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Rise in World Dollar Prices of Internationally

Traded Goods During World War II

Randall Hinshaw

At the present time, the balance-of-payments subcommittee of the National Advisory Council is preparing estimates of the level of exports and imports in various countries for the immediate post-war period. These estimates are stated in terms of dollars, and are inevitably based, in large measure, on pre-war magnitudes. But in making estimates on the basis of pre-war experience, the question at once arises as to how much the figures should be inflated to allow for the rise in world prices which has occurred since the beginning of the war. An approximate answer to this question is the only answer that is possible, since it is clear that there is no one figure which would provide an ideal adjustment factor for all countries. Ideally, separate price indexes should be applied to each country, and imports should receive separate treatment from exports. As a practical matter, however, such refinements are possible only in isolated cases; the margin of error involved in making separate estimates in most instances is simply greater than the probable price-level discrepancies. The best that can be attained for the majority of countries is some figure which will express the average rise in export and import prices, after such prices have been translated into dollars.

For this purpose, the most relevant price series clearly are indexes of export and import prices. Fortunately, export and import price indexes are available for the two countries--Britain and the United States--which figure most prominently in world trade. The exports and imports of these two countries are so broadly representative of internationally traded commodities as to provide perhaps the best available standard for measuring the price movements with which we are concerned.

In the case of the United States, two price series for exports and imports are available, one prepared by the Department of Commerce and the other by the Department of Labor. The two series do not attempt to measure exactly the same magnitude. The Commerce indexes measure "unit value," which is computed from the original total-value and quantity data for each item or class. The Department of Labor indexes are based on a different concept; they are designed to measure changes in the domestic prices of exported and imported goods. According to a Labor Department memorandum, "The quotations from which these indexes are constructed are taken from domestic markets and relate to qualities and types of goods normally sold in large volume in the domestic trade, not to the prices of goods especially fabricated for the export trade; nor do they take account of various types of special discounts and other charges common in the trade." Unlike the Commerce indexes, the Labor series "are intended to measure changes in the prices of goods with homogeneous specifications over a period of time."

Taking the period 1936-38 as a base to represent the immediate pre-war period, the British and American export and import price indexes for 1945 appear as in Table 1.

TABLE 1

INDEXES OF IMPORT AND EXPORT PRICES

	<u>1936-38</u>	<u>1945</u>
Import price indexes		
United States		
Department of Commerce	100	155
Department of Labor	100 ^a	155 ^b
United Kingdom	100	191 ^c
Export price indexes		
United States		
Department of Commerce		
Including Lend-Lease	100	164
Excluding Lend-Lease	100	145
Department of Labor ^d	100 ^a	129 ^b
United Kingdom	100	193 ^c

^aAverage of figures for June 1936, June 1937, and June 1938.

^bAverage of figures for March, June, September, and December.

^cExcludes munitions. Computed from value and volume data in Monthly Digest of Statistics (Central Statistical Office, London), February 1946, p. 67.

^dExcludes Lend-Lease exports.

The figures in Table 1 show wide disparities. While the two American import price series show the same degree of increase, the American export price series do not; moreover, both the British series are considerably higher than any of the American figures. However, in the latter connection it must be remembered that the British indexes reflect price changes in terms of sterling, while the American indexes reflect price changes in terms of dollars. For our purpose, it is necessary to know how much British import and export prices rose during the war in terms of dollars. This can be easily determined, as follows: In 1945, the pound sterling exchanged for 4.03 dollars, whereas during the period 1936-38 the pound exchanged (on the average) for 4.94 dollars. That is to say, the price of the pound in terms of dollars was 18.3 per cent lower in 1945 than in 1936-38. Thus the rise in British prices during this period, when expressed in dollars, is 18.3 per cent less than when expressed in pounds. The adjusted British indexes, together with the American indexes, appear in Table 2.

TABLE 2

INDEXES OF IMPORT AND EXPORT PRICES
IN TERMS OF DOLLARS^a

	<u>1936-38</u>	<u>1945</u>
Import price indexes		
United States		
Department of Commerce	100	155
Department of Labor	100	155
United Kingdom	100	156
Export price indexes		
United States		
Department of Commerce		
Including Lend-Lease	100	164
Excluding Lend-Lease	100	145
Department of Labor	100	129
United Kingdom	100	157

^aSee footnotes, Table 1.

The import price indexes in Table 2 show an astonishing degree of agreement. Both the American import indexes are 55 per cent higher in 1945 than in 1936-38, while the British import index, when translated into dollars, is 56 per cent higher. There is no such agreement in the case of the export price series. The British export price index, showing a 57 per cent rise, agrees closely with the three import price series, but American export price indexes diverge widely. The Commerce series which includes Lend-Lease exports is considerably above any of the other indexes, while the two American export series which do not include Lend-Lease shipments are well below any of the other indexes. Particularly low is the Department of Labor index, which in 1945 is only 29 per cent above the 1936-38 level.

