

Revised Plan for Level of Industry in the Anglo-American Zones (August 29, 1947)

Abstract

In August 1947, the United States and Great Britain agreed to substantially increase the production capacity of heavy industry and other previously restricted economic sectors in their “Bizone.” In so doing, they went against a decision made by the Control Council in March 1946 and departed from the de-industrialization originally pursued by all of the Allies. The official goal was to overcome the current economic crisis and to allow the “Bizone” to enjoy a separate economic life within Germany and Europe.

Source

Preamble

In March, 1946, the four occupying powers, acting through the allied control authority, adopted a plan for reparations and the level of post-war German economy. The objectives of the plan were to eliminate Germany's war potential, to provide reparations and yet to leave within Germany the necessary plants and equipment to permit the rebuilding of a viable peaceful economy.

Experience has shown the necessity for revision of the plan which was based on specific assumptions that have not been fulfilled. Neither the bizonal area nor all of Germany can regain economic health under the plan as it now stands. Moreover, it has become increasingly apparent that under present conditions Germany cannot contribute her indispensable part to the economic rehabilitation of Europe as a whole.

The revised plan continues to observe the same objectives as the original plan.

Consideration has been given throughout to the necessity for ensuring that the bizonal plan can be assimilated into a plan for Germany as a whole. The offer to the other occupying powers to join the bizonal area in developing a unified German economy still stands. The plan has been developed with due regard to the hope that this offer will be accepted.

I. general considerations

The industrial capacity retained under the March 1946 plan was estimated to provide production equal to 55% of 1938, which would have been about 70–75% of 1936 production. The effect of the new plan will be to retain sufficient capacity in the bizonal area to approximate the level of industry prevailing in Germany in 1936, a year that was not characterized by either boom or depressed conditions.

A. The old plan provided for very sharp cuts in production capacities in the metals, machinery and chemicals industries, from which the bulk of reparations were to be obtained. It is impossible to provide a self-sustaining economy in the bizonal area without materially increasing the levels in these industries. Substantially the entire difference between the original and revised plan is in these reparations industries since the original plan already provided for maximum, and in some cases unrealistic, levels for the non-reparations industries. Under the revised plan, capacities in the metals, machinery, and chemical industries will be sufficient to permit production at levels averaging about 5 or 10% less than in 1936. As compared with the war year 1944, the proposed levels represent a reduction of 55 to 60%.

B. It must be borne in mind that the bizonal area already has a population at least 6 million more than in 1936 and by 1952 it may be expected to have a population from 8 to 10 million greater than pre-war. On the basis of an expected population of 42 to 44 million in the bizonal area in 1952, the per capita production capacity provided in the new plan would be approximately 75% of 1936.

C. In developing the bizonal plan, the overriding requirement has been to provide the level of industry necessary to make the area self-supporting. In determining the levels for the specific industries, for example, steel and machinery, the requirements for exports, for the internal needs of the bizonal area and for trade with the rest of Germany have been taken into account. In evaluating the requirements for trade with the rest of Germany and of imports, account had to be taken of removals of capital equipment from the other zones and Berlin. The potential output of particular industries, therefore, allows for the needs of the rest of Germany through trade, and the capacities retained for this purpose represent requirements of the bizonal area. In other words, the bizonal area, in order to be self-supporting, must obtain the products in which it is deficient either as imports from outside Germany or in trade from the rest of Germany.

II. Requirement for a Balanced Economy

In addition to pre-war foreign trade, the bizonal area must produce a surplus over its internal requirements for trading with the remainder of Germany; this particularly affects requirements for the industrial capacity of steel and steel products, which are the most needed and, therefore, the most dependable trade commodities required by the rest of Germany in exchange for key products essential to the bizonal economy.

A. Change in Price Relationships. World food and raw material prices have increased more rapidly than the prices of manufactured goods since 1936 and this situation seems likely to continue. Consequently, the bizonal area must be prepared to exchange in foreign trade proportionately larger quantities of industrial products in return for necessary food and raw material imports.

