of the Institute and for the acquisition

of surplus stocks. An important feature of the new Institute has to do with the development of the production of anhydrous alcohol in Brazil as a means for providing an outlet for a part of the surplus production of sugar.

The Institute was subordinate to the Minister of Agriculture, and the personnel made up of one delegate from the Ministry of Finance, one from the Ministry of Agriculture, one from the Ministry of Labor, Industry and Commerce, one from the Bank or banking consortium referred to in the decree through which the financing of the Institute's operations were to be handled, and one from each sugar-producing state with a production in excess of 200,000 bags. The delegation from the states was to be elected by the sugar producers in the respective states. Brazilian decree Law (No. 1,831) of December 4, 1939, effective from January 6, 1940, provides that no sugar may be exported to foreign markets except through the Alcohol and Sugar Institute or with the express approval of that institution. (*Diario Oficial*, December 6, 1939, Rio de Janeiro).

National Coffee Department.—Created in February 1933—Self-governing organization subordinate to the Ministry of Finance, the powers and functions of which were confirmed by the meeting of July 1935.

The main objects of the National Coffee Department are: to collect taxes and other dues on coffee; to establish statistics on the production, consumption, and distribution, as well as on the relations existing between these; to destroy by burning the surplus coffee and to purchase a percentage amounting compulsorily to 30 percent of the gathered product; to distribute money premiums to establishments for the improvement of the product and to growers in general; to carry on international propaganda for the product and to undertake the protection of the trade in coffee; in short to supervise all private activities connected with the growing and marketing of coffee.

The functions of the Department in relation to the improvement of Brazilian coffees

were ultimately assigned to the *Coffee Technical Department* which is subordinate to the Ministry of Agriculture and is financed on the basis of one milreis per contribution assigned to the National Coffee Department; on the basis of latest available information (1936), the National Department of Coffee has not given up its specific activities. It is financed by taxes on coffee.

National Petroleum Council.—Created in 1938 to regulate the oil industry—the importation, exports, transportation, and refining of petroleum.

Bank of Brazil.—Exercises functions of exchange control.

Chile

Corporation for the Promotion of Production (Fomento Corporation).—The Fomento Corporation created in April 1939 is of unlimited life and is a legal person in its own right. Its purpose is, according to the law, "to develop national production in order to raise the standard of living of the people through taking advantage of the natural conditions of the country and the diminution of cost of production and to improve the balance of international payments, maintaining due proportion in the development of activities in the fields of mining, agriculture, industry, and commerce, and satisfying the needs of the different regions of the country."

The Fomento Corporation is administered by a board on which are represented the government, the congress, state credit institutions and enterprises, private individuals, and salaried persons. Its technical and commercial direction is assigned to an executive vice-president and to a manager, both elected by the board of the corporation.

The initial capital of the Fomento Corporation is one billion five hundred million Chilean pesos (60 million dollars); one billion destined for the stimulation of production and five hundred million for the construction of low-cost housing. This

capital must be delivered by the government within a term of 5 years.

The Fomento Corporation represents the first effective attempt by any Chilean government to centralize in a technical and independent organism the dispersed and unconnected activities which were being carried on by different institutions in furthering the stimulation of national production.

The Corporation began its functions in the month of July of the past year. At all times it has enjoyed autonomy and technical freedom in its activities, not only in selecting its personnel but also in fixing its plans or methods of procedure.

Under the law the Corporation is obliged to elaborate a general plan for studying national production. This plan, as can be readily understood, will be completed with some delay, as it is necessary first to make technical and statistical studies of the needs and possibilities of the country. It is for this reason that the Corporation has first approved a plan for immediate action, to be carried out in the years 1940 and the beginning of 1941 (the farming season of this year). This plan (or plans, since it has been divided into five parts: mining, agriculture, power and fuels, industries and trade, and transportation) embraces the most urgent needs of the country. It includes public works and construction projects, the study of which has been terminated or sufficiently advanced, and it aims to increase the volume of exports.

In order to carry out its plans, the Corporation favors in the first place, all private initiative, that is to say, it encourages private or semipublic capital to become interested in the works or objectives contemplated in its projects. To this end it offers to interested persons loans or contributions of capital, in the case of nationals, or simply capital contributions in the case of foreigners or foreign capital. The intervention of the Corporation in the development of national production

or wealth is limited, then, to technical orientation through its projects and studies, and to stimulating the initiative of private capital, with financial support, for their realization.

Reconstruction and Relief Corporation.—Established under Law No. 6334, signed on April 28, 1939. It was created for a period of 6 years. It has for its object the extension of technical and financial aid, with plans, credits, and indemnities, to the property owners damaged by the earthquake and to the reconstruction of governmental and municipal works, and, in general, works of a public character destroyed by the earthquake. The available capital of the Reconstruction Corporation is one billion Chilean pesos, or about 40 million dollars to be delivered within a period of 5 years. Upon the completion of the 6-year period of the Reconstruction Corporation, the capital which has not been used and the credits which it has granted and which have not been amortized, pass automatically to the Fomento Corporation, described above.

Agricultural Export Board.—The government enacted a law in 1931 having for its object the fixing of the prices of wheat and flour, and the encouragement of the production and exportation of these and other agricultural products through the payment of export premiums.

The principal provisions of this law are the appointment of an Agricultural Export Board (*Junta de Exportacion Agricola*) composed of seven members who shall administer the law; the establishment of a fund for the payment of premiums, which will be obtained by placing additional duties on livestock imported into the country; wine tax, an additional tax of not exceeding one per mil on agricultural property valued at more than 50,000 pesos, and from bank loans up to 10 million pesos (\$1,219,500).

The Board has issued regulations for the granting of bonuses which are of three classes: (1) a fixed bonus for a definite period of time and one that will be used

preferably for the exportation of wine and malt; (2) variable bonuses to make up the difference between the domestic market price and international quotations, which will be applied to wheat, flour, oats, barley, beans, peas, lentils, fruits, and hay; and (3) extra bonuses for making trial shipments to new markets, especially South American countries.

General Commissariat of Subsistence (Established in 1932).—Has on occasion controlled the prices of foodstuffs, clothing, medicines, and building materials (March 21, 1939, after the earthquake of January of that year).

National Petroleum Company.—A government-controlled company established in 1935 for the distribution of petroleum products.

Chilean Nitrate and Sales Corporation.—Established by decree of January 8, 1934. This is a state monopoly for the export and sale of nitrates, but production is left in the hands of independent producers. The objects were to acquire nitrate and iodine from producers and to distribute these products, and in general to effect the necessary commercial operations and transfers set forth in the law. The corporation is to be administered by a board of 11 members, 5 representing the government, 5 representing the producers, and the eleventh, who shall be President of the Corporation, shall be a Chilean national. At the same time provisions were made for the liquidation of COSACH. An effort was made, through the revaluation of the stocks and readjustment of the existing indebtedness of COSACH, to place the sale of sodium nitrates in a better competitive position with similar world products.

Exchange Control Commission.—Administers both imports and exports involving foreign-exchange transactions. Since July 1932 the government has had the legal authority to subject imports to license or quota restrictions, and in addition the Exchange Control Commission has often imposed quota restrictions without reference to the provision of the law.

On November 14, 1939, regulations of a previously existing but unapplied law of 1932 was promulgated, known as the Law Governing Overproduction. This law gives the President the authority, upon request from producers, to declare voluntarily a state of overproduction for any existing industry. Thereafter new factories cannot be established without prior authorization nor can existing industries expand plant equipment. The quantities and sales prices may be determined by the government, and certain industries cannot be transferred to foreign ownership without Presidential authorization.

Colombia

National Economic Council.—First established by Law 23 of February 17, 1931. Regulations for the operation of the Council were contained in Decree No. 777 of May 28, 1935. In October 1938 a decree was issued establishing a permanent Secretariat for the Council.

By Decree No. 1438, dated July 25, 1940 the law on the *National Economic Council* was modified. The Council was given broader powers so as to make it a consultative planning and coordinating organ for collaboration between the government and private economic groups.

The principal functions of the Council will be the study of questions submitted to it by the different sections of the executive branch of the government, by the Chambers of the Legislature, and by private individuals or corporations; also on its own initiative it will make recommendations to the executive branches of the government with reference to economic coordination.

The National Economic Council will organize departmental economic committees and will orientate and coordinate their activities maintaining a permanent relationship with them.

The National Economic Council is to be composed of:

1. The Minister of National Economy
2. The Minister of Foreign Relations

3. The Minister of Finance and Public Credit

4. The Minister of Labor, Hygiene, and Social Welfare

5. The Minister of Public Works

6. The Manager of the Bank of the Republic

7. The Manager of the Agricultural, Industrial, and Mining Bank

8. The Manager of the National Coffee Federation

9. A representative of the agricultural and livestock interests to be designated by the Colombian Agricultural Society

10. A representative of the industrial interests

11. A representative of the commercial interests

12. A representative of the banking and insurance organizations

13. A representative of the transportation and public utility interests to be designated by the National Tariff Commission

14. A representative of the art and handicraft interests designated by the respective cooperatives

15. A representative of the consumers' interests to be designated by the government through the Ministry of National Economy

16. A representative of industrial labor to be designated by the government through the Ministry of Labor, Hygiene, and Social Welfare

17. A representative of industrial employees to be designated by the National Council of Administration and Discipline

The National Economic Council will be composed of the following commissions each presided over by the Minister of National Economy:

1. Agriculture and Livestock
2. Industry
3. Commerce
4. Banking and Insurance
5. Transportation
6. Public Utilities
7. Arts and Handicrafts

In each provincial capital city a departmental council of economy is to be set up

with attributes analogous to those of the national council.

Each departmental economic council will be composed of the Governor of the respective Department, the Departmental Secretary of Finance, the Manager of the Branch of the Agricultural, Industrial, and Mining Credit Bank, and by a representative of each of the following economic interests: agriculture and livestock, industry, and commerce.

In addition to the departmental councils, there will be Municipal Development Committees, in the municipalities determined by the National Council. A Municipal Development Committee will be composed of the Alcalde, the Personero (fiscal agent), the Parish Curate, and a representative each for the agricultural and livestock interests, the industrial interests, and the commercial interests in the municipality.

The National Government can convene, whenever it may be deemed expedient, a full Economic Council which will consist of the members of the National Economic Council, a maximum of two delegates of each Departmental Economic Council and of one delegate from each committee formed in the Intendencias and Commissaries.

National Cotton Board.—Executive decree (March 1938) created a six-man *National Cotton Board* to promote the development of the domestic cotton-growing and yarn industries. The Board is composed of the Ministers of Finance, Industries, Agriculture, and Commerce, and one representative each of the industries affected. The Board will classify and standardize cotton grown in Colombia, determine the grades to be produced to meet local mill requirements, educate growers and produce a quantity and quality adequate to supply the local demand.

National Cattle Loan Fund Council.—The establishment of a *National Cattle Loan Fund* of 5 million pesos (about \$2,858,000) from which loans are to be made to farmers for facilitating the breeding and raising of cattle was authorized by the President

early in 1939. The authorized capital is to be guaranteed by the government, but provision is made for participation by private financial organizations.

The fund will be administered by a Council composed of the Board of the Agricultural, Industrial, and Mining Credit Bank and the Minister of Finance. The council will have a life of 40 years and will begin operations on July 1, 1939. Its functions are:

1. To make mortgage loans for gradual amortization over a period of 20 years.

2. Make and guarantee 5-year loans by chattel mortgages on livestock and livestock products, or on property for use in connection with the exploitation of livestock.

3. To make duly guaranteed loans, which in the judgment of the Council are necessary for the development and expansion of the cattle-breeding industry.

The Council is authorized to issue mortgage certificates to the public, which will be acceptable at par in payment of taxes and debts to the government. Such mortgage certificates may be acquired by banks up to amounts authorized by law. The certificates will be guaranteed by the mortgages held by the Council.