The Department of Commerce publishes price indexes not only for total exports and total imports, but also for five export and import subdivisions. The five subgroups are (1) crude materials, (2) crude foodstuffs, (3) manufactured foodstuffs, (4) semi-manufactures, and (5) finished manufactures. Import and export price indexes for these groups for the year 1945 appear in Table 3.

TABLE 3

AMERICAN IMPORT AND EXPORT PRICE INDEXES FOR 1945^a
(1936-38 = 100)

	<u>Imports</u>	<u>Exports^b</u>
Crude materials	158	148
Crude foodstuffs	176	189
Manufactured foodstuffs	148	171
Semi-manufactures	135	131
Finished manufactures	169	171
Total	155	164

^aUnited States Department of Commerce.

^bIncludes Lend-Lease exports.

According to these indexes, the greatest increases in price were attained by foodstuffs and finished manufactures; the lowest by semi-manufactures. The export price indexes include Lend-Lease exports, and in one or more cases would be substantially lower if these exports were excluded. Particularly would this be true in the case of finished manufactures, in which Lend-Lease shipments were largely concentrated.

Before the war, foodstuffs were not an important American export, but there is every prospect that during the next two or three years they will be. The percentage composition of exports in 1936-38 and in December 1945 is shown in Table 4. It will be seen that foodstuffs (crude and manufactured) comprised only 10.5 per cent of American exports in 1936-38, while in December 1945 they constituted 28.9 per cent.

TABLE 4

PERCENTAGE COMPOSITION OF AMERICAN EXPORTS

	<u>1936-38</u>	<u>Dec. 1945</u>
Crude materials	22.9	9.8
Crude foodstuffs	4.7	9.3
Manufactured foodstuffs	5.8	19.6
Semi-manufactures	17.7	9.4
Finished manufactures	48.9	51.8
Total	100 %	100 %

For an indefinite period, food exports may be expected to remain nearer the latter percentage than the former. It is well to keep this in mind, since the increase in food prices has been particularly great--much greater than the increase in export prices as a whole.

The Department of Labor divides imports and exports into three categories: (1) raw materials, (2) semi-fabricated goods, and (3) fabricated goods. Price indexes for these groups for the year 1945 are shown in Table 5. It will be noted that the rise in raw-material export prices agrees closely with the rise in all aggregate import-price indexes (including the British, when allowance is made for sterling depreciation).

TABLE 5

LABOR DEPARTMENT IMPORT AND EXPORT PRICE INDEXES FOR 1945^a
(1936-38 = 100)^b

	<u>Imports</u>	<u>Exports^c</u>
Raw materials	170	156
Semi-fabricated goods	129	127
Fabricated goods	163	119
 Total	 155	 129

^aAverage of figures for March, June, September, and December.

^bAverage of figures for June 1936, June 1937, and June 1938.

^cExcludes Lend-Lease exports.

The Labor export and import price indexes for semi-fabricated goods are both low, but this is also true of the Commerce unit-value series for semi-manufactures. The most striking discrepancy in the Labor indexes is that between the export and import price indexes for fabricated goods. The import price index for this group shows a 63 per cent rise during the war, while the export price index shows **only a 19 per cent** rise. There is no such discrepancy in the Commerce export and import price indexes for finished manufactures. This difference between the Labor and Commerce series appears to be due to two causes. In the first place, the Labor index **excludes**, while the Commerce index **includes**, Lend-Lease shipments. In the second place, the Labor index contains only the prices of items with uniform specifications, while the Commerce index reflects qualitative changes in the items included.

Several conclusions seem to be warranted from the foregoing analysis. First of all, the import price indexes appear to offer a more reliable gauge of price movements during the war than the export price indexes. Indeed, the degree of agreement among the import price series is quite remarkable; all suggest an over-all price rise during the war in the neighborhood of 55 per cent. The British export price index, after correction for sterling depreciation, shows the same degree of increase, but the American export series do not. To a large **degree**,

the discrepancies in the American export-price indexes appear to be the result of difficulties in properly weighting the various categories of American exports. These categories changed rapidly in relative importance during the war. Since the composition of American imports was much less affected by the war, the method of weighting in that connection is relatively unimportant.

Speaking broadly, and largely on the basis of evidence with respect to American and British imports (and British exports), it would appear that dollar prices of internationally traded goods have risen by at least half since the beginning of the war. Further refinement than this does not appear wise. Prices of course may advance further, or they may decline. As yet, there is little evidence of strong tendencies in either direction. Most price series, when expressed in dollars, appear to be at approximately the levels reached at the end of the war.