B. Imports in the general way. The bizonal area accounted for the whole of Germany's pre-war food deficit, as the remainder of Germany was about self-sufficient in foodstuffs. It is estimated that imports of food, seed and fertilizer sufficient to make possible an essential diet will amount to 1.00 to 1.25 billion dollars at current prices.

1. Industrial imports from other countries to the bizonal area were approximately RM 1.5 billion in 1936, which represents at least 1.0 billion dollars at current trade prices. But the altered character of German trade will make it possible to reduce this figure.

2. The invisible items in Germany's foreign trade were approximately balanced before the war. The present calculations, which make no provision for invisibles on either side of the account, may be optimistic.

3. The foregoing considerations lead to the conclusion that the total bizonal requirements from outside of Germany will approximate at least 2.0 billion dollars at current prices. Repayment of advances by the occupying powers would be an addition to these estimates.

C. Exports. The 1936 exports from the bizonal area were approximately RM 2.6 billion, which is estimated to represent about 1.75 billion dollars at current prices.

1. These estimates, therefore, indicate that, in addition to trade requirements for the rest of Germany, the bizonal economy will need to export to other countries at least 15% more in volume than in 1936. Since trade between the bizonal area and the rest of Germany is subject to greater uncertainty than former internal trade, the result may be to increase still further the need for trade with other countries.

2. Before the war, the broad fields of metals, machinery, and chemicals accounted for two-thirds of the total exports. Production of textiles, ceramics, and consumer goods can be raised, but the extent to which additional sales above prewar levels can be sold on the exports markets is difficult to predict. Exports from the unrestricted industries would need to be increased approximately 90% if the higher export requirements were provided entirely from the unrestricted industries, which is obviously impracticable. Therefore, the level of exports from the restricted industries will need to be greater than prewar.

[...]

III. Increased Levels in Restricted Industries

The following determinations have been reached with respect to the industries restricted under the original Level of Industry Plan: (Note: All figures stated in reichsmarks refer to 1936 prices.)

A. *Steel*. Under the March, 1946, level of industry plan, steel capacity for all of Germany is limited to 7.5 million tons, with actual production in any single year not to exceed 5.8 million tons. Careful calculations show that this level would be clearly insufficient even to support the level of industry contemplated in the original plan, and it is far too low to provide for the needs of the economy under the revised plan. It has been determined that in order to support the revised level of industry in the bizonal area and to permit that area to become self-supporting, the limit of annual steel production in the bizonal area shall be fixed at 10.7 million ingot tons per annum and sufficient capacity to produce that tonnage shall be retained.

B. *Mechanical engineering industries*:

1. *Heavy machinery industry*. Sufficient capacity will be retained to produce RM 500 million, which is about 80% of prewar production. This leaves 35% of the present capacity to be removed as reparations as against 60% under the previous plan.

2. *Light machinery industry*. The capacity in the bizonal area is estimated at about RM 1,195 million. Capacity will be retained to produce RM 916 million, which is 119% of prewar production. This leaves 23% of present estimated capacity available for reparations, as compared with 33% under the old plan.

3. *Note*: Grouping heavy and light machinery, the revised level is 105% of prewar production.

4. *Fine mechanics and optics*. In the field of precision optics, no plants will be made available for reparations. The capacity is to be retained to provide for internal needs and to attain exports of the same products equal to those from the bizonal area in 1936.

In the case of photo-technics, no plants are to be made available for reparations and the retained capacity will be used to attain 150% of prewar exports in this field from the bizonal area as well as to provide for internal requirements.

In the watch making industry, one plant, which had been converted to war use, will be made available for reparations.

Capacity in excess of prewar will be retained in the field of precision mechanics. However, all plants, which had been built for or substantially modified to war use, will be made available for reparations.