Cuba

Cuban Institute for the Stabilization of Sugar.—Exercises price control and regulation of the sugar industry. Took over functions of the Sugar Export Corporation in 1936.

Coffee Stabilization Institute.—Established on September 14, 1934. It was composed of a representative of coffee farm-owners, coffee planters not owning land, groups interested in financing coffee, coffee merchants, processors, roasters, and "technicians." It was to function under the general supervision of the Secretary of Agriculture who was to be an ex-officio member thereof.

Its chief functions were to be the study of all matters relating to coffee, its planting, cultivation, harvest, classification, storage, tender in pledge or as

security, sale, importation, exportation, and financing, as well as the compilation of statistics relative to all said particulars, and the recommendation to the government of the legislative, governmental, and other measures deemed convenient or necessary for the said purpose.

While at first it was intended that the Coffee Institute would render feasible the direct control of coffee growing, distribution, and sale, the statutes finally provided for an institute primarily to act in an advisory capacity to recommend governmental legislation, and, in the language of the statutes, "to study all the subjects relating to the coffee business."

As the effectiveness of the Institute as a regulatory body was largely voided by the limitation placed on its powers and by its inability, for lack of resources, to finance a proper defense or protection policy, by Decree No. 742 of April 3, 1936, the activities of the Coffee Institute were transferred to the Department of Agriculture.

The immediate effect was to centralize in an executive department of the government complete power over all phases of the coffee industry, from the farm to the consumer, or until the product is exported. Thus the President, upon recommendation of the Secretary of Agriculture, may fix minimum prices to the farmer for unhulled coffee, or he may fix maximum or minimum prices at which hullers, warehousemen, roasters, and other middlemen dispose of their product.

The law likewise encourages the formation, under the guidance of the President and of the Secretary of Agriculture, of a Cuban Coffee Exporter's Cooperative which shall handle the business of selling abroad the coffee retained in Cuba by law.

National Transportation Commission.—Established in 1938 to regulate all the public service transportation on the Island.

Ecuador

National Economic Council.—The idea of a National Economic Council was consid-

ered first by President Ibarra as a means of coping with the economic difficulties which beset Ecuador after 1929 as a result of the depression. On January 6, 1935, a *Council of National Economy* was established by Presidential decree. It was to be composed of a representative of the Central Bank, two representatives of commercial banks, a member representing commerce and industry, a member representing agriculture, and two private citizens. It was to be attached to the Ministry of Finance and to be presided over by the Minister whenever he attended sessions. The Council was to meet at least once a week, each member receiving 20 sucres a session.

In general, the Council was to be charged with the study of economic matters and with the coordination of the "initiatives and proceedings of the Executive in all that pertains to the economic interest of the Nation." Its specific attributes included the following: to study economic and financial matters; to prepare and submit projects of laws and decrees dealing with economic questions; to advise the Minister of Finance with respect to economic and financial problems and fiscal administration; to furnish opinions requested by the Minister of Finance; to give its opinion concerning the budget and plans for public works; and to report on projects of laws and decrees concerning economic and social matters.

The opinions of the Council of National Economy were not to be binding on the Executive who was not bound to consult it, and its members could be removed at the will of the President.

The political turmoil that followed the death of President Ibarra stripped the Council of the effectiveness that it might have had under more auspicious circumstances. But in August 1937 President Enriquez revived the idea and decreed the establishment of a new Council. The Council of National Economy was established on August 28, 1937. It was to be composed of one representative each from commerce, the industries,

agriculture, the universities, and of labor groups. The members, appointed by the government, were to hold office for 4 years. The idea was to have "a technical organization which should be removed from politics, serving exclusively the interests of the economy by means of advice, recommendations, drafts of laws, and studies of specified problems, which permit an understanding of our trade situation and the adoption of laws thereto." The principal purposes of the Council were thus: (a) to give advice to the directing organizations of the national economy and finance; (b) to procure unity of action between the different economic forces; (c) to prepare drafts of laws of an economic character; (d) to give advice on fiscal policy, especially budgetary, the establishment of customs, tariffs, etc.; (e) to centralize national statistics of an economic character; (f) to recommend the study of commercial treaties; and (g) especially to study the most practical and efficacious means of facilitating the exploitation of the natural resources of the Republic, the development of colonization, the increased production of gold, the establishment of new industries, and all other means of improving the trend and progress of the national economy. The members were attached to the Ministry of Finance, and were to be remunerated for attending the sessions called.

This Council, as the previous one, has had a checkered career. It has been affected by the political turmoil of the country and has found it difficult to influence the economic policy of the government. The Council's role relative to the reciprocal trade agreement with the United States (signed August 6, and effective October 23, 1938), may serve to illustrate the part which it has played. Just prior to the signing of this agreement (on July 23, 1938), the members of the Council of National Economy were resigning and the Council was in danger of being abolished. The Council approved the proposed trade

agreement, yet its critical state prevented it from submitting a written report. This state of affairs obtained just as President Enriquez was on his way out as "Supreme Head of the State." Relative to this same trade agreement with the United States, in the Spring of 1940 (May-June), taking advantage of the dumping of wheat and wheat flour on the export market by the U. S. Federal Surplus Commodities Corp., the Ecuadorean importers had accumulated large stocks of wheat and wheatflour at the Port of Guayaquil. This situation was serious for the wheatgrowers on the Sierra plateau region, and acting through the Council of National Economy, they were able to raise the freight rates on the Guayaquil-Quito Railway so that these products would not cause ruinous competition, while at the same time not violating the trade agreement with the United States.

Recently, the Council seems to have been languishing. American observers report that "no one pays any attention to the Council and that it might as well be abolished."

Mexico

National Supreme Council.—Proposed in connection with Second Six-Year Plan. (See appendix D.)

National Foreign Trade Commission.—Exercises virtually a complete control over the country's exports, in conjunction with the *Export Bank*.

Autonomous Agrarian Bureau.—Created in 1934 to speed the distribution of lands to rural communities. To this end it simplified legal procedure and generalized the right to receive lands to all types of the rural population.

National Bank of Ejido Credit.—Finances the newly established ejidos.

Henequen Producers Association.—Established April 1938. Is a State-controlled association, formed in order to effect the break-up of the henequen plantations and their reorganization on a collectivized basis. In accordance with the

State Expropriation Law, enacted in October 1938, early in 1939 several large henequen plantations, including buildings and equipment, were expropriated.

Sugar Producer's Association (1934).—An officially sponsored association which as a result of its activities has consolidated the position of the sugar producers. It controls the domestic market and adjusts output to consumption possibilities.

National Society for Mineral Financing and Credit.—Established in 1935 to take over the duties of the *Commission of Mining Promotion*. Its functions are: to regulate the market for minerals, assist in the establishment of smelters and refineries, buy and sell metals and operate in the export trade, to train Mexican technical personnel to replace foreign staffs, and to finance the mining industry.

Petroleos de Mexico, S.A. (Petromex).—Organized on January 26, 1934 (a mixed company with the Federal Government as the principal stockholder) for the purpose of producing, refining, and distributing petroleum; it was to serve as a nucleus for the development of the national oil industry.

Federal Electric Commission.—Reorganized by a decree of August 14, 1937. Is given authority to organize and administer a national system of electric generation, transmission, and distribution, and has preferential rights to water power over private interests. In 1938 a government-owned hydro-electric plant was put into construction at Valle de Bravo, State of Mexico, in order to supplement electric current for Mexico City.

National Labor Bank for Industrial Promotion.—Established July 1937 to finance cooperatives of workers in the operation of industrial enterprises, such as the manufacture of plows by a group of former employees of the National Artillery Foundry and the sugar refinery constructed by the government at Zacatepec, State of Morelos.

Price-Control Boards.—A decree of June 25, 1937, established control over the

production, distribution, and prices of all commodities which may be declared by the Department of National Economy to be of fundamental importance. Price and production control is widespread in Mexico. As an example of price control may be cited the decree of July 30, 1938, by which (due to poor crop conditions) the *Federal Committee on Subsistence* was reorganized and was given extensive powers to control prices and the distribution of basic food products and the right to purchase wheat, rice, and corn in large quantities in the United States. In 1939 the government established maximum prices on certain commodities of prime necessity; retail stores selling foodstuffs such as rice, flour, corn, and sugar were operated by the government in order to sell them at low prices; legislation was enacted likewise authorizing the government to control the export of goods needed internally, and to this end an export tax was imposed. Price control is likewise effected through the governmentally controlled institutions which have been established in order to control the production and distribution of such goods and services as petroleum, minerals, sugar, henequen, electricity, railway transportation, etc.

Cinematographic Institute.—Created in 1935 to produce motion pictures and to exercise a monopoly over the distribution of films.

Paraguay

Committee for Coordination of Government Activities.—By decree dated October 17, 1939, the President established the Committee (*Comision Consultiva del Poder Ejecutivo*), to coordinate government activities so far as they refer to international economic matters. The scope of this work is to include the consideration of proposed legislation, the formulation of policy, and the elimination of overlapping.

The Committee is to be composed of the Ministers of Foreign Relations and of econ-

omy (one of whom is to serve as chairman), the president of the *Banco de la Republica*, the Director General of Customs, and the Director General of Industry and Commerce. The decree invites the chairmen of the Finance Committees of the Senate and of the House to join as members, and designates two advisers.

The first meeting was held on November 23, and the second on November 28, 1939, at each of which all the above-mentioned were present. These meetings were taken up mostly with discussions on the scope of the Committee's work and with means for coordinating activities now performed by the Bureau of Industry and Commerce of the Ministry of Economy, the Bureau of International Commerce of the Ministry of Foreign Relations, the Bureau of Statistics, and the Import Control Commission. A subcommittee headed by the President of the Banco de la Republica is to prepare and submit a plan on the latter project.

At a second meeting a telegram was read from the Paraguayan Minister in the United States, advising that the inter-American Financial and Economic Advisory Committee is ready to receive for consideration any projects that this country may wish to submit. According to American observers, this wire might have given rise to confusion among the majority of those present as to just what the inter-American Financial and Economic Advisory Committee is.

National Housing Council.—Established July 27, 1940. Its functions are:

1. To construct low-cost houses with the funds provided by the law.
2. To act directly, or through building companies and individuals, in setting up cheap and hygienic houses in the capital and in the interior of the country for sale or rent to workers.
3. To grant benefits provided for by the law to encourage construction companies and individuals to build low-rent houses.
4. To promote the formation of credit or cooperative societies which will build directly or provide funds for such construction.

5. To stimulate national industries in construction materials.

6. To organize a propaganda campaign to publicize the benefits obtainable under the new law.

7. To encourage the development of private activities connected with the construction of cheap houses in general.

In order to carry out this program, the Housing Council may be authorized to issue bonds up to 100 million paper pesos bearing 6 percent interest, the state assuming responsibility for the bonds issued.

Furthermore, the state may grant exemption from fiscal and municipal taxes on the buildings constructed under the provisions of the law, and cede suitable public lands for this purpose when convenient.

The law also contains a clause providing that building mortgages on the houses themselves shall remain in force for such time as may be necessary to liquidate the debt incurred for construction.

Peru

Council of Subsistence.—By a law of September 3, 1939, the government was empowered to restrict the freedom of trade and industry and to regulate the prices of essential commodities. The law also prohibits the discharging of workers, the lowering of wages and salaries, and the export of essential commodities without official permission. The application of these measures of regulations and control was entrusted to a commission (Junta de Subsistencia Social), the *Council of Social Subsistence*, appointed simultaneously with the enactment of the law.