Gold Holdings of the Swiss Government

Rosa Ernst

The annual report of the Swiss National Bank for 1944 made reference to a "considerable reserve" of gold in the hands of the Swiss Government, but it was only in the Bank's report for 1945 that actual figures concerning the Government's "sterilization" program^{1/} were given. Thus it was revealed that at the end of 1945 the gold holdings of the Government alone amounted to 1,030 million Swiss francs (about 241 million dollars), an admitted increase of 568 million francs over the 1944 figure. The Government's reserve at the end of 1944 was therefore 462 million francs. If the gold holdings of the National Bank are added to those of the Government, the total gold held by Switzerland at the end of 1945 amounts to 5,807 million francs (1,357 million dollars), an unusually large amount for such a small country. Of the Bank's holdings, 1,128 million is held in Switzerland proper, and 3,649 million abroad. It is not revealed where the Government is keeping its gold, but it would appear that at least part of it is kept in the United States. In addition to the gold, the National Bank also increased its foreign exchange holdings during 1945, so that the country's reserve position at the end of the year was as follows:

^{1/} Beginning, presumably, in the spring of 1944, the Government purchased gold from the National Bank with the proceeds of sales of long-term Government bonds to the public. These gold purchases were made particularly to offset gold inflows resulting from non-commercial transactions such as foreign government payments to the International Red Cross and foreign remittances for diplomatic and charitable purposes. It is possible, moreover, that Government gold holdings were expanded in connection with the financing of visits of United States soldiers to Switzerland.

Swiss Gold and Foreign Exchange Holdings

	End of 1944 (Million francs)	End of 1945 (Million francs)	Increase (Per cent)
<u>Gold</u>			
Government	462	1,030	122
National Bank	4,554	4,777	5
	<u>5,016</u>	<u>5,807</u>	16
Foreign exchange			
National Bank	102	162	60
Total holdings	<u>5,118</u>	<u>5,969</u>	17

It is not known just when the Government began its gold sterilization program. The rapid inflow of gold and foreign exchange started in mid-1940, and during the war the country was unable to offset the huge proceeds from exports by proportionate imports. It may be assumed that all other means of absorbing the continuous increase of these funds were exhausted before the Government's assistance was sought. For example, exchange derived from exports to western hemisphere countries was purchased by the National Bank to the extent of 50 per cent in free Swiss francs, and 50 per cent in accounts blocked for a period of not more than three years. Authorities of the Bank feared that, without the Government's cooperation, continued expansion in the note circulation arising in connection with the purchase of gold and foreign exchange would lead to drastic inflation.

Details of the arrangement between the Government and the National Bank are not available, nor does the Government publish any statistical data in this connection. The Swiss press shows concern over the fact that the public was left in the dark with regard to the gold held by the Government and is inquiring just why such secrecy was observed. It is felt that the people were not given an accurate picture of the country's reserve position, as long as the holdings of the National Bank alone were made public. The press does not hesitate to point out that since the Government is directing the economic life of its citizens down to minute details, the least it could do would be to observe a policy of frankness in revealing its financial activities which affect the economic welfare of the entire people.

Belgian Commercial Banking

J. Herbert Furth

During the fifteen months between liberation and the end of 1945, Belgian banks made considerable progress in their attempt to regain their place in a peace-time economy, but their balance sheets for December 31, 1945, still show the overwhelming effects of war and occupation. The following table contains summary statements of the assets and liabilities of all commercial banks for the end of 1939, for the time immediately following liberation and preceding the first phase of the currency reform (September 1944), and for the end of the years 1944 and 1945. At first glance, the position of the banks appears to be very favorable, with total assets and liabilities at a level $3\frac{1}{4}$ times as high as at the end of 1939, and cash items representing 13 per cent of the balance sheet total. Capital and reserves, however, constitute only 4.5 per cent of total liabilities, as compared to 15.7 per cent in 1939, and advances to the private sector of the economy only 18 per cent of total assets, as compared to 41 per cent in 1939. Moreover, almost one-third of all deposits are still "temporarily unavailable," and their eventual reintegration into the financial system may well reinforce the upward trend of wages and prices which the Government is trying to counteract.

Assets and Liabilities of Belgian Commercial Banks
(Millions of francs)

	<u>Dec. 31,</u> <u>1939</u>	<u>Sept. 30,</u> <u>1944</u>	<u>Dec. 31,</u> <u>1944</u>	<u>Dec. 31,</u> <u>1945</u>
<u>Assets</u>				
Cash and bank balances	5,341	4,775	4,841	8,574
Advances to Government	3,913	38,963	38,920	42,755
Other advances	8,292	4,731	6,919	11,850
Other assets	<u>2,483</u>	<u>1,560</u>	<u>1,652</u>	<u>1,996</u>
Total	20,029	50,029	52,332	65,175
<u>Liabilities</u>				
Free deposits	12,685	43,631	15,774	36,638
"Temporarily unavailable" deposits	-	-	9,759	17,812
"Permanently blocked" deposits	-	-	18,405	-
Other liabilities	4,201	3,446	5,493	7,787
Capital and reserves	<u>3,143</u>	<u>2,952</u>	<u>2,901</u>	<u>2,938</u>
Total	20,029	50,029	52,332	65,175