5. *Machine tools*. The March, 1946 level of industry plan permits the production of RM 74 million in all of Germany, or 11.4% of 1938 output. The bizonal area, before the war, produced about 43% of Germany's [machine tools. Present capacity is estimated at RM 259 million]. It has been determined that capacity sufficient to produce RM 170 million must be retained in order to support the revised level of industry.

This will leave about 35% of present capacity for reparations.

C. *Agriculture and road tractors.* Estimated bizonal capacity for agriculture and road tractors is 16,500. This is inadequate to meet bizonal requirements, which are estimated to be 19,500. Consequently, there will be no reparations in this industry.

D. *Transportation industries: Automotive Industry.* Capacity will be retained for the production of 160,000 passenger cars and 61,500 commercial vehicles. This compares with 40,000 passenger cars and 38,000 commercial vehicles allotted to the bizonal area under the old plan.

E. *Electrical engineering.* The present capacity of the electrical industry in the bizonal area is required with the exception of three war-time plants. Capacity is estimated to be about one-half greater than prewar. This increase is necessary because prewar requirements of the bizonal area were in large part met from capacities in Berlin, which have been almost totally dismantled. Under the old plan, about one-quarter of present bizonal capacity would have been removed.

F. *Chemicals:*

1. Approximately the 1936 capacity will be retained in the chemical industry which is about 42% more than that provided in the old plan. However, a large number of explosive and other chemical plants were developed for war purposes. Between 40 and 50% of the total chemical capacity, including war explosives will, therefore, be removed as reparations or destroyed. More than three quarters of such removals represent war explosive plants that have already been offered for reparations or declared for destruction.

2. For the plastics industry, capacity somewhat larger than prewar will be retained. Approximately one quarter of existing capacity of this industry will be made available for reparations.

3. Capacity for the production of 34,000 tons of dyestuffs will be retained, which is somewhat below prewar. One plant will be available for reparations in this industry, with a capacity of 2,500 tons of sulphur [black] dyes.

4. One pharmaceutical plant for the production of atabrine will be available for reparations. This will leave the bizonal area with a capacity equal to about 87% of prewar production.

5. In the miscellaneous chemical groups, a capacity greater than the pre-war level of production will be retained. About 15% of the capacity will be available for reparations.

6. In the basic, organic, and inorganic chemical industries, sufficient capacity will be retained to permit output at about prewar levels. Not more than 17% of present capacity will be removed as reparations.

G. *Cement.* All of the cement capacity in the bizonal area is required and will be retained.

H. *Electric Power.* Except for certain power stations attached to industrial plants scheduled for reparations under this plan, and power plants already allocated for reparations, no further removals will take place. In order to sustain the level of production required by the bizonal economy, the present power plants in the bizonal area will have to be substantially repaired and replaced to meet the power requirements.

I. *Non-ferrous metals.* The bizonal copper requirements are 93% of estimated current refining capacity. Fabricating capacity for 215,000 tons of copper in the bizonal area will be retained, as compared with 140,000 tons for all of Germany under the old plan. This will make available for reparations one smelter plant and an appreciable quantity of fabrication facilities, including special pieces of equipment that are

surplus to individual plant.

IV. Prohibited Industries

The production of aluminum, beryllium, vanadium, and magnesium is prohibited under the previous level of industry plan. No plants in these industries will be made available for reparations purposes pending further review. No change is proposed in the arrangements made under the previous plan in regard to ball bearings, synthetic ammonia, synthetic rubber, and synthetic gasoline and oil.

Source: Revised Plan for Level of Industry in the Anglo-American Zones (August 29, 1947), in United States Department of State, *Germany 1947-1949: The Story in Documents*. Washington, DC: U.S. Government Printing Office, 1950, p. 358; reprinted in Beata Ruhm von Oppen, ed., *Documents on Germany under Occupation, 1945-1954*. London and New York: Oxford University Press, 1955, pp. 239-45.

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