SUMMARY

The process of industrialization in Germany started much later than in England or Belgium. It was only in the 1840's with the creation of a network of railways that the production of coal began on a large scale and this marked the beginnings of an industrial age in Germany. From 1871 when political unity was achieved till the outbreak of the War, the rate of growth was remarkably rapid. By 1913, Germany ranked among the three great industrial nations of the World, producing nearly half of the total European production of steel and machinery and nearly 41 per cent of chemicals.

With the growth in industrialization, the total volume of German exports also rose rapidly. Between 1901 and 1913 it increased more than two-fold. The rate of increase was particularly dramatic between 1909 and 1913 when within the short span of four years it rose from RM 6594 million to RM 10,096 million.

The first World War provided a severe setback to the growing trend in Germany's exports. Even after the cessation of hostilities, exports began to decline rapidly until in 1924 they were only about half the 1913 level. After 1924, this situation changed rapidly. In November 1923, the currency was stabilised and vigorous measures were taken to check further inflation. With the help of
large-scale short-term and long-term foreign assistance, industries were reorganized and production began rising rapidly until by 1929 it was well above the 1913 level. Exports also started increasing rapidly. In 1929, in terms of current prices they were 20 per cent above the 1913 level.

The great depression of 1929 like in most other countries, had a severe effect in Germany as well. The flow of foreign capital, both short-term and long-term, abruptly ceased and was followed by a flight of capital from the country. Industrial production in 1932 fell from the 1928 peak level by 42 per cent, and nearly 5 to 6 million persons were unemployed.

Before Germany could recover from the depression the Nazis came to power and the whole complexion of foreign trade changed. External trade was subjected to severe exchange controls. Multilateral trade yielded place to trade through clearing, payments and compensation agreements. Vigorous measures were taken to promote national self-sufficiency in food and essential raw materials. Imports of only essential materials were permitted. As a result foreign trade declined.

With the outbreak of the Second World War, all normal trade came to an end. The Allied blockade prevented movement of goods from across the seas, but in Europe itself,
Germany held virtually undisputed sway over the resources of the entire continent west of Russia.

During the War and especially after 1944, Germany suffered heavy physical damage by bombing and artillery fire. When the Allies occupied Germany, the transport system had broken down, power was not available and the economy was in a chaotic state. The immediate problem was to restore basic services and provide food to the starving population.

Politically, the country was divided into four zones of occupation - American, British, French and Russian - and each zone was administered by a military commander. An Allied Control Council consisting of all four military commanders was set up to decide matters concerning the whole of Germany.

In the beginning, ideas regarding the future economic pattern of Germany were rather confused. The Morgenthau Plan formulated in 1943 contemplated the destruction of all German heavy industry and the conversion of Germany into a land of farmers and shepherds. Though this plan was later abandoned, the secret U.S. directive JCS 1067 bore the imprint of the Morgenthau Plan and called for the reduction of German heavy industry by destruction and removal. The Level of Industry Plan of March, 1946 formulated by the
Allied Control Council proposed a reduction of German industrial capacity to a level equal to 50 to 55 per cent of 1938. All these Plans, however, remained more or less on paper. With the growing rift between the United States and the Soviet Union and the emergence of Germany as the centre of cold war diplomacy, a gradual change came over Allied thinking towards Germany. In January, 1947 the British and American zones of occupation were combined into a single economic area. In June, 1947 U.S. aid deliveries under the Marshall Plan for the economic reconstruction of war-devastated Europe was announced. In August, 1947 a revised plan for the creation of a stable, self-sustaining economy was adopted for the Bizone. The importance of an industrialised Germany to the revival of the European economy was realised and attention began to be given once again to the rapid economic reconstruction of Germany.

In Germany itself, the excessive expansion in money supply during the War had led to a virtual repudiation of the currency and the removal of this monetary over-abundance was an essential prerequisite for the revival of industrial production. With this end in view, the Currency Reform Law was promulgated in June, 1948. This Law is the most important landmark in the post-war economic history of Germany marking the end of monetary chaos and the beginning of
economic revival. A new currency known as "Deutsche Mark" was issued against the old Reichsmarks in the ratio of 6.5 Deutsche Marks to 100 Reichsmarks. All Government debts were cancelled.