Government Monopolies.—There are eight government monopolies in Peru, the commodities affected being tobacco, salt, denatured alcohol, opium, explosives, matches, guano, and playing cards. The coastwise trade of Peru is also reserved to Peruvian vessels. However, an agreement with Chile permits Chilean vessels to engage in the Peruvian coastwise trade. The monopolies are:

1. *The Estanco de Tabacco* (Tobacco monopoly).—A division of the *Caja de Depositos y Consignaciones: Departamento de Recaudacion* (Depository of Consignments: Department of Collections). While the production, manufacture, and trade in tobacco is under the exclusive control of the tobacco monopoly and individuals are thereby prevented from engaging in the manufacture of tobacco and its products in Peru, it is nonetheless permissible for companies or private individuals to import tobacco manufactured outside of Peru in compliance with the required declarations, other formalities called for by law, and the payment of the duties fixed by law. Imported cigarettes and cigars constituted nearly 5 percent of the total sales of tobacco in Peru during 1936.

2. *The Estanco de Sal* (Salt monopoly).—A division of the *Caja de Depositos y Consignaciones: Departamento de Recaudacion*. Pursuant to the law of June 11, 1936, the purchase, sale, and transportation of salt were placed under the state monopoly.

3. *Denatured Alcohol*.—*The Estanco del Alcohol Industrial* (Monopoly of Industrial Alcohol) is also a division of the CAJA referred to above. The production, sale, and transportation of denatured alcohol are a government monopoly, and when it is imported, it is also subject to the control of the CAJA. There has always been considerable contraband in connection with this article of commerce.

4. *Opium*.—*The Estanco del Opio* (Opium monopoly) is under the supervision of the Office of Public Health (*Direccion de Salubridad Publica*). The sale of opium in Peru is farmed out by the Government Board to the highest bidder at public auction.

5. *Explosives*.—*The Estanco de Explosivos* (Explosives monopoly) is also a division of the CAJA, with the supervision of the Police Service. Through its police authorities, the government controls imports, warehousing, and issue of permits for use of explosives by responsible business concerns (mining chiefly) that currently make

use of such explosives. Regulations determine safeguards for transportation of explosives within the country, and for keeping a close check on their ultimate disposal.

6. *Matches*.—*The Estanco de Fosforos* (Match monopoly) is a division of the CAJA. The purchase (from Swedish and Italian concerns) and the sale of matches is a government monopoly. The monopoly was originally set up to provide revenues for the development of irrigation works.

7. *Guano*.—By a decree of September 5, 1933, the *Compania Administradora del Guano* was authorized to act as the exclusive agent for the sale in Peru of imported nitrates for agricultural or industrial uses. The importance of guano in Peru's financial history is well known. As during recent years (1934-1936), the extraction of guano has been insufficient to meet home demands, legislation has been enacted requiring that all national agricultural needs must be met before guano can be shipped abroad.

8. *Playing Cards*.—This monopoly is also a division of the CAJA.

Uruguay

Government intervention and control in Uruguay have been developing on an increasing scale for a number of years. One of the characteristic features of this development is the establishment of public corporations, state-owned plants, and government monopolies for various industries. Some of these are:

ANCAP.—*National Administration of Fuels, Alcohol, and Portland Cement*. First established in 1931 and reorganized as an independent corporation of the state with the purpose of exercising a monopoly of the manufacture and sale of alcohol, participating in and regulating the market for fuel, and manufacturing cement.

UTE.—*State Electric Plant and Telephone Co.* (*Usinas Electricas y Telefonos del Estado*).

Frigorifico Nacional.—A state corporation in competition with private packing companies. Supplies the population of Montevideo with meat.

FUNSA.—(*Fabrica Uruguaya de Neumaticos, Sociedad Anonima*), a joint-stock company which began the manufacture of tires and rubber goods in May 1936. It is equipped to meet the domestic demand for tires, and it should be able to furnish large amounts of such rubber manufactures as inner tubes, garden hose, raincoat material, rubber sheeting, etc. By selective duty imposts, the tendency is to make it advantageous to import cars without tires as accessories, and thus the government is hoping to establish a monopoly for tire manufactures through FUNSA.

The raw rubber used is imported from the Dutch East Indies and the cotton fabrics at present from the United States (1936), but it is expected that the necessary fabric will be provided by the local *Fabrica Uruguaya de Albargatas*, which hitherto has been making rope-soled canvas shoes.

This new joint-stock company, located on the outskirts of Montevideo, has been granted a 9-year monopoly. The company with 600,000 pesos invested and 1 million pesos of authorized capital, operates under the patents of a tire company in the United States and with directors from that company, paying it a royalty on production.

While the capital is supposed to be local, there is some reason to believe that a part of it was provided by the American company whose processes are used. The tires are advertised as "FUNSA Goodrich."

CONAPROLE.—*National Cooperative of Milk Producers (Cooperativa Nacional de Productores de Leche)*, created by law on December 14, 1935, is a joint enterprise of the state and private producers. It exercises a monopoly in the pasteurization of milk and in the manufacture of milk products in the city of Montevideo, as well as a monopoly in the exportation of milk products.

Any dairy farmer in Uruguay may become a member of the cooperative, and financial

control of it is exercised by the Bank of the Republic.

Article IV of the law provides for the expropriation by the state of plants and properties of various companies and their transfer to CONAPROLE.

It is administered by a board of 5 directors and 10 alternates elected by milk producers, with an auditor (named by the Bank of the Republic) who makes monthly reports to the Ministers of Agriculture and Industry. With the consent of the Senate, the Executive can depose any or all of the directors and order new elections.

National Milk Commission (Junta Nacional de Leche).—Is composed of one delegate of the Municipality of Montevideo, one from the Bank of the Republic, one from the National Subsistence Commission, one from the milk distributors, and one from the consumer's cooperatives. Revises the prices of milk for consumption once a year, awards prizes to producers of exceptionally good milk and is authorized to award premiums on exports of milk products. Profits if there are any, are divided among the producers, placed to reserves, or distributed as bonuses to *Conaprole* experts, employees, and workmen.

Venezuela

Council of National Economy.—Provided for in Article 32 of the Constitution to carry out the Three-Year Plan. Has not been set up as yet.

The execution of separate parts of the Plan is entrusted to the various government departments. The departments which are concerned most are: The Department of Agriculture, established in 1936; the Department of Public Works; the Department of Economic Development (Fomento Department); the Department of the Interior; the Department of Labor and Communications; the Department of Health and Social Assistance; and the Departments of Finance and War.

Some of the agencies which deal with special developmental problems are: The

Table 3.—Selected Planning Agencies in Latin-American Countries
[Established or Proposed—1931-1940]

Country	General advisory or developmental	Concerned with public works	Agricultural and related production and price control	Mining, power, and industrial planning and development boards	Public and semi-public corporations	Transport regulation and coordinating agencies	Financial	Social Improvement agencies
I. Argentina		1. Department of Public Works and Government Departments	1. The Grain Regulating Board 2. National Meat Board 3. The Wine Regulating Board 4. Meat Industry Department 5. National Cotton Board	1. National Petroleum Council 2. Standardization for the Equipment Commission 3. National Standards Commission		1. Commission for Coordination of Transport	1. Exchange Control Office Note: In all the countries listed here, except Mexico and Peru, exchange and foreign currency are controlled by a special agency or by the National Bank or by both.	
II. Bolivia	1. National Economic Council	1. do	1. National Wool Committee					
III. Brazil	1. National Economic Council (proposed) 2. National Foreign Trade Council 3. National Economic Defense Council	1. do	1. Cacao Institute of Bahia 2. National Sugar and Alcohol Institute	1. National Petroleum Council				
IV. Chile	1. Fomento Corporation	1. do 2. Reconstruction and Relief Corporation	1. Agricultural Export Board	1. do	1. Chilean Nitrate and Soda Corporation			1. General Comissariat of Subsistence.
V. Colombia	1. National Economic Council	1. Department of Public Works and Government Departments	1. National Cotton Board 2. Council					
VI. Cuba		1. do	1. Institute for the Stabilization of Sugar 2. Coffee Stabilization Institute			1. National Transportation Commission		
VII. Ecuador	1. National Economic Council	1. do						
VIII. Mexico	1. National Supreme Council (proposed) 2. Ministry of National Economy	1. do	1. Autonomous Agrarian Bureau	1. Petroleos de Mexico	1. Renequen Producers Association 2. Sugar Producers Association 3. Federal Electric Commission		1. National Bank of Ejido Credit 2. National Society of General Finance 3. Labor Bank for Industrial Promotion	1. Federal Committee on Subsistence. 2. Cinematograph Institute.
IX. Paraguay	1. Committee for Coordination of Government Activities	1. do						1. National Housing Council.
X. Peru					1. Government Monopolies on Tobacco, Salt, etc.			1. Council of Subsistence.
XI. Uruguay	1. National Administrative Council (Absorbed by Office of President, 1934)	1. do	1. National Milk Commission		1. ANCAP 2. UTE 3. FUNSA 4. CONAPROLE, etc.			
XII. Venezuela	1. Council of National Economy (proposed)	1. do 2. Other Government Departments	1. The Coffee Institute 2. National Cacao Institute			1. La Guaira Harbour Corporation	1. Industrial Bank 2. Exchange Corporation Office	

Coffee Institute—aids in the preparation of coffee for export; National Cacao Institute—concerned with improvement of production of cacao; Industrial Bank—established in July 1937 to provide credit at low rates of interest to small domestic industries; La Guaira Harbour Corporation—owned by the government; Exchange Centralization Office.

A program for the modernization of the city of Caracas was announced by the Municipal Council of the Federal District late in 1939. It was designed to improve living conditions and transportation, and to provide for the expansion of the capital city and principal business center of the country. It calls for the opening of several broad avenues through the congested central portion of the city, the creation of centers for the grouping of government and public buildings, the construction of a system of parks, and the opening of broad roads circling the city and leading to the principal connecting highways.

Possibilities and Problems

The survey presented in this memorandum indicates that national planning in Latin America has been extensive and varied, but also somewhat spotty. The most solid and effective form has been the *partial* and *emergency planning* which was made necessary by disturbed conditions in world markets and which has found its chief manifestations in the limitation of the output of export commodities, in guaranteed minimum prices, and in exchange controls. Next in importance and degree of success have been the policies of agricultural diversification and industrialization which have been stimulated by means of subsidies, easy credit, and of restrictions on imports and foreign exchange.

Progress has also been made in varying degrees in the several countries in the execution of public works projects. But in general, the longer range schemes for large public works (3-year, 6-year, 15-year programs) and the comprehensive plans for

national economic development have not made as much headway as had been expected. The planning institutions and agencies needed for such large purposes have either not emerged from the paper stage of existence or, if set up, have not had a very active or smooth career.

These facts have led some observers to regard national planning in Latin America as an intellectual fad, or as "an escape" from political and economic realities. Such a summary dismissal of the movement, however, is unwarranted. The fact that the idea of planning persists in Latin-American countries, despite all difficulties of realization, and that recurrent efforts have been made to give it practical expression, is proof that it responds to some deep-seated psychological and economic conditions in the Latin-American situation and outlook.

The main economic factor which underlies the planning movement in Latin America is the need for developing the resources of the countries more rapidly and in such a way as to integrate them into a more balanced national economy. The social factor is the recognition that the development of economic resources must serve to raise the standards of living of the mass of the people. The psychological factor is the desire to carry out such development as independently as possible both so far as political control and national aims are concerned.

It is in line with these ideas and attitudes that the Latin-American countries have been trying since the first World War, and especially since 1929, to reshape their social-economic institutions. The main features of the new pattern which they have in view are independence and economic growth. What the countries of Latin America are aiming at is to develop their natural and human resources in an independent manner and under complete national control, to promote economic expansion in ways which would be free from the implications of external political and financial dominance,

and to recast their institutions, (land tenure, industrial relations, corporate enterprise, external financial relations, etc.) in line with what are regarded as national interests and ideals.