On the assets side, the most important change during 1945 was the increase in advances to the private sector of the economy from 6.9 billion to 11.9 billion francs. Advances to the Government rose by less than 4 billion. The rise in the holdings of Treasury bills would have been larger if it had not been partly counteracted by the second phase of the currency reform legislation (see below). On the liabilities side, free deposits more than doubled, mainly in consequence of new deposits rather than of the unfreezing of "temporarily unavailable" balances. "Temporarily unavailable" deposits increased by 8 billion

to 17.8 billion, but the item "permanently blocked" balances, which accounted for 18.4 billion in 1944, disappeared completely. Both these changes resulted from the legislation of October 1945, by which "permanently blocked" accounts were converted into non-transferable Government bonds while "temporarily unavailable" holdings of currency were converted into "temporarily unavailable" bank deposits. In consequence, the amount of "permanently blocked" deposits ceased to be a liability of the banks and became a liability of the Government, and the amount of "temporarily unavailable" currency (hitherto held in trust by commercial credit institutions) became a liability of the commercial banks and ceased to be a liability of the National Bank. Since the sum of "permanently blocked" deposits was far greater than that of "temporarily unavailable" currency holdings, the change resulted in a net decrease in commercial bank liabilities, for which the banks had to transfer to the Government a corresponding amount in Treasury bills.

Future activities of the banks will be influenced by a decree of February 5, 1946, introducing reserve requirements in accordance with authorization granted by the Bank Reform Decree of July 9, 1935. Large banks, which account for the great bulk of all banking assets and liabilities, must cover liabilities to at least 4 per cent in cash and at least 65 per cent in cash and Treasury bills combined, and must maintain capital and reserves at a level corresponding to at least 4 per cent of the balance sheet total after December 31, 1947, and at least 5 per cent after December 31, 1949. Most banks will have little difficulty in maintaining these ratios, but they complain that the relatively small proportion left for assets other than cash and Treasury bills (35 per cent of liabilities to the public plus the sum of capital and reserves) will make it difficult to shift from public to private investments or even to grant adequate amounts of additional credit to the private sector of the economy in the course of the country's reconstruction. Actually, the regulation would permit banks at the present level of liabilities approximately to double their advances to private enterprises without reaching the limits set by the decree. The decree is probably designed to prevent large-scale selling of Government paper by the banks, and also to avoid private credit inflation. It could easily be amended if it were seen to have an unfavorable effect upon legitimate business expansion. On the other hand, it might be used for extending Government control of business by making Government institutions rather than commercial banks the main source of business credit. Since the present Government represents a coalition of socialist and liberal (pro-business) parties, there is little danger that it will use the decree for political rather than economic ends.

THE GERMAN POLITICAL SITUATION AT THE BEGINNING OF 1946

Part II. The German Political Situation in the American Zone of Occupation

A. The Political Parties

1. The right wing
2. The Christian Democratic Union
3. The Social Democratic Party
4. The Communist Party
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B. Attitude of the Population toward Certain Political Questions

1. General attitude of the population
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Note

The following report is based on observations made on a trip through the American zone of occupation from February 11-25, 1946, and was prepared on February 28. The following cities were visited: Frankfurt, Wiesbaden, Heidelberg, Stuttgart, Munich, and Nuremberg.

The German Political Situation in the
American Zone of Occupation

Paul Hermsberg

A. The Political Parties.

The American zone offers a much more colorful picture as far as political parties are concerned than does the Russian zone and Berlin. With the exception of Bavaria, the same four political parties exist as in the East; however, each party varies in shade and detail, especially within the various States of the zone. This holds true especially for Bavaria in comparison with Württemberg-Baden and Greater Hesse, the two other states of the American zone.

1) The right wing. Within the American zone, or rather in Bavaria, there are three additional parties to the right of the Liberal Democratic Party which is the right wing party in the East. However, if I am not mistaken, these parties exist only in Munich:

- a) The Bavarian Monarchist Party ("Heimat und Königspartei") is the extreme right wing. It is the only Bavarian party which advocates complete separation of Bavaria from the Reich. The movement is considered rather unimportant within Bavaria and even the pretender to the throne does not unconditionally acknowledge it. The most important political effect of the movement is that it draws the reactionary elements away from the Christian Social Union (the Bavarian name for the Christian Democratic Union).
- b) The Economic Reconstruction Party (Wirtschaftliche Aufbauvereinigung) is considered the same as the old "Wirtschaftspartei." At the present time, the movement is restricted to Munich but might temporarily draw a larger number of votes depending upon the position taken by the party regarding the relative treatment to be advocated for paper or financial claims, on the one hand, and actual property retained throughout the war period on the other. The main propaganda of the movement is to the effect that none of the old Reichstag parties which voted in favor of the emergency powers for Hitler deserves the confidence of the voters today.
- c) The Democratic Union (Demokratische Union) is considered the successor of the former Deutsche Volkspartei. I have not heard anything about this movement outside of Munich.

- d) The Liberal Democratic Party (Liberal-Demokratische Partei) is represented in the entire American zone and plays there the same unimportant role that it does in Berlin and the East. The sole importance of the party is the fact that it includes a number of old well-known democratic leaders who, however, were formerly lone individuals without followers. As long as these leaders refuse to place the reconstructed party at the sole disposal of private property interests, it has little chance of development compared to the larger rallying parties.