With the reform of the currency, hoarded goods began to appear in shop windows, and the incentive to work which had been all but destroyed was revived.

Simultaneously with the reform of the currency, many of the war-time restrictions and controls were removed. The tax system was overhauled step by step reducing the high rates of taxation imposed by the Allies in 1946 and introducing generous incentives for saving and investment. Aid deliveries under the Marshall Plan and other programmes were stepped up. The Government also played an active role in promoting capital formation by utilising current account surpluses for investment. In the sphere of external trade, the progressive liberalization of intra-European trade assisted the growth of German exports. A further boost to industrial production and exports came from an unexpected quarter. The outbreak of the Korean War in June, 1950 and the boom in the international market for manufactured goods which followed the War, created a strong demand for German exports. Another factor which helped Germany was the favourable trend in her terms of trade which persisted throughout.
Before the Currency Reform, Germany's exports were confined mainly to coal and timber. Finished goods constituted only 10 to 20 per cent of total exports. With the revival of industrial production after the Currency Reform, Germany once again emerged as a leading exporter of manufactured goods. Her exports increased from DM 8,362 million in 1950 to DM 80,628 million in 1966 and her imports during the same period from DM 11,374 million to DM 72,670 million. Exports of finished goods which formed about 65 per cent of total exports in 1950 rose to about 85 per cent in 1966. Among finished goods, the pride of place is taken by machinery and vehicles accounting for about 46 per cent of total exports. Next in order of importance is chemicals which formed about 12 per cent.

As an exporter of manufactured goods, Germany has, historically, an enviable record. Though a late entrant to the industrial field, she ranked, even at the turn of the century, next only to Great Britain as the world's leading exporter of manufactured goods. After the Second World War, the United States rose to this preeminent position, but by 1966 Germany had come a very close second leaving United Kingdom far behind.

Industrial Development during the War:

The rapid increases in production and exports immediately after the Currency Reform, hailed as a miracle, were
to a considerable extent due to enormous increases in industrial capacity achieved during and immediately before the War. By 1936, the peak 1928/29 level of production had been surpassed. Industrial investment increased from RM 2,169 million in 1936 to RM 4,432 million in 1939; the volume of production increased by 27 per cent. Between 1936 and 1944, barring construction and consumer goods industries, production in the present area of West Germany virtually doubled.

Industrial production declined after 1944, but this was not so much due to the destruction of industrial facilities as to the general disruption in the economy, a breakdown in the transport system and non-availability of essential raw materials and power. The damage to productive facilities as such was "surprisingly little".

Loss due to reparations was even less. According to the Inter-Allied Reparation Agency, the total value of plants and equipment removed from Germany, in 1938 prices, was only RM 708.5 million. This amounted to less than 8 per cent of total industrial capacity.

As compared to 1936 industrial capacity towards the end of the War had more than doubled in the present area of West Germany. Loss due to bombing and reparations was not significant. But in 1946, actual production in the Bizone was only 33 per cent of 1936. This was due not because of
low industrial capacity, but because of scarcity of essential raw materials and power, breakdown in transport facilities, a general lack of confidence in the currency, political uncertainty, high rate of taxation and restrictive controls etc. The rapid increases in production achieved immediately after the Currency Reform are partly due to creation of new facilities but also to a greater extent due to a fuller utilization of available production capacity. It will be wrong to ascribe these increases in production exclusively to additional investment undertaken after the Currency Reform.

**Tax Policy:**

The effect of taxation on exports depends on its influence on consumption, saving and investment. In order to promote exports, tax policy should be so formulated as to reduce domestic demand and increase the rate of investment. A high rate of investment increases supply and if domestic demand is low, prices fall. Given a rising export demand, a fall in domestic prices increases the competitive strength of exporters and an insufficiency of domestic demand compels them to seek in export markets the demand that is lacking at home.