Despite such deep-seated roots, the growth of planning in Latin-American countries has been meagre for reasons which are well known. To use a paradox, the very conditions which have made planning necessary, have also made it difficult. While these conditions vary from country to country, essentially they are the same—political uncertainty, lack of widely accepted high standards of public administration, poverty, low levels of living of the mass of the people, inadequacy of technical knowledge, but above all, lack of financial resources, and often incapacity to act independently in financial and economic matters owing to the dominant position of various foreign interests. Planning in Latin America will make progress as these obstacles are gradually overcome.

There is no question that the United States could do much to promote some of the Latin-American trends towards national planning, by supplying technical and financial aid and by cooperating generally in the advancement of some of its objectives and methods. Neither is there any question at the present time as to the need or desirability of action on the part of the United States to bring the Latin-American countries into a system of inter-American economic cooperation which may serve the cause of continental solidarity.

The question is whether there is a link between these purposes. Two interrelated problems are involved: (1) in what way can national planning be made to serve the aims of inter-American cooperation; (2) can the national planning in the separate countries have a part in a general program of inter-American planning which may be devised for purposes of developing cooperative relations.

Only the general basis for an answer to these questions can be indicated here. It

is clear that inter-American cooperation today calls for both emergency and long-range measures. In view of the world situation, the emergency measures involve such devices as special commodity marketing agreements, special financial aid to meet the dislocations of world economy, and special arrangements for common action to shape the conditions and methods of changing world economy.

But it is also clear that such emergency measures, even if successful, would not solve the basic social-economic problems of Latin-American countries. In fact, they are likely to aggravate these problems, especially if the present world struggle continues for some years or is followed by economic warfare among large political and economic blocs. It is thus necessary to supplement the emergency schemes with long-range measures which have for their purpose the development and rebuilding of the national economies of the various Latin-American countries. For it may be assumed that as long-range policies bear fruit, there will be less need for emergency measures and that to the extent to which the latter remain necessary, it will be easier to fit them into the general developmental patterns of the different countries.

It is especially for such long-range purposes that the various agencies of national planning in Latin America can be of value. If they were encouraged and strengthened, they could play an important part in carrying out research and surveys which are so essential for the further development of Latin America, in preparing programs of resource development, in developing public works projects, and in aiding the social-economic policies looking towards the improvement of standards of living generally.

Were these agencies to be given a more secure place in the Latin-American economy, they could also have a large part in the international phases of inter-American planning. It would be possible for them to aid, for instance, in the elaboration

of an inter-American plan of public works (related to continental development and defense), in the promotion of agricultural resettlement and colonization, as well as in some of the larger plans for financial readjustment.

As the survey shows, the number of agencies in the Latin-American countries which may be classified under planning is large and their character is varied. If brought together into cooperative working relationship, these agencies could undertake an extensive program. At the same time, however, largeness of purpose would be likely to give rise to diversity of interest, or, at least, to differences in the intensity of concern with various planning objectives and methods.

APPENDIX A.—SUMMARY OF THREE-YEAR PLAN OF CUBA (1937-1940)

This extensive program of social and economic reforms was formulated by Col. Fulgencio Batista, head of the Cuban Army, and was endorsed by the Executive and prominent government officials.

Col. Batista was quoted as having stated that it would take 3 years to realize the plan, hence it has become known as the "Three-Year Plan."

The "text" of the Plan is in reality a general outline of subjects falling within the scope of the plan, and contains 20 principal divisions and 190 subdivisions. The main proposals are as follows:

Coordination of the Sugar Industry.—Under this heading are included a new regulation of cane payments to growers, the creation of arbitration boards, other protection to growers, regulation of cane-plantation rentals, the establishment of minimum wages, the right of labor to share in the sugar profits, freedom of trade at the "batayas," the encouragement of growers' cooperatives, and the granting of prizes to discoverers of new sources of wealth in sugar cane and its derivatives.

Rural Government Lands—Distribution—Colonization—Agricultural Development.—

A practical approach to the problem would, therefore, be to select those which are more nearly similar in character, such as the agencies concerned with the planning and execution of public works, with the study and planning of resource development, and with some of the economic and social programs. Such agencies might find it easier to get together on common ground and to consider common policies and action. Were they to be brought together into some form of inter-American association, they might lay the foundations for a permanent *Inter-American Planning Conference*, which would aid in developing that community of enterprise in essential matters which is the *sine qua non* of a truly cooperative Pan-Americanism.

This includes the partition of lands, colonization, agricultural development, the recapture of state lands and lands without title, a census of real property, the apportionment of lands to farmers in proportion to the size of their families at the rate of not less than one caballeria (about 33-1/3 acres) or more than five caballerias, the state inspection of land projects, the organization of agricultural production and consumption cooperatives, and the improvement of the farmer's living conditions.

Rational Measures in Property Rights.—This includes the rationalization of property holdings, the "humanization" of the exercise of property rights, legislation on such matters, and the municipalization of urbanized plantation "batayas."

Regulation of Rural Property Leases.—This heading covers mining concessions, seniority title to rural property, reforestation by lessees, crop guarantees, expiration and extension of leases and the security of their final liquidation, legislation with regard to oil, gold, chromium, iron, manganese, copper, and asphalt mining, and of the subsoil in general.

Reforestation—Lumber Supply.—Studies are to be conducted on reforestation and the lumber industries, and action will be taken towards the limitation of timber felling and the development of the precious wood industry.

Water Supply.—This includes the development of power projects, irrigation, water consumption, and its hygienic treatment.

Agricultural Education.—Under this heading are included the establishment of new civic-military schools, a permanent agricultural-industrial exhibition, national industrial schools, farm reorganization, provincial agricultural schools, and provincial poultry farms.

Cattle and Related Industries.—This includes new legislation on the cattle industries, the improvement of breeds for beef, the development of a packing industry, the limitation of meat imports, the establishment of dairy cooperatives, and the improvement of horse breeds.

Bee-Culture—Tobacco—Coffee—Cocoa.—This includes the development of apiaries and of honey exports, and equitable distribution of tobacco profits, the development of new markets for these products, the negotiation of trade agreements, and the intensification of cocoa cultivation and processing.

Intensification of Fruit and Vegetable Cultivation.—There is to be undertaken the improvement and protection of fruits and vegetables to be exported, the diversification of crops, the development of rice cultivation, mulberry trees, cellulose plants and oil seeds, the industrialization of the above products, and the importation of plants and seeds for the development of new products for industrial purposes.

Dessication and Utilization of Swamps.—This includes the draining of marsh lands and swamps, the utilization of peat and fertilizer, and the apportionment and colonization of reclaimed lands—to be used chiefly as rice paddies.

Sea Products and Their Industrial Utilization.—This includes the revamping of

present laws on the subject, the development of salt fish and fish preserve manufacturers and exports, and the industrialization of sponge fishing.

Sanitation and Charity.—Under this heading are included the reorganization of present services, intensive campaigns against tuberculosis and cancer, the regulation of the medical professions, sea baths for workers and their families, and pure food legislation.

Social Aspects.—This includes the reorganization of labor exchanges, the taking of an unemployed census, employer and employee syndicates, social and labor insurance, a code of labor, housing, and salary schedules.

Economic Aspects.—Includes the reorganization of tax collecting agencies, tax reform, final settlement of moratorium privileged debts, home building, credit facilities for workers, the codification of fiscal laws, and the technical improvement of treasury services.

Public Education.—This includes the control and improvement of "school breakfasts," regulation uniforms for public-school pupils, a campaign against illiteracy, the enforcement of school laws, free tuition for the destitute, regulation of private instruction, physical culture, the creation of new public libraries, popularization of plays, music, literature, and art in general, and the construction of a "Palace of Culture," a national aquarium, and a zoo.

Justice.—This includes the creation of minor courts, penal and correctional reform, the construction of a palace of justice, and the necessity of obtaining state title to inherited wealth.

Foreign Relations.—This includes full application of the Pan-American doctrine, negotiation of treaties, and cultural, industrial, and commercial propaganda abroad.

Miscellaneous.—Includes the creation of a national school of civil aviation, the

creation and regulation of a national merchant fleet, and the creation of a civil service career.

Source: Diaris de la Marina, Habana, June 25, 1937.

In brief, the plan is an all-inclusive program. Those reforms which stand out as of particular importance are: the coordi-

nation of the sugar industry (which has been carried out), the creation of a national bank, tax reforms, progressive taxation on large, uncultivated landholdings, the "solution of the moratorium," protection to farmers and the distribution of lands, as well as social insurance, and the cultural and educational advancement of the people.

APPENDIX B.—THE NATIONAL INDUSTRIALIZATION PLAN OF COLOMBIA (1940)

Summary of Decree No. 1439, August 18, 1940

National Plan to Stimulate the Development of the Country's Mineral Resources and the Encouragement of Domestic Manufacturers

The President, exercising the powers conferred upon him by the Extraordinary Powers Act (Law 54, 1939), issues the following decree:

Article 1.

In accordance with Article 2 of Decree 1157 of 1940, basic industries which would employ raw materials of domestic origin but which have not developed satisfactorily on their own initiative and private capital shall be *subject for special study*, and these include:

1. The steel industry, including those on which it depends such as the mining of iron, lime and coal, the production of coke, refractory materials, etc.

2. Nonferrous metals industry (except precious metals), such as the mining and treatment of lead, copper, zinc, tin, mercury, etc.

3. The coal industry.

4. The ceramics industry.

5. The manufacture of caustic soda, soda ash, sodium bicarbonate, etc.

6. The manufacture of sulphuric acid, carbon bisulphide, etc.

7. The manufacture of chemical fertilizers, such as acid phosphates, nitrates, etc.

8. The manufacture of mineral-salt mixtures for cattle.

9. The manufacture of animal feeds.

10. The manufacture of fungicides and insecticides.

11. The production of cellulose.

12. Production of tanning extracts.

13. Extraction of fibers from pita, ramie, pringamosa, flax, etc., and the extraction of linseed oil.

14. The collection of oil-bearing nuts.

15. The collection of Tagua nuts.

16. The industrial utilization of coffee hulls.

17. The ensilage and economical storing of corn and other cereals.

18. The preserving of fruits and vegetables.

19. The fish industry.

20. The wool industry.

21. The proper preservation of hides and skins.

22. The pasteurization of milk.

Article 2.

In addition to those expressly enumerated, the advantage of this decree can be extended to other basic industries using primary national materials when the time is considered opportune.

Article 3.

Foreign materials shall be used only when they are found indispensable.

Article 4.

Industrial plans shall be subject to the review of the Minister of National Economy, who shall pass on their feasibility.

Article 5.

In order to determine definitely the possible realization of the industrial development contained in numbers 1, 2, 3, 4, 5, 6, and 7 of Article 1, as well as their most appropriate location, geological, mineralogical, and chemical studies shall be undertaken.

Article 6.

To clarify the necessary bases for the plans expressed in numbers 11, 12, 13, 14, 15, and 18 of Article 1, botanical, forestal, and agronomic studies shall be undertaken.

Article 7.

For the fishing industry, specialists shall study the conditions in the Pacific and Atlantic Oceans.

Article 8.

Studies shall be undertaken relative to the elaboration of salt minerals for animals.

Article 9.

To study the bases for the plans comprehended in numerals 1, 2, 4, 11, 12, 13, 14, 15, and 16 of Article 1, technical studies shall be undertaken.

Article 10.

To clarify the bases of planning for the respective industries, economic studies shall be undertaken, i.e. (No. 8) the economic possibilities for the exploitation of textile fibres, especially pita, pringamosa, and linen, the production and exportation of such fibres and elaborated products therefrom. These studies shall be complementary to those already advanced by the Department of Agriculture, and the Department of Commerce and Industries.

Article 11.

New studies can be undertaken, and those now enumerated can be suspended or modified whenever it shall be found convenient.

Article 12.

To carry out this plan the government shall establish laboratories, plants, or investigating organizations and establishments.

Article 14.

Studies shall be made of the electric plants necessary for the realization of the projects included in this plan.

Article 15.

The Minister of National Economy shall consult the proper Minister relative to the particular plan envisaged.