The future role of the now unimportant splinter parties will depend largely on the character of the election regulations for the parliamentary elections. Proportional franchise might mean that these groups could become independent parties in parliament and could well influence the balance of power; a majority franchise would give them only a limited influence in the selection of candidates of the Christian Democratic Union, which is playing for their votes.

2) The Christian Democratic Union (Christlich-Demokratische-Union; C.D.U.). The C.D.U., which in the East comprises only the Catholic wing of the workers' movement, is a versatile and large party within the American zone. It combines:

- a) The old Center party (largely Catholic);
- b) The Protestant church, as far as it is connected with political parties;
- c) Individuals to the right of the Center party who have no specific political ties at present;
- d) Small groups of intellectuals drawn partly from the Social Democratic Party.

The old Center party seems to dominate the new party-- especially in Bavaria where it is generally considered the direct successor of the Bayerische Volkspartei (the Bavarian section of the Center party). In Hesse and Württemberg, where catholicism is not so prevalent, the party is subject both to strong influence of right wing economic circles, especially the banks in Hesse, and to the ideological influence of intellectuals, most of them former left wing adherents. The left wing is supported by the "younger" generation of the Center party, part of which was in opposition against the party leadership even before 1933. This left wing group of the C.D.U. is in favor of planned economy and social reforms; it advocates radical measures, similar to those of the socialistic parties, for the adjustment of the financial deficit and burdens of the war. For instance, the Jung-Zentrum (young Center members) requests the confiscation of all income from private property in favor

of the Reich (see Dr. Anton Huber: Die Ordnung der finanziellen, wirtschaftlichen und sozialen Verhältnisse Deutschlands). It may be expected that the differences within the party will become more evident in the near future when the parties are forced to take a realistic rather than an academic attitude toward such questions as monetary reform, state and private debts, adjustment of claims between those who lost property as a result of military action and those whose property holdings remain unimpaired, and planned economy versus private enterprise. When the parties are forced to present their attitudes on these and similar questions to the voters, the great contrasts and controversies among the members will become evident.

It seems improbable that the C.D.U., which is not unified, as was the Zentrum, by the predominant influence of the Catholic church, will survive these storms without losing a great number of its members to the right and left wing parties. In case the C.D.U. should disclaim its right wing, it might gain certain groups from the S.P.D. due to the metamorphosis in the socialistic parties.

3) The Social Democratic Party (Sozialdemokratische Partei Deutschlands). The membership of the S.P.D. has been permeated by new elements to a far lesser extent than has the C.D.U. For example, one often hears someone in Bavaria saying proudly: "We have only old S.P.D. party members in our local organization (Ortsgruppe)." The influence of the older members is felt, quite naturally, in the adoption of an extremely conservative policy which is most clearly evident in Bavaria. Any suggestion of union with the Communist Party is strongly rejected.

The opinion of the S.P.D. leader on the merger is described in the following: "If the Communist Party desires a union, its members should come individually to apply for admission to the S.P.D. Then we shall consider each applicant separately to decide whether we wish to accept him or not." Some leaders base their absolute rejection of the merger on the fact that the Bavarian S.P.D., in many regions, is largely composed of the lower middle class who will surely refuse bluntly to accept any merger with the Communists.

The reasons for the rejection of the Communist Party by the middle class are essentially the same as in the East:

- a) Atrocity stories from Berlin and the Russian zone;
- b) Stories of returning prisoners of war concerning their treatment and the poor standards of living in Russia;
- c) The conviction that the Communist Party would establish a dictatorship, inspired and sponsored by Russia, the results of which would be similar to the Nazi terror.

The announcement of the leader that 100 per cent of the members would reject union with the Communist Party is probably correct for the greater part of Bavaria. It is, however, doubtful whether this percentage would hold true in the industrial cities; certainly it is not valid for 100 per cent of the present voters in the S.P.D. Even in Bavaria one hears statements which indicate some support, in principle, for a merger with the Communist Party even though the speaker may not approve wholeheartedly or agree on the timing or the form of the suggested merger as it is to be carried out in the East. It is, moreover, astounding to see how poorly the Bavarian is informed of events in the East and how little they interest him. Due to the strong representation of the middle class in the S.P.D. of Bavaria, the party is heading toward difficulties similar to those of the C.D.U. in the western district of the American zone when the problems connected with regulation of public and private debts, compensation for war damages and capital levy become actual. It will become increasingly difficult to reach decisions that will satisfy this middle class wing of the party, and still to permit the organization to remain a workers' party.

The S.P.D. of Bavaria has regained approximately 80 per cent of its former membership as of 1932. On the basis of recent experiences, the party expects the number of voters to exceed from 10 to 20 times the number of members. All in all, it is believed that the S.P.D. quota of the Bavarian vote may be estimated at 35 to 40 per cent. The party groups are especially active in the protestant sections of the country where the old S.P.D. youth organizations of the "Red Falcon" (Roter Falken) and the "Socialist Labor Youth" (Sozialistische Arbeiterjugend) have been once more reestablished. In strict observance of the old principles, the Bavarian party is beginning its work at precisely the same point where it left off in 1933.