The distribution of the burden of taxation on different income groups has therefore a significant impact on a country's foreign trade. A comparatively higher burden of
taxation on lower income groups reduces consumption; a lower burden of taxation on higher income groups increases saving and investment. Similarly a lower burden of taxation on manufacturing industries reduces cost and increases their competitive strength in foreign markets.

Soon after the occupation of Germany, the Allied Control Council increased both direct and indirect taxes substantially. This was intended to arrest inflationary trends in the economy and to secure necessary revenues to meet Government expenditures. Such heavy rates of taxation could not, however, continue after the Currency Reform in view of their adverse effects on the incentives to work and save.

The Tax Reform Law introduced in June, 1948 provided for a considerable scaling down of all taxes. Substantial relief was provided for middle income groups. The rate of progression, however, remained high. Other important changes were, a revision of corporate Income-tax from a progressive 35 to 65 per cent to a flat rate of 50 per cent benefitting large corporations at the expense of smaller ones, and reduction in property and inheritance taxes. Many indirect taxes such as taxes on coffee, cigarettes, cigars, beer and spirits were also reduced. No change was, however, made in the turnover tax which the Allied Control Council had increased from 2 to 3 per cent in 1946.
An important feature of the June legislation was the dovetailing into the structure of taxation a series of measures for promoting incentives to save and invest. Among incentives to low income groups, the most important were tax rebates on purchases of shares of building and housing associations, on contributions to such associations, and on savings in financial institutions under a Capital Accumulation Agreement. Since the rates of income-tax were extremely progressive, tax rebates on savings formed a high percentage of actual savings.

Of much greater importance were tax incentives for promoting capital formation. The most important of them were:

(a) Section 7(a) of the Income-tax Act providing for the writing off until December 31, 1951 of 50 per cent of the cost of new assets acquired to replace those damaged by war etc. The maximum allowance admissible was first limited to DM 50,000 but later raised to DM 100,000. The depreciation allowance was admissible in two years and in addition to normal depreciation allowances. If this provision was not utilised, an option was given to write off each year for a period of two years, 15 per cent of the cost of new assets.

(b) Section 10(1)(3) of the Income-tax Act providing for the deduction from taxable income of half of profits
not withdrawn from unincorporated business, subject to a maximum of 10 per cent of total profits. In April, 1949 the upper limit was raised from 10 to 15 per cent and its admissibility was made conditional on not withdrawing profits from business for a period of five years.

Concessions under both the provisions mentioned above were limited after June, 1951 to refugees and to those who had suffered religious and racial persecution under the Nazis.

(c) Section 32(a) of the Revised Income-tax Act of 1949 limiting the maximum tax to 50 per cent of the income derived from unincorporated enterprises, if not more than DM 15,000 is withdrawn annually for personal use. This clause did not apply to those taking advantage of the provisions of Section 10(1)(3) of the Income-tax Act mentioned above. This provision remained in force with some modifications until June, 1953 when it was abolished.

A series of tax concessions for furthering specific policy objectives were incorporated in the Revised Income-tax Act of April, 1949. Under Section 7(b) accelerated depreciation allowance was permitted on all new houses at the rate of 10 per cent for the first two years and 3 per cent for the next ten years. Section 7(c) exempted from taxation subsidies and interest-free loans given to housing corporations and building associations. Section 7(d)
allowed special depreciation allowances for purchase or construction of ships and under Section 7(e) construction of factory buildings, warehouses and agricultural buildings were similarly encouraged.

Apart from incentives incorporated in the Income-tax Act, various other legislative enactments and administrative regulations also enabled industrial enterprises to obtain high rates of depreciation allowances. They were chiefly:

(a) Asset Revaluation Law of August, 1949 laying down rules for conversion into the new currency of old book values expressed in Reichsmarks. High depreciation allowances admissible on capital equipment prompted businessmen to inflate the value of their assets in order to obtain maximum depreciation allowances in later years. Plant and equipment were generally revalued at an average of four times their old RM values. About 40 to 45 per cent of all depreciation allowances claimed during the period from July, 1948 to December, 1950 is estimated to have been due to the provisions of Asset Revaluation Law.