Articles 18, 19, and 20.

Exemption from the patrimony tax for 5 years and over, under certain conditions, is provided for a company organized to engage in any one of the above listed industries in which either the National Government or the Industrial Development Institute should have subscribed to not less than 20 percent of the company's capital. In addition to this general exemption, the first company to engage in the manufacture of specific products (sulphuric acid, industrial guano, etc.) shall be exempt for 5 years from the patrimony tax.

Article 21.

This article is designed to encourage the investment of foreign funds now held in the country in that it provides for the return of foreign capital brought into the country previous to February 19, 1935, when such capital may have been invested within at least 3 years in stocks or bonds of the Industrial Development Institute or in the enterprises comprehended in the present decree and invested in by the Industrial Development Institute.

Article 25.

The National Government can make contracts with firms which shall produce articles

not fabricated today, so that it can obtain the privilege of buying, during a certain determined space of time, certain determined quantities of such products which the government regularly consumes.

Signed July 18, 1940, by the Ministers of Hacienda and Credito Publico, Economia Nacional, and Minas y Petroleos.

Source: *Diario Oficial* No. 2422, July 25, 1940.

APPENDIX C.—THE THREE-YEAR PLAN OF VENEZUELA (1938-1941)

Extracts From Special Message of the President of the Republic to the National Congress of May 6, 1938

General

This Three-Year Plan is to give effective fulfilment to the Program of February 1936, these 3 years being the remaining years of the present constitutional period.

The different executive departments of the government were consulted relative to the works which were imperative and possible of realization in this period of time, keeping in mind the principal necessities of the country and the financial ability to complete them.

The resulting plan embodies the frankness and honesty with which this regime has been characterized, and thus it is capable of being fulfilled.

"We are preparing at the same time the bases for a renewed and great country."

Not only the contemporary financial status of the government has been taken into consideration but also the excellent credit standing of the nation. (It has complied punctually with the obligations of the ordinary budget and it has important reserves in the treasury.) And in order not to impair the excellent credit standing of the nation, the works chosen are remunerative and will pay for themselves once they are put to public service.

A series of works of urgent need have been planned—their execution is feasible in a short time with the assistance of private capital, Venezuelan as well as foreign, preferably our own.

The most essential public needs are based on greater production and return from the

national economy, in lowering the cost of living, and in the inseparable trio: the establishment of conditions of health, to educate, and to populate. First, one must improve the conditions of the life of the masses—then the intellectual and cultural advance of Venezuela will manifest itself.

Thus the Plan stresses the importance of the construction of public highways which will facilitate and cheapen transportation; the improvement of agricultural and livestock production and their cultivation in greater proportions; hygienization of man and the environment in which he lives; providing potable water and sewerage; construction of hospitals and centers of social assistance; protective institutions for mother and child; building of houses for workers and middle class; increase postal, serial, telegraphic, and telephonic communications; finally, perfecting and augmenting means of national defense and internal police since maintenance of peace is an essential condition of all collective progress.

Public Health Program

The well-being of men is *primarily connected with physical health and the economic ease of men.*

To this end the government will work towards an efficient solution of the basic problems of public hygiene, i.e. health, education, prevention of endemic and epidemic diseases, protected foodstuffs, provision of water, drainage of land, garbage disposal, and medical assistance.

Antitubercular battle—at the Sanitarium of Caracas, 300 beds are to be made available—at Merida, 120 beds—5 large hospitals

are to be constructed: at Maracay, Barquisimeto, San Cristobal, Cumuna, and Ciudad Bolivar—these also to have tubercular facilities. To the same end, special dispensaries are to be set up at San Felipe, Merida, Coro, Barcelona, and Curapano.

The number of antivenereal dispensaries is to be increased, and there illnesses native to our climate are to be treated, such as buba, leishmanosis, micosis, etc. Incipient cases of leprosy are to be watched for, and a new Leper Colony is to be built and existing asylums to be completed.

The beds at the Cancer Institute (inaugurated July 5), are to be doubled, and added apparatus and therapeutical material given to it.

The campaign against malaria is to be intensified—antialcoholic fight is to be rationally established—a law to combat venereal diseases has been presented.

For the protection of mother and child—115 hygiene centers are to be distributed throughout the country as well as in each of the 5 large hospitals—maternity and infancy sections are planned—dispensaries for puericulture and education of mothers to be created.

New infantile health colonies are to be established, one in the State of Falcon and one in the State of Bolivar—as well as two new infantile reformatories, one in the East and one in the West.

Psychiatric aid on a larger scale for aged, invalids, and abnormal children to be given.

Three types of health units are to be established: 10 principal units in villages of 30,000 inhabitants or over—to serve as directive centers for secondary units and subunits.

38 secondary units for centers of 78,000 people—but whose active zone is to care for over 20,000 people.

67 subunits—most simplified, combines health activities with medical aid.

Health service career to be established—schools for nurses and doctors of hygiene to begin to function this year—School of

Malariology to be completed and to function under the Ministry of Health and Social Assistance. This Ministry is to continue to send professionals abroad to specialize in health matters.

Installation of a National Hygiene Institute is contemplated—its activities are to make serums, vaccines, biological products, and chemicals for the health campaigns to be made.

The program of health education is to be intensified—magazines, radios, moving pictures—nurses, hygienists, etc.—information through dispensaries.

100 aqueducts and 16 sewerage systems are to be constructed.

Dietetic studies for the workers and peasants are to be made in order to combat death rate and biological deficiencies.

Budget of the Department of Health and Social Assistance—1938-39, Bs. 18,300,000 (an increase of Bs. 4,482,590). For the next 3 years, then, Bs. 62,364,630 will be spent as budgetary expense. Add to this the cost of work of public nature to be constructed by the Department of Public Works—the government will then have devoted to this department Bs. 117,264,630 in the next 3 years.

Public Education

Primary Education.—It is one of the immediate ends pursued in the Triennial Plan. This involves: an increase of school construction and teaching materials; the training of capable teachers; the penetration of teaching to the most isolated places of the country; and the battle against deficiencies which oppose advance of instruction, the major factors against this being: illiteracy, contagious and preventable diseases, technical backwardness (whether agricultural, commercial, or industrial), malnutrition, and economic pauperism.

The elementary school program covers not only children but also adults, through night schools and workers' schools. Former teaching programs have suffered from a

notable oversight of everything connected with manual professions and mechanical arts. The Rural Missions, already begun, will serve as an efficient complement to educative penetration in all sections of the country.

Thus academic verbalism and privileged tendencies are to be replaced by technical training of the pupils and a greater democratization.

Citizen soldiers, experienced personnel from the active Army and Marine, are to form special missions to carry the benefits of primary instruction, health, social assistance, and civic and military teachings to the regions of the country distantly isolated or accessible only by maritime, lake, and fluvial routes.

Higher Education.—The government is to pay special attention to higher education as a preponderant part is played in the destinies of the country by the learned and cultivated men, and representatives of science, and who are called upon to guide public opinion. To this end the budgets of university institutions are to be increased. Teaching and material means for the development of institutions of technical character are to be increased. And faculties of economic and social sciences in our universities are to be created.

Centers of special education are to be improved, among which are: Institute of Business Administration and Finance, Business Schools of Valencia, Puerto Cabello, Maiquetia', and Ciudad Bolivar. Schools of arts and crafts for men and women are to be established. Government aid is to be given institutions of artistic and cultural character, as well as to sports, and especially to the Boy Scouts.

In a democracy, the task of greatest consequence is giving culture to the masses.

Budget of the Ministry of National Education—1938-39, Bs. 22,100,392, (an increase of Bs. 3,722,946 over the present budget), and to this is added the works and buildings under the Three-Year Plan to be constructed under the Ministry of Public Works which

will be Bs. 17,780,000. Thus in the next 3 years it is proposed to spend Bs. 84,081,176 for this department. And the government will increase this sum if fiscal arrangements allow a favorable margin.

Population and Migration

In general, the population of Venezuela is stationary. Therefore, an influx of new blood is needed to give the nation new life and to promote a favorable increase. The problem has until now been placed in the wastebasket of bureaucracy. The wealth of the nation lies in the number and quantity of men who people it rather than in the abundance of the material elements of its soil. To make Venezuela a great country, a harmonious parallel must be found between the economic potentiality and the human factor.

A *Technical Institute of Immigrants* is soon to be opened, and in the 3-year period there will be assigned to it Bs. 12,200,000 to carry through by stages our first attempts at methodic immigration. A careful policy is to be followed. To open wide the gates would prepare failure for immigrants and create dangers of absorption of the national element. Directed immigration is to be established, preferably in agriculture, since spontaneous immigration for industry and other activities is regulated by law. The Mendoza colony is already functioning, and the Ciguá colony for European immigrants is actively going forward. Other colonies are to be pushed during the next 3 years. And if increased revenue allows it, immigration will be further attracted.

Agricultural Development and Diversification

Abundant provision of the products of the soil and animal husbandry for the purpose of internal consumption and exportation must be a preeminent endeavor in the objectives of the Three-Year Plan, with it being an obstacle to the fostering of other

potentialities of the national economy especially those of an industrial character.

With these ideas in mind, the following plans have been made: Recognition, study, and classification of agricultural, forest, and livestock resources as a preliminary to their development and exploitation; vegetation health protection (to avoid introduction of plagues and dangerous agricultural diseases); Agricultural and Zootechnical Experimental Station has been inaugurated recently near Caracas, and various annexes are to be created and distributed in various regions of the country; demonstration farms—23—are to be established in different parts of the country during the next 3 years; agricultural and livestock education and training—already functioning are the Superior School of Agriculture and Zootechnics and of Veterinary Medicine, and others are to be added, such as: schools for superintendents of coffee plantations (in 4 states), the schools for superintendents of cacao plantations (in 2 states), and agricultural clubs to educate young farmers; veterinary investigation (to protect cattle); services of animal hygiene and health (inspection and quarantine, veterinary ambulances, extinction of the tick, improvement and creation of watering spots, veterinary pharmacies); fish and fish culture; land, wood, and waters, (1) tax list of uncultivated lands is to be made, (2) a division of uncultivated lands is to be made to establish agricultural and livestock colonies, (3) private properties are to be acquired in order to protect the forests, (4) gradual reforestation of the land is to be made where the forest has been extensively cut, (5) construction of homes and the parcelling of lands owned by the nation is to be undertaken along the frontiers for the repatriation of these regions; cultivation of bananas and tobacco and of wheat, rice, and cereals is to be assisted by the Banco Agrícola y Pecuário with a view to exporting former products exported and of freeing the country from the imposing

tribute paid through importation; some of the highways are destined for the proposed agricultural expansion; the study and implantation of national policy of waters including the battle against increasing deforestation, the policy involving irrigation for agriculture, and a water supply for human and animal uses.

A National Exposition of Agricultural and Animal Husbandry is planned for 1941 to show the progress which has been made.

Farm Relief.—The valorization of the money and the depressing influence upon prices (in terms of Bolívares) makes the government compensate equitably those producers most injured. To meet this need the sum of Bs. 20 million per year has been budgeted for the next 3 years. As an added protection, an added sum is to be annually budgeted for encouraging industries derived from the soil and another annual sum to effect the buying operations of agricultural and livestock products.

The budget of the Department of Agriculture and Animal Husbandry is raised to Bs. 38,643,174 for 1938-39, and is calculated at Bs. 38,945,305 and Bs. 39,141,501 for the following years. Add to this the irrigation works and buildings for this department by the Ministry of Public Works (contemplated under the 3-year plan) of Bs. 5,996,000, and the total investment in this department for the next 3 years is Bs. 122,725,980.

Industrialization

There will be encouraged and effected the establishment of such industries of national consumption as will serve the double purpose of offering alluring fields for capital and labor and of avoiding the exorbitant importation which our commercial balance reveals today in this respect.