The party leaders in Württemberg, Hesse, and Baden, as in Bavaria, reject any cooperation with the Communists. There exist, however, a variety of groups within the party membership who protest openly against failure to consider the problem of unification. The opposition does not desire an immediate merger, but requests a program which is, to some extent, in agreement with the December decrees of the Central Executive Committee in Berlin. The movement for the merger is definitely not sponsored by declared or disguised Communists alone, but is also backed by old, convinced Social Democrats. In Württemberg it finds the strongest support, apparently, among the trade unions. In Baden the intellectuals of the middle-age class urge the merger, for the most part, in order to avoid a split between the East and West. It bodes ill for German democracy "if the workers of the East are now abandoned." These same circles advocate, regarding the questions of currency reform and debt regulation, etc., a more radical solution than does the party leadership. In agreement with this group of intellectuals, moreover, there seems to be an additional, larger group of industrial workers.

Among the old party members there are many, especially among the "bourgeoisie," who object to a merger with the Communists under any circumstances, fearing the destruction of a newly revived religious life and the effect upon the German culture. They are prepared, if it should prove necessary, to sacrifice the East. A highly respected man who was

a party representative in a very high office of the Weimar Republic explained to me emphatically that he, personally, would have to leave the S.P.D., in case a merger with the Communist Party should be realized, even though he had to admit that the merger might very well be inevitable from a political point of view.

4) The Communist Party (Die Kommunistische Partei Deutschlands; K.P.D.). The K.P.D. is limited and numerically quite poorly represented in the entire American zone. Its members, however, are well organized and do not seem to lack active and capable leaders. The K.P.D. leadership in the American zone, in contrast to its party leadership in the East and in Berlin, seems, in general, not to lie in the hands of emigrants who were trained in Russia, but in the hands of people who lived in Germany through the Hitler era and the war.

In estimating the importance of the number of voters falling to the different parties, it should never be forgotten that very nearly every K.P.D. voter, or at least every second voter, is at the same time a member of the party, while the other parties count upon 10 to 20 times as many voters as actual members. It follows from this:

- a) That the K.P.D. depends less upon chance votes;
- b) That it has its voters more strictly under control than do the other parties. In this connection their supposedly complicated election maneuvers can be understood--how, for instance, they are able to make last minute announcements of the cancellation of election agreements;
- c) That by judging the importance of the parties according to membership, the actual political importance of the K.P.D. would be overestimated--for instance, in the case of a party merger.

Of the greatest importance in any judgment of the future development of the K.P.D. is the fact that to all practical purposes the entire press of Hesse and Baden is in the hands of the party. According to a decree of the military authorities, licenses for the publication of newspapers are allotted only to individuals. It has been agreed in publishing circles that, in any plans for a joint publishing venture, the parties will work on a parity basis. The editorial staff of the Frankfurt newspaper at the time of my visit (February 11-13) was, in fact, set up to include three Communists and two Social Democrats. The latter intended to resign for they were continually overruled by the three Communists and were no longer willing "to camouflage a purely Communistic sheet with their names." The only Heidelberg newspaper is formally published by representatives of the various parties, but is, in fact, completely controlled by the representative of the K.P.D., who subtly and cleverly presents his party's opinions and concentrates the paper's propaganda entirely upon the theme of the party merger.

5) Prospective view of the United Socialist Party (Sozialistische Einheitspartei Deutschlands; S.E.P.D.). In view of the existing situation, I haven't the slightest doubt that the new United Socialist Party of the Russian zone founded in Berlin will soon be firmly established in the entire American zone. If the party is permitted to open under its own name, the local groups of the K.P.D. will be dissolved and reorganized as S.E.P.D. The drawing power of the slogan "unity" is so great amongst industrial workers that in the long run it will conquer all obstacles which have grown out of the experiences of the past. Certainly the old S.P.D. workers and trade union men will not forget the former tactics of "forming cells" through the K.P.D.; certainly the bad reputation of the K.P.D. as the "Russian Party" will scare away not only the bourgeois element but also certain worker groups. Without a doubt, however, two new factors of propaganda will be seized and utilized effectively:

- a) The new platform set up in Berlin, "Principles and Aims of the United Socialist Party of Germany," contains nothing that could not have been included in a program of the right wing of the S.P.D. of 1933. As a weak reminder of the K.P.D., there is only the one threat:

"The United Socialist Party of Germany will grasp at revolutionary methods if the capitalistic class abandons the groundwork of democracy."

- b) The party statutes of the S.E.P.D. give every assurance that in the future it will be possible for the membership to control the management of the Party in a democratic manner. The highest authority of the Party is the party meeting. It is completely autonomous. There is no possible so-called "international" final authority over it.