National industries of possible economic acclimatization will receive decided protection from the state; to this end the Ministry of Fomento is to give a liberal allotment for loans to industrialists—for contracting industrial experts—for the

acquisition of machinery for small industries whose raw materials are of national production—this assistance will be made easily available on moderate terms to industries judged worthy of protection.

The petroleum industry forms a principal part of the economy of the country, particularly with reference to the national revenues. The government will give care to the collection and increase of the income secured therefrom, as well as to demand what is legitimately owed the treasury in this respect; to such an end the legal and technical instruments will be perfected.

Equal emphasis will be placed upon the development of the National Mining Industry by investigating the soil and subsoil and by the purchase of exploration machinery and implements; likewise there will be rational advantageous exploitation of all the natural riches which abound in the Republic. The government is studying various plans for the mobilization of the mining and agricultural potentialities of the region of Guayana. In all these plans the participation of the state is contemplated.

It is proposed to install a National Petroleum Refinery, and for this purpose a sum has been set aside during the following 3 years for the amortization of the capital that will be invested in it and for the payment of interest.

The development of the tourist trade will be encouraged. For this purpose propaganda will be employed, and not only will the national hotels and bathing establishments be improved but new hotels will be constructed, one in Caracas, one in Puerto Cabello, as well as a bathing establishment in Macuto.

As part of the program for the protection of industries, loans have been set aside in order to contribute to the construction of the telephone system (del Tachira), and so that the municipality of Barquisimeto will be able to obtain and improve the light and power system of that city.

The budget of the Department of Fomento for 1938-39 has been increased by Bs.

4,776,500, and the cost of new hotels and bathing facilities and for the improvement of existing ones which will be separately executed by the Department of Public Works amounts to Bs. 5,865,000.

International Policy

Our international policy shall continue manifesting itself in the course of the next 3 years in the same spirit of amnesty and cooperation which characterizes it today. Above all, our activity will be interested in the preservation of peace, which Venezuela desires and needs, and without impairing in any way our national dignity or our independence of action. Special attention will be directed towards furthering our relations with the American Republics and with solving the frontier questions; this will be done on the basis of equality and mutual benefit, especially concerning those questions which interest us equally.

The armed forces of the Republic demand an increase and technical perfection, in its personnel as well as in materials. Having these requirements in mind, the Ministry of War and Marine has had its budget for the coming year increased by Bs. 8,031,547; in addition there has been designated the sum of Bs. 10,111,400 to cover in the 3-year period the cost of various works at the National Shipyard (Dique Astillero Nacional) and for the construction of the Naval School and of eight barracks.

Financial aid will be set aside for the formation of military colonies in the frontiers, which will include houses for retired officials and the parcelling of land destined for the individual soldiers which have completed their obligatory military service and which voluntarily enlist for service in these colonies.

Separately, there has been set aside the sum of Bs. 3,500,000 for the construction and reconditioning of 23 airdromes. The development and perfection of our civil

aviation is a matter which highly interests the nation and the government.

In the matter of maritime and fluvial navigation loans will be made to the *Compania Venezolana de Navegacion* for the increase of its fleet and its service. The sum of Bs. 4,200,000 has been set aside for the completion of the port works of Puerto Cabello, for the canalization of the Rio Uribante and for studies related to the development of our navigation.

Communications

Telephone and telegraph communications will be modernized and they will be coordinated with the Radio-Telegraphic Service, and this will make necessary the creation of 8 radio-telegraphic stations.

The plan for betterment of the trunk lines of the telegraphic network necessitates the substitution of the present system by one more modern, the improvement of the new system by means of apparatus and equipment, likewise modern, and the security of the communications between all the confines of the territory. Likewise the services of the Federal telegraphic network will be modernized.

For these reforms the sum of Bs. 5,400,010 has been set aside, to be distributed over the 3 years. In addition, edifices will be constructed for the use of the *Ministerio del Trabajo y de Comunicaciones*, in the same period, to the value of Bs. 860,000.

Council of National Economy

The Council of National Economy will be organized, as provided for in article 32 of the Constitution, and it will undertake the vast task of cooperation with the Federal Executive in all matters which are included in the plan which the legislators had in mind when creating it.

The elementary preparations for the creation of the *Ranco Central de Emision* are being studied—likewise a *Caja Nacional de Ahorros* will be created.

Public Works

The execution of the works envisaged for the Three-Year Plan, as well as the repairs which will be made to various existing works, will be undertaken by the Department of Public Works.

From a political standpoint, it was necessary to prefer works recognized as of eminent importance by the *Jefe del Poder Ejecutivo*, and the motive of economic administration made us prefer the works which actually are at present engaged in certain activity. From a financial standpoint, it was necessary to choose such works as railways, ports, and those destined for the tourist trade because their very nature, independent of the impulse they give to the national economy, permits their execution by a method of long-term financing. Finally, the sanitary factor was decisive, because on it depends not only the material well-being of the community but the very lives of its inhabitants.

Factors in the distribution of the official budget for each year were the works actually in progress and the urgency of the others. Of those which have been proposed and accepted, some terminate in the first year, others in the following 2 years, and others are of such magnitude and importance that they would be impossible to realize in 3 years if one only counted on the ordinary national finances. But these works are by their nature attractive and remunerative and are capable, on the whole, of being financed by internal national capital or by foreign capital.

Given the excellent internal and external credit of the nation, it is presumed that the necessary capital is obtainable upon the emission of bonds of the treasury, whose amortization and interest payments will be backed by the government.

The rate of interest on the bonds proposed is not to exceed 4 percent, and a maximum of 10 percent is allowed for the costs of floating the issue.

In view of the need of foreign capital, the bonds emitted should be redeemable

either in bolivares or other foreign currency, at the option of the holder. Such a procedure will demonstrate from the beginning the principle of the honesty of the emission, and that it will not be subject consequently to the variations of the gold content of the national monetary unit, and at the proper time it will be a guarantee of the collection of the bonds emitted.

In addition to the remunerative character of the works planned, which will in large part pay for themselves, and of the multiple benefits which their execution will convey to the economy of the country, the system has the undisputed advantage of offering a secure investment to a large part of the national capital which is idle now because of unattractive business conditions, and in general stimulating its circulation.

As the parliamentary approbation is necessary for this plan of financing before the executive can proceed definitely, I beseech you to consider it as briefly as possible so that I can receive the necessary authorization which will permit the emission of the treasury bonds (Bonos de Tesoro).

The works proposed under the Three-Year Plan fall into two distinct parts:

A. Works which will be financed out of ordinary budget	Bs. 160,150,722
B. Works which will be financed by long-term borrowing	204,365,000
Total	364,515,722

A. Works Financed From Budget Revenue

1. Sewers	Bs. 16,299,630
2. Town defenses	5,400,000
3. Irrigation works	3,000,000
4. Asylums, hospitals, etc.	16,065,000
5. Buildings for the Ministry of Interior	10,040,200
6. Buildings for the Ministry of Foreign Affairs	974,000
7. Buildings for the Ministry of Hacienda (Finance)	700,000
8. Buildings for the Ministry of War and Marine	10,111,400
9. Dependencies of the Ministry of Public Works	454,000
10. Buildings for the Ministry of Education	17,780,000
11. Buildings for the Ministry of Agriculture and Animal Husbandry	2,996,000
12. Buildings for the Ministry of Labor and Communications	860,000

13. Buildings for other services	Bs. 2,526,000
14. Works for the beautification of Caracas	4,750,000
15. Highways	33,123,770
16. Cartroads	2,844,100
17. Construction work on roads already in service	4,201,500
18. Complementary works (bridges, etc.)	8,840,325
19. Upkeep and improvement of roads	10,064,397
20. Road studies	220,400
21. Works related to sea and river navigation	5,400,000
22. Works related to air navigation (aerodromes, etc.)	3,500,000
Total	Bs. 160,150,722

B. Works Financed by Long-Term Borrowing

1. Railroad construction	Bs. 61,000,000
2. Port of La Guaira	30,000,000
3. Maracaibo Bar	60,000,000
4. Ports of Maracaibo, La Vola, Sucre (Dumana), Carupano, Los Morros de San Juan, and Ciudad Bolivar	11,500,000
5. Salt deposits of Araya	6,000,000
6. Aqueducts (study, construction, and perfection)	30,000,000
7. Hotels and bathing beaches	5,865,000
Total	Bs. 204,365,000

Budgetary Provisions

The budgetary income for the economic year 1938-39 amounts to a total of Bs. 335,261,000, or an increase of Bs. 80,628,645 over the present budget. These figures, more than any commentary, demonstrate our increasing fiscal capacity and the care that has been taken in the scrupulous collection of taxes.

If one takes as a conservative estimate for the budgets of the 3-year period the quantity mentioned as corresponding to 1938-39, and if one adds the sum of Bs. 204,365,000 which amounts to the value of the public works to be financed, the grand total of the investment for the 3 years, including the constitutional situation of the states, will be Bs. 1,210,148,000.00.

This program has no precedent in our history, and you can well measure the horizons which open to the progress of the Republic.

It is to be observed that the previous plan does not take into account the actual reserves of the Public Treasury which on April 15 amounted to Bs. 81,211,347.63,

and which will continue intact for the national defense, as protection for our money, and as a reserve for the projected Central Bank of Emission.

The constitutional allowance of the states, which prior to the time I assumed supreme executive power was Bs. 20,974,778.50, will be increased in the budget of 1938-39 to Bs. 58,083,609.15, and equal provisions have been made for 1939-40 and 1940-41. The nation expects the governors of the Federal States to also formulate their plans for the coming 3-year period, in harmonious cooperation with the Plan of the Federal Executive.

Conclusions

Such in résumé is the content of the Three-Year Plan which I present to my compatriots for your superior examination in the hope that you will grant your approbation.

The ideas of the Liberator (Bolivar), new at all times, are today the anchor of our well-being. Tragic winds buffet the world and diametrically opposed ideas divide it, bringing to our own country the repercussions of these discords. Strange ideologies to the Venezuelan temperament pretend to take root among us and already we run the risk of changing what is exclusively ours and which interests us for that, which in addition to being foreign, is in conflict with our traditions and sentiments.

What is exclusively ours is the example of Simon Bolivar in the many deeds of

his republican life, heroic and self-sacrificing. And that example should serve us as a guide for advancing along the road towards sincere republicanism, with concord and love for the fundamental interests of our country.

The projection of this great spirit also covers all of America, whose future he foresaw.

Reviving the ideas of the Liberator is a task which we cannot postpone, and for this purpose my government has recently proposed the creation of *Sociedades Bolivarianas* in the city of Caracas, in the capitals of the states and in the heads of the districts or places of large populations.

These societies shall be centers of reunion of all the citizens and of consultation for the common good, without distinction with regard to political opinion, religious belief, or social class. They shall be centers of culture and of social and economic action, cells of good will, and nucleus for a unified Venezuela, and finally with one, sole-elevated purpose; the aggrandizement of the Republic under the titular guide of the Liberator.

It is my fervent desire, and I hope that it will likewise be that of my compatriots, that this vast sphere of bolivarian action shall serve as a united front for the work which we are going to undertake in the following 3 years.

Source: *Gaceta oficial de los Estados Unidos de Venezuela*: Sabado 7 de mays de 1938. Numero extraordinaris.

APPENDIX D.—THE SECOND SIX-YEAR PLAN OF MEXICO (1941-1946)

The text of the Plan was prepared by a special committee of the Mexican Revolutionary Party and approved by the National Assembly held in the City of Mexico November 1-3, 1939. The newly elected President Avila Camacho is pledged to carry out its provisions.

In the words of the Commission (of the Central Executive Committee of the Mexican Revolutionary Party), it is not a detailed

and rigid program enumerating all the activities to be undertaken, but rather a general guide, special details being given only when they may assure exactness in the execution of the general principles.

Preamble

The Mexican Revolutionary Party reiterates its firm adherence to the democratic ideal of the state, whose true realization

requires the existence of social and economic conditions that allow the effective exercise of political rights to which every citizen is entitled. It likewise considers that only the state, as the strongest collective entity in any society, is capable of intervening to equalize powers, suppress injustices, and, in short, to create the expectations of a living, real democracy. Therefore, it is necessary that the social structure be organized according to a carefully considered plan, with a clear understanding of the ends sought and a correct determination of the procedures needed to attain them.

From the beginning, the revolutionary movement has sought to establish political independence on its only solid basis: the economic independence of the nation, conceived not only as the right to exercise control over its natural resources and to organize their use by Mexicans but furthermore as the desire to strengthen the international economic and political position of the nation so that it shall be free to determine its own policies and strong enough to make its liberty respected.

The goal of the Mexican Revolution is to transform the legal structure of the country gradually from a liberal democracy into a "democracy of workmen." The Mexican Revolutionary Party recognizes the actuality of the class struggle and admits that such a struggle must take place during the period to which the plan refers. But it also recognizes the possibility of "the gradual redress of social injustices" and the need for "making Mexico a strong and wealthy country capable of setting aside extraneous influences which may hinder its internal transformation."

The rights of workingmen being guaranteed, private initiative shall not find hostility or hindrance in the Six-Year Plan, the only condition being that it respect the just aspirations of the people and that it observe the provisions of the law.

The mechanization of industry and agriculture being fundamental to economic ad-

vancement, new investment shall be encouraged for the exploitation of natural resources, provided it does not seek to obtain its profits by the exploitation of man.

As the Mexican Revolutionary Party believes that human values supersede all material possessions, the Six-Year Plan is characterized by its humanitarian tendency. It embodies the revolutionary idea of progress as an ever-increasing abundance of wealth and a greater number of possibilities for an ever larger number of people.

While the Six-Year Plan is directed towards precise objectives, yet it has two limitations, one imposed by legal institutions, and the other by the size of the public revenues.

Chapter I Land Distribution and Agricultural Production

This chapter refers to governmental action relative to the problems of agriculture, livestock, hunting, fishing, and forest exploitation, as developed through the legal and technical rehabilitation of lands, waters, and other natural resources; the qualification and improvement of men; the redistribution of elements of production and the management of production itself.

For these purposes the Mexican Revolutionary Party proposes the following governmental action:

1. The full realization of the land distribution program in the least possible time.
2. The governmental guarantee of the possession and usufruct of the land to those who shall come into its possession under the new laws.
3. The consolidation of the work of agrarian reform realized up to the present time.
4. Opposition to the reestablishment, directly or indirectly, of the latifundian system of human exploitation.
5. "Ejido" production shall become the basis of the country's agricultural economy.
6. Providing to the "ejido" the advantages of large-scale exploitation, through

the execution of works and the establishment of appropriate systems of work, preferably collective.

7. The organization of production and the distribution of the products so that these operations shall fulfill their social ends and lead to the social and economic improvement of the farmers and of the collective majorities.

8. The obtainment, through all means within reach of the state, of the development of production through the modernization of technique, the widening of fields, the rationing of works, and the assistance of all the economic forces in the country.

9. The promotion of the exploitation of natural resources which, through diverse causes, have been abandoned; this refers particularly to land.

10. The direction of credit towards the development of cattle raising and agricultural production, preferably in "ejidos."

11. The establishment of the most efficient forms of merchandise distribution and circulation with the least possible increase in costs.

12. The efficient incorporation of the natives into the national community through the improvement of their social and economic conditions, and in such a manner that their original culture shall be conserved, while at the same time they shall not be treated differently from the rest of the Mexicans as regards their participation in the enjoyment of the wealth produced.

13. The farming woman, in consideration of the treatment accorded Mexican women in general, shall legally and factually be granted absolute equality with man.

In order to effect these general propositions, a long list of specific undertakings, sixty-eight in number, is enumerated, the keynote of which is the conservation of natural resources. For the improvement of the human factor, education shall be fostered, both elementary and superior, to aid in carrying out the development of the natural resources of the country, particular attention being paid to agriculture.

Elaborate provisions are also made for the redistribution of the elements of production, including the acquisition of "ejido" lands, the repatriation of Mexicans, the furnishing of equipment for the development of the "ejidos," and the encouragement of consumer cooperatives. Of particular importance are the provisions for the granting of agricultural credit, to which end a special institution shall be organized; the establishment of agricultural insurance is envisaged.¹⁸

Chapter II Industrial Economy and Commerce

With regard to industrial development, distribution, consumption, and trade, the Plan postulates the following governmental action:

1. To consolidate national economic independence and the adjustment of industrial production to the full satisfaction of national needs.

2. To give the state an ever-increasing control over the national economy.

3. The displacement of the center of gravity of our economy from the exploitation of exhaustible natural resources to those that, through adequate techniques, are susceptible of reproduction for an indefinite period.

4. To condition the exploitation of exhaustible natural resources so that their decrease is maintained within an economically acceptable limit and the largest possible benefit can be derived from their exploitation.

5. To create and acquire permanent means of production and furnish the country with mechanical equipment necessary for its economic development; to this end, special

¹⁸ The first important event of the Avila Camacho regime in Mexico was a decree providing for a modification of the Agrarian Reform. This change grants to the peon a definite title to the land given him, and contrasts with the communal ownership pushed during the Cardenas era. The title granted to the peon, although providing for inheritance rights to the property, prohibits its sale or mortgaging. See Pan American News, Foreign Policy Association, Inc., December 19, 1940, p. 2.

efforts will be made to increase rapidly the available motive power and promote the establishment of industrial plants complementary to the extractive processes, so far as this may be economically justifiable and nationally necessary.

6. To increase the supply of electricity, so that through its price and wide distribution it will become a positive factor of progress.

7. To rationalize the application of human labor to industrial processes.

8. To promote the exploitation of natural resources which, through different causes, have been neglected.

9. To reform the general manner of granting concessions, so as to give preference to enterprises which involve state participation, or those administered by workers.

10. To establish and consolidate our position in foreign markets and place an economic control over our imports; domestic prices shall be stabilized so that they shall not be detrimental to the producer or the consumer.

11. To establish an economically efficient distribution and circulation of merchandise.

12. The protection of the real income of the people through the organization of consumption.

To effect these general propositions, a long list of specific measures, 65 in number, is enumerated, the principal being:

The laws shall be studied and reformed to meet the needs of the Plan. A general inventory will be made of the natural resources and the degree of their exhaustion, and an office will be established to study the data gathered. Then a scientific plan for the general industrialization of the country shall be made. The transportation system will be studied in order to facilitate the movement of products, and in addition, freight and passenger rates shall be fixed. The efforts of agriculture and industry shall be coordinated, having in mind the needs of the world market. The following provisions are indicated with respect to mining and other industries.

Mining

The mining zones of the National Mining Reserves shall be studied, and the state shall actively engage in mining exploitation, provision likewise being made that valid concessions must be actively exploited. The production of iron ore and coal (to displace charcoal) shall be encouraged. Private plants and foundries will be obliged to refine and smelt the ore of outsiders when conditions permit at prices authorized by the state, in order to encourage small mining enterprises and workers' associations. Effort will be made to encourage the use of metals of national production and to develop heavy industry. In addition, mining concerns shall set up financial reserves to meet the workers' legal indemnifications should work cease due to the exhaustion of the deposits, or for any other cause.

Oil

The oil industry shall be totally and definitely nationalized, and if absolutely necessary, compensation shall be made to the concessionaires. This compensation shall be effected from funds obtained through the exportation of oil and by-products. The state shall endeavor to conserve and develop the oil resources, reducing domestic prices and improving the quality of the products, elaborate precautions being taken to insure the efficient economic development of the industry. So that this industry shall serve the national interests the workers shall actively participate in its administration, and the industry itself shall coordinate its efforts with other industries, particularly chemical, electrical, and war industries.

Electric Industry

The state shall actively intervene in the electrification of the country, and works initiated under the first Six-Year Plan shall be concluded, preference being given to plants projected at irrigation

districts. Particular attention will be given to the development of power sources for the creation of new industries, principally those of fertilizers, metallurgical cement, paper, and cellulose. Consumer cooperatives for the production of electrical power shall be granted financial and technical aid, and tariffs within reach of the consumer shall be established, the government compensating concerns whose rates are determined at exceptionally low prices.

Manufacturing Industries

Legal, technical, and material conditions shall be established to encourage a maximum industrial transformation of our exportable products, and private initiative shall be encouraged for the creation of new industries to displace the manufactured articles of foreign origin. Likewise, the industrial production of substitute products shall be organized and developed. Measures shall be taken to coordinate and develop heavy industries, having in mind the plan of general industrialization that has been prescribed. Particular attention will be paid to the establishment of plants for the production of machinery, fertilizers, and substances to combat plagues and diseases affecting vegetables and animals. The distillation of mineral coal and wood shall be especially encouraged so as to produce the derivatives now imported. New industries shall be given tax exemptions in order to reduce their costs of production, and at mining centers industries of a different nature shall be created so as to insure the existence of these towns once their deposits have been exhausted.

Domestic Commerce

Prices shall be regulated so that, while reasonable profits are obtained by producers and merchants, the consumer shall be protected, and the government shall intervene to lessen seasonal variations in prices. Trading and distribution of the primary necessities shall be watched so

that prices shall be maintained within the reach of all the consuming classes, thus eliminating speculators. The government shall establish concerns for the direct sale of merchandise to the consumer and consumer cooperatives; farming and union stores shall be organized. The loading, transport, and storage of products shall be organized so that they shall be done at the lowest possible cost. Likewise, the Sanitary and Social Assistance authorities shall intervene to stabilize and reduce the prices of medicines.

Foreign Commerce

The regulating system of foreign commerce shall be entrusted to a special organization which shall grant subsidies, intervene in Consular Service matters, make commercial treaties, and see that the activities of other institutions agree with the programs it formulates.

Statistics

Elaborate plans are formulated for the organization of statistical agencies, for the compiling of statistics, and for their publication.

Chapter III Public Credit and Finance

This chapter refers to governmental action directed towards the obtainment of revenues for public expenditures, their correct application towards the ends outlined in this Plan, the employment of fiscal measures for the purpose of economic and social policy, the management of currency and credit, the improvement of the tax systems, the elaboration and technical handling of the budgets, and adequate reforms of the national and private credit systems.

The Mexican Revolutionary Party proposes the following governmental action for the above ends:

1. The obtainment of sufficient revenues to increase the activities of the government for the benefit of the mass of the people,

thus realizing a better distribution of wealth.

2. The imposition of progressively heavier taxation to cover public expenses upon those who obtain a greater share of the profits, decreasing at the same time the burden upon the taxpayers of limited means.

3. The using of the tax systems in order to regulate and improve production and make easier the distribution of products for the benefit of the people, to combat social vices, and to create greater possibilities of culture and welfare in the community.

4. The direction of credit towards the increase of "ejidal" and agricultural production, towards industrial production by workingmen's enterprises and by those in which the state participates, towards public works of urbanization and sanitation, towards the development and control of foreign trade, and towards production in general so that this credit may act in accordance with the purposes of the Plan.

In order to effect these general propositions, a number of specific measures, thirty-nine in number, are indicated as follows:

Revenues.

The taxing ability of the Federal Government, states, and municipalities shall be precisely determined by constitutional reform, and legal means shall be adopted towards making the fiscal systems uniform throughout the Republic; a special bureau to bring this about shall be created composed of representatives of the Federal Government, states, territories, and the Federal District. The Federal Surtax shall either be abolished or reestablished at a lower rate; direct taxes shall replace indirect taxes, and progressive tax rates shall be established wherever convenient; a progressive tax on urban real estate shall be established, the rates being decreased on owners living on their own property, and on small property owners; the progressive tax on inheritances, legacies,

and donations shall be increased, complementary to the income tax, and thus the concentration of wealth shall be prevented; an increased tax on liquors, alcohols, etc., will be levied in order to encourage temperance. Relative to the tariff, duties on dispensable and luxury articles shall be preferred for revenue purposes, and a cautious protectionist policy shall be carried out.