Shrewd old party leaders of the pro-Hitler period will certainly argue that there will always be ways and means for the management to withdraw from democratic control. They will refer to the resolution regarding unification included in the "Organization Decree," which states that the new leadership of the S.E.P.D. should be formed on a basis of equality, a development which would give the Communists in the West undue weight in the new party. But this "Organization Decree" (Organisationsbeschlüsse) does not necessarily need to be applied in the West. Of decisive significance for development of the new party in the American zone is the impression that may be disseminated regarding the position of the new party in Berlin and in the East and concerning the degree of its direct dependence on the Russian Military authorities. Further development of the unification movement could be stopped in the West only if, counter to all expectations, the creation of the new united party could be prevented in Berlin. In this case, the old S.P.D. could adapt itself to the new post-war situation step by step.

6) Remarks on the prospective development of parties in the American zone. The parties as represented in the American zone today doubtless depict only temporary alignments of political groups, which, at first, are applying themselves to the rebuilding of the party skeletons as well as possible. Each of the "parties" formed in this manner encompasses so many opposing material and ideological interests that a complete regrouping will probably set in as soon as these interests actually become effective. It should not be forgotten that German voters are much more definitely accustomed to seeing their special interests represented by their party than the voters of nations with a more equalized social set-up and traditional two-party system. Very roughly the major material and ideological "interests" which may be expected to unite certain groups may be classified as follows:

A) Material interests:

1. Retention of ownership of goods and of income from property.
2. Compensation for property destroyed during the war.
3. Maintenance of earned income (particularly the earned income of industrial workers).

B) Ideological interests:

1. Conservatism--mixed with the fear of a leveling of social condition and of destruction of tradition and culture.
2. Preservation of religious forms and values.
3. Radicalism--a desire for a new social organization.

Naturally these groups overlap in many ways and find their representation in the parties in varied combinations.

The picture of the parties might be changed in somewhat the following manner:

<u>Present</u>	<u>Future</u>
1) Parties of the right (not yet formed)	} a) Conservative party
{ Right wing	
2) C.D.U. { Center	} b) Catholic party
{ Left Wing	
3) S.P.D. { Old party	} c) Social Reform party
{ Unification wing	
4) K.P.D.	} d) Socialist party
	} e) Radical Opposition party

If the center party is willing to give up representation of property interests, thereby curtailing its right wing, it will possibly be strong and flexible enough to take in social reformers.

B. Attitude of the Population toward Certain Political Questions.

1) General attitude of the population. As a result of a better food situation and greater general safety, the excessively nervous irritation which is so noticeable in Berlin is obviously much less in the American zone. Nor is the resistance against political pressure so weak nor the fear of arousing a clash against the occupation authorities so pronounced. On the other hand, there is absent the lack of concern and the elasticity so often found in people in Berlin who have lost everything and who go about their work with the single idea of starting a new life and a new future. In the American zone, one gets the impression that the greater part of the Germans have not yet grasped the extent of the ruination of German property. For instance, the great interest shown in the question as to when property claims existing only on paper will be honored and settled is noteworthy; in Berlin, these claims have been generally considered crossed off. The complicated questions of money, public and private debts, capital levies and so forth are continually treated with the idea of maintaining old claims. One gets the impression that the greatest part of the electorate will come to its political decisions in accordance with the stand of the parties on these questions. At present the interest of the people in the formation of political parties is still substantially less than in Berlin, and the aversion to becoming affiliated with a party is also more pronounced. In general, the same reasons against joining a party are given as in Berlin. The C.D.U. is too concerned with property interest for some, is too Catholic for others, and too strongly with Socialist ideas for a third group. For the younger generation, which had just begun to be active in political life prior to 1933, the S.P.D. appears to be mired in retrospection. The leaders are too old and interest themselves too emphatically in the formal reconstruction of party machinery. In addition, many are against the purely negative stand on the question of unification of the parties, as has already been mentioned.

Entry into the K.P.D. is hardly considered by those who are not organized on a party basis, because it is too strongly marked as the "Russian Party." Its only attraction lies in the promised unity of the working class. Yet for most it seems senseless to join the K.P.D. which is dissolving itself on account of the projected merger. They are therefore awaiting further developments.

In general, one gets the impression that the political parties existing at present are regarded by the majority of voters as of only provisional construction.

2) Criticism of the occupation. A great deal of criticism of the occupation is heard in the American zone. For the most part, this arises from disgruntlement over unpreventable inconveniences or is directed against unimportant issues, but in many cases the criticism is not wholly baseless.

The total uncertainty of the economic future which hampers every decision toward a serious start on reconstruction is viewed seriously. Usually the impossible money situation and the imminent settlement of reparations questions are given as reasons for the uncertainty, but uncertainty also results from the unnecessary formality and inequality evidenced in the management of the administration. One feels strongly the impasse which results from American emphasis on waiting for the initiative of the Germans while even the smallest step by the latter presumes a great deal of approval from the occupation authorities who reserve final decision in all questions.