Expenditures.

Expenditures directed towards the social policy of the government, and particularly for investments in income-producing properties for the government, shall be regarded as preferential public expenses.

Currency and Credit

Efforts shall be made to maintain the stability of the domestic value of the currency, and the monetary policy shall be determined by the necessity of improving the worker's real income. Action on the international monetary exchange market shall be directed towards the maintenance of our capital and the defense of our currency, every effort being made to prevent the exchange situation from adversely affecting the influx of factors profitable to the national commerce and industry.

The organic laws of the Bank of Mexico shall be modified in order to facilitate a conservative, freer granting of credit, to strengthen its position, and so that the Bank, through supporting the issues of the government, shall make it possible for the farmer to obtain long-term loans.—Measures will be taken to make the general credit system more flexible to the regulating action of the Central Bank. The credit sources shall be increased for the development of agriculture and livestock production (particularly in "ejidos"), collective industrial production, foreign commerce, public works, sanitation and urbanization, and direct production in general; to this

end, likewise, reforms shall be undertaken so that private capital will function in accordance with the purposes of the plan. The General Law of Institutions and of Titles and Credit Operations shall be reformed in order to assure the cooperation of the private credit system with the government's economic program; likewise, legal action will be taken to allow private banks to undertake commercial, industrial, and agricultural financing, and to create a market for long-term securities. The operations of the National Bank of Foreign Commerce shall be increased, its activities being directed towards the formation of unions of Mexican exporters in order to improve the export trade. Measures shall be adopted so as to increase the activities of the National Urban Mortgage and Public Works Bank, the safety of its investments being the object of the Law of Municipal Credit for Public Services.

Particular attention shall be paid towards the granting of credit for the construction and improvement of houses for workers and farmers. To industrialize the country a National Labor Bank for Industrial Promotion shall be organized, and to establish a market for the securities of these industries, their bonded obligations shall be supported and guaranteed by the Guarantee and Stabilization Fund which will be placed in the trust of the Bank of Mexico. A national system of credit institutions will be completed, and a commercial bank to direct the activities of short-term credit will be established. A system of national warehouses will be completed, preferably in zones of important "ejidal" agricultural production and at centers of large labor concentration or cooperative production. Investment banks shall be so regulated as to protect the public interest and direct available funds towards income-earning investments. Savings and investment banks as well as mutual insurance companies shall be encouraged, and the vigilance over national and private credit institutions shall be increased.

Insurance

A National Insurance and Bond Commission shall be created to watch over the companies engaged in such undertakings. Popular insurance will be regulated, and plans for a national insurance institution will be studied.

Public Debt

Mexico shall continue to recognize its public internal and foreign debt and shall discharge them as it is financially able. Efforts will be made to encourage the domestic market for securities which shall develop the public services, such as Highway Bonds.

Chapter IV Communications and Public Works

This chapter refers to governmental action relative to providing easier access to natural resources, to bringing all the people of the country within the same cultural life, to the increase in the facilities for the distribution of products by the improvement of communications and transport.

To this end, the Mexican Revolutionary Party proposes the following governmental action:

1. To coordinate and complement the different systems of communication and transport.
2. To maintain the principle of coordination and cooperation between the Federal and State Governments, as well as that between the "ejidatarios" and other economic forces interested in this matter.
3. To build and establish systems of communication and transport, giving access to new areas of natural resources.
4. To establish systems of communication between "ejidos" and agricultural areas of the same region in such a manner that they shall have access to the main systems of communication.

5. To establish and improve domestic commerce and tourist traffic throughout the country.

6. To connect with the national community, as quickly as possible, those regions of the country which, through lack of proper communications, have been virtually segregated from it.

7. To contribute to the development and organization of the merchant marine.

8. To develop works for the prevention of and defense against floods, dust storms, and similar hazards.

For these and other purposes, the government will pursue a number of specific measures (15):

Works initiated shall be completed and those executed shall be conserved. Works of greatest utility will be preferred, such as the construction of second-class rural roads, those feeding railways, and main highways. Aviation shall be encouraged as a means of communication with isolated regions. States, "ejidatarios," and other interested economic forces will contribute to highway maintenance and construction in relation to the benefits derived therefrom. Telegraphic communications shall be enlarged, radio communication shall be developed, and radio-telephonic communication with the United States, South America, and Europe shall be established. The National Railways shall be modernized and their transport services improved. Airplane and motor factories as well as aviation schools shall be established, subsidies being granted for this purpose; new airports shall be established and air routes improved.

Relative to maritime construction, new wharves and harbors shall be established, the present lighting system completed, and proper factories established to increase the services on the Gulf of Mexico, the Caribbean Sea, and the Pacific Ocean; plans are being studied for the establishment of a shipyard to carry on the program of national defense. Works for the drainage of the Valley of Mexico shall be completed,

and outside the Federal District flood control shall be preferred. Nautical schools shall be improved, and if possible, a coordinated school for instruction in nautical, fishery, and military navigation shall be established.

The rates and services of railways and highways will be regulated and coordinated so as to control competition and increase the efficiency of their services.

Chapter V Labor and Social Welfare

This chapter refers to governmental action relative to the maintenance and enlargement of our protective labor legislation and to the acknowledgement, within the Labor Laws, that the organized working class must participate in the directive responsibilities of economic production and of the public services.

To this end, the Mexican Revolutionary Party proposes the following governmental action:

1. To create all the circumstances necessary so that the state may be able to transform the present economic system into another, organized in such a manner that while it applies all technical efficiency to the process of production, it avoids at the same time social injustice and economic disorder in the distribution of wealth, particularly by aiding the workers to unify and strengthen their organization.

2. To contribute to the redistribution of the produced wealth in such a manner that the working class obtains the maximum participation compatible with the possibility of reasonable earnings needed in order to retain and attract capital into industry, while at the same time providing that the participation be distributed among the largest number of workers.

3. To permit wage earners to enjoy in the best possible manner their corresponding share of existing wealth, protecting that share against the burden of useless intermediaries.

4. To protect employees against the contingencies that diminish their wage-earning capacity.

5. To regulate and coordinate the relations between workers' organizations and cooperative societies.

In order to effect these general propositions, the General Constitution of the Republic shall be reformed so that the Federal Labor Law and other working and social provisions are applied only by the Federal authorities. The Federal Labor Law shall be revised so as to make the Labor Tribunals a really efficient service of free and quick justice. A reform of article 123 of the Constitution, which fixes minimum wages by economico-geographic zones, shall be studied and promoted. If the governmental efforts to reduce the cost of living do not produce the desired results and monopolizers decrease arbitrarily and unjustly the buying power of the workers' wages, a sliding-scale wage system will be established. Legally, the authorities shall have the right to examine and approve, previous to their application, any rates of pay for industrial home work, and the pay for this work shall never be less than the workshop or the minimum wage, and in all other cases the rate of pay for work shall never be less than the minimum wage.

In every state an Employment Agency or Labor Exchange will be established whose essential function will be to get jobs for unemployed workers. Legal steps will be taken to protect the workers against fraudulent insolvencies of employers, particularly producers of machinery, tools, raw materials, and other goods generally destined for production at places where workers give their services, and these employers shall be liable for payment of wages and indemnifications due to the workers, regardless of who the owner may be, the worker reserving the right to demand claims of the corresponding employer. The Federal Government shall prevent the creation and functioning of so-called "white syndicates"

by refusing or cancelling the registry of those that do not fulfill the specific stipulations for defending the workers' interests.

Article 123, sections II and III of the Constitution shall be amended, establishing 15 years as the minimum age for factory employment and 12 years for farm work, the minimum age for admittance to dangerous or unhealthy work being 18 years. Any small partnership in which the partner, aided by his relatives, personally cultivated the land shall be deemed a legal working contract, the employer being considered as the person who furnished the land, regardless of his title to the ownership of it. The laws shall demand of the landowners the obligation of paying wages and rendering medical and pharmaceutical services to their workers who are suffering from endemic diseases in the region where the work is done, unless the owners establish sanitary services and adequate water supplies, or cooperate to establish them. Legally, apprentices shall be engaged only in highly skilled trades, so that apprenticeship shall not be used as a means of violating the interests of the workers. Laws shall be passed establishing the requisites for entrance and permanent employment of foreign workers engaged as necessary technicians, and they shall be obliged to teach the trade to the Mexican workers; to prevent their default in this obligation, they shall first have to deposit a surety bond.

Worker's home-building and home-functioning cooperatives shall be promoted and financed. An intense program of labor education shall be launched, emphasizing nutrition, clothing, and home furnishing. Workers' resting vacation colonies shall be established, with the cooperation of employers, workers, lodging enterprises, and authorities in general, and the best utilization of the workers' leisure time shall be promoted so as to advance their education and welfare. Workers' saving funds shall be directed towards the attainment of this program. Within the first

year of the Plan, a Law of Social Insurance shall be passed covering the most important industrial risks, the capital being supplied by the employer class and the state, the organized working class being actively interested in this organization. Industrial zones shall be established in the city to provide better health conditions in industry. An Industrial Toxicology Institute shall be created. Medical-aid stations, posts, or hospitals, financed by employers, shall be regulated to insure the best treatment of patients and victims of accidents and the discovery of contagious diseases suffered by workers, so as to insure their rapid recovery and advance the public health generally. With regard to miners, tuberculosis shall be considered an industrial disease. The Inspectors Staff of the Federal Department of Labor shall be increased, and they shall be supplied with sufficient means to discharge their duties.

Chapters VI-XIII

The following sections, VI to XIII, inclusive, are concerned with governmental action relative to:

- Chapter VI. Public Education
- Chapter VII. Health Department
- Chapter VIII. Public Assistance
- Chapter IX. Foreign Affairs
- Chapter X. State Department
- Chapter XI. Publicity
- Chapter XII. National Defense
- Chapter XIII. Federal District Department

Chapter XIV Planning and Coordination

This chapter is concerned with the problems related to the concrete definition of

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governmental activities and the coordination of the different governmental agencies. To this end, the Mexican Revolutionary Party postulates:

1. That in order to maintain the federal regime established by the Constitution, the coordination of the Federal, local, and municipal governments must be realized through agreements easily adaptable to local conditions, needs, and possibilities.

2. That unity of action by the different government branches is to be obtained by granting the President of the Republic freedom to judge the means necessary for obtaining the coordination of the work as a whole.

3. That the government itself shall plan its own activities, adhering to the postulates and stipulations of this Plan, obtaining the aid of the Party only when it represents the social and political aspects of the Revolution and at the same time the interests of the organized workers, farmers, and the "popular majorities."

In order to effect these postulates:

a. A *National Supreme Council* will be established on which all the economic, social, political, and military forces shall be represented.

b. An organization representing all the agencies interested in transport and communications shall function annually so as to plan an Annual Program of Execution for the Six-Year Plan relative to these matters which shall be submitted to the President of the Republic.

c. The rapidity and manner in which this program is carried out shall be left to the judgment of the President, who will take into consideration particular conditions.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. The text also mentions the need for regular audits to ensure the integrity of the financial data. Furthermore, it highlights the role of the accounting department in providing timely and accurate information to management for decision-making purposes. The document concludes by stating that adherence to these principles is essential for the long-term success and stability of the organization.

The second part of the document details the specific procedures for handling cash and credit transactions. It outlines the steps for recording sales, purchases, and payments, ensuring that all entries are properly classified and dated. The text also addresses the treatment of discounts and allowances, as well as the reconciliation of bank statements. Additionally, it discusses the importance of maintaining a clear and organized system for tracking receivables and payables. The document concludes by reiterating the commitment to transparency and accuracy in all financial reporting.