There is widespread concern, especially among outspoken anti-Nazis and convinced democrats, arising from the fact that the Americans, whom they had received openly as liberators, have come upon the scene as conquerors and punishing avengers, who damned the entire people without discrimination. Often this charge takes on distorted and exaggerated forms, but it has wide sway, especially in the circles that are ready to help the occupation authorities wholeheartedly. The opinion of a member of the Confessional church (Bekanntniskirche), which was "deeply convinced of its own complicity in the terrible events of the past 12 years," reads as follows:

"A singular opportunity to teach the true democratic spirit and a goodly portion of the respect which were attributed to the great democracies was irrevocably lost. No one wanted to believe in our good will. Where we expected democrats, we found militarists and bureaucrats, who frequently gave the impression that they purposely were besetting reconstruction with difficulties."

In spite of all criticism of the occupation, I have not found anyone in the American zone, with the exception of some Communists, who, after critical analysis, did not express fear that the Americans might leave "too soon."

3) War guilt. All Germans to whom I talked showed very little understanding of American questions as to whether they feel guilty for the Nazi atrocities and the war. I did not meet anybody who admitted it unconditionally. It is true that there are some honest confessions of guilt. In some cases, however, where such confessions of guilt were made publicly, one can't help feeling that they were dictated by opportunism. I was assured again and again, by people who were former inmates of concentration camps, that they had no knowledge of the extent of the atrocities and the systematic mass murders. On the other hand, everybody admits knowing that terrible things happened in the concentration camps, which explains everybody's fear of the camps. Everyone also admits that a great wrong was publicly done to the Jewish people and that few Germans actively opposed the system when they became aware of the facts during the early years of the Nazi regime.

Most of the people to whom I spoke offer the excuse that it would have been impossible for them to show open opposition. Only very few, most of them deeply religious, admitted their feeling of co-guilt; most of these were in opposition to the Nazis during the entire period, as was the previously mentioned member of the Confessional church. But even these people never admitted the sole guilt of the Germans. The sentiments of primitive people are well expressed in the words of an old peasant woman exiled from her home by the Poles: "Divine judgment has overtaken us because we were bad. This is the punishment for the atrocities against the Jews, the war, and everything that happened in the concentration camps." But she added, "But other people have also been bad and God's judgment will visit them." Even intellectuals who admit the guilt of the German people usually add, "Don't the people of other nations, and especially their leaders, feel guilty too? Did they try in time to do all in their power to prevent the rise of these criminals?"

It is my impression that penitential sermons to Germans produce the opposite of the desired effect. They stifle the rising feeling of guilt and drive large circles of the population to a clear-cut denial not only of collective guilt but also of collective responsibility. This, for instance, was the reaction to Niemoeller's speech in Erlangen. (The political importance of this incident has been very much exaggerated. I was assured by a Social-Democratic university professor in Erlangen that the opposition shown by the students went scarcely beyond the usual demonstrations of opposition in German colleges when the students do not agree with the opinion expressed by the lecturer.)

4) Denazification. I did not speak to any German who approved of the denazification program in its present form. Frequent changes in instructions were blamed for having created a feeling of judicial instability. Everybody, from Communist to conservative, agreed that strict adherence to formal instructions frequently punished the innocent or the less guilty person while real culprits were able to slip through. It also takes too long before a final decision is made in cases of temporary custody.

Most Germans consider our conception of the number of responsible Nazis too large. Politicians of all parties were worried about the fact that the present methods of denazification might drive a great number of persons who had been willing to cooperate into opposition against state and democracy. In a few words, the majority opinion of the people with whom I talked is, "No reconstruction is possible if you degrade a great number of people to second class citizenship. Execute or confine actual criminals, punish profiteers and opportunists by confiscation of property and loss of office, and then declare an amnesty."

5) Interest in the East and separatism. The division of Germany into various zones of occupation is considered a source of great confusion. There are numerous complaints about difficulties in traffic over the zone borders. Connections to the East are very poor. As a result, the public knows little about the events in the Russian zone and in Berlin. What news the papers carry is late and frequently distorted. There are a great

number of rumors about the complete bolshevisation of the East. Small, mainly Catholic, circles are ready to consider the East lost. They are afraid of a bolshevist infection and believe that the West and South can only be saved by a clear-cut separation of the East from the Reich. This view is expressed by small circles in Baden, Hesse, and Württemberg; however, it meets strong resistance from the majority, which considers it irresponsible to leave the East to its fate.

The attitude is different in Bavaria, where the East is considered as something foreign. The people have humane sympathy for its plight but no actual understanding, and they do not feel that they have political responsibility for this territory. Generally speaking, Bavaria is occupied with its own problems, first among them the sheltering of millions of Germans expelled from Czechoslovakia and South-East Europe who are expected in Bavaria by spring. What is usually considered Bavarian separatism is the inclination to limit political interest to inner Bavarian problems coupled with a strong distrust of anything foreign, shortly labelled "Prussian." Real separatism, that is, the will to separate Bavaria from the Reich and to form an integral Bavarian State, exists only in very small circles in Bavaria and is practically non-existent in the rest of the American zone of occupation. The idea of a United South-West German State, chiefly based on the Catholic parts of Germany, has very few adherents.