(b) The declining-balance method for calculating depreciation allowances introduced in 1952 permitted depreciation allowances on the basis of the residual value of equipment.
During 1953 - 57, a rate of 28.31 per cent for equipment with a life span of 10 years was allowed, and this permitted writing off of nearly 50 per cent of the value of new equipment in two years.

(c) Investment Aid Law promulgated in January, 1952 permitted certain crucial sectors of industry such as coal, iron and steel and power to write off in addition to normal depreciation, 50 per cent of the value of new movable equipment over a period of three years, provided such equipment was purchased or ordered during the years 1952 to 1954. In respect of immovable assets, the depreciation allowance was 30 per cent.

(d) In order to encourage investment in fixed interest-bearing assets, the Law to Favour Capital Market was passed in December, 1952. This law exempted various categories of fixed interest bearing securities from taxation.

(e) Under Clause 6(a) of the Income-tax, the present value of future pension commitments calculated at a discount of 3.5 per cent was permitted to be deducted, thus reducing not only the burden of tax but also facilitating accumulation of large reserves.

Direct tax incentives for promotion of exports were first introduced in June, 1951. They were available under
the Export Aid Law in three different ways:

(a) **Rebates on Income and Corporate Tax**:

The manufacturer was permitted to build a tax-free reserve ranging from three per cent in the case of exports of semi-finished goods to three and a half per cent in the case of finished goods. These reserves were subject to taxation in ten equal instalments over a period of ten years.

In addition, the manufacturer-exporter was permitted to make similar deductions from taxable income, these however representing final tax savings not subject to taxation. For the trader-exporter, similar export premium and deductions for tax-free reserves were allowed at 1½ per cent of total export sales. This law was repealed in December, 1955.

(b) **Refund of Turnover Tax**:

On all export sales, turnover tax paid by the trader-exporter amounting to four per cent of the purchase price was refunded to him. In addition, tax refunds ranging from 0.5 per cent to 3.0 per cent, depending on the stage of the manufacture of exported goods were given both to the trader-exporter and manufacturer-exporter.

(c) **Tax Rebates on Bills of Exchange and Transport Insurance**:

Bills of Exchange used in export transactions
So long as prices remained stable the Bank deutscher Länder claimed that by relaxing restrictions on credit it was following the rules of the old gold exchange mechanism. When, however, prices began to rise after August, 1955 balance of payments considerations were relegated to the background and the maintenance of price stability was proclaimed to be its over-riding concern.

When a country has deficits in its balance of payments, the two aims of Central Banking Policy, viz., maintenance of equilibrium in balance of payments and stability in prices, do not conflict. The position is different when a country has chronic balance of payments surpluses. Attempts to maintain price stability, increase exports and reduce imports, thereby increasing the surpluses.

In 1955, when prices began to rise, the Bank adopted various measures to restrict credit. The bank rate was also raised. But this had an undesirable effect. Attracted by the higher rates of interest, foreign capital began to pour into Germany. This not only increased balance of payments surpluses but also the liquidity of commercial banks. In order to stem this inflow of foreign capital, the bank rate was lowered. At the same time controls in other spheres were tightened.

The restrictive measures adopted by the Bank led to further increase in trade surpluses. Exports increased by
nearly 44 per cent between 1955 and 1958 while imports rose only by about 28 per cent. The surplus on trade account which was DM 1.244 billion in 1955 increased gradually from year to year until it reached DM 5.866 billion in 1958. According to the Bank, with the decrease in home demand a large proportion of the capital goods industries, which accounted for more than one half of German exports, shifted to exports to a greater degree. The prevailing inflationary tendencies abroad made it also more profitable to export rather than to sell at home.

There is plenty of evidence to show that a restrictive monetary policy was adopted, at least in the initial stages, explicitly for the purpose of promoting exports. With international prices rising, German efforts to restrict domestic demand and maintain stable level of prices, resulted in high rates of profit in export industries. This gradually led to a shift of resources from the domestic to the export sector. The boom in the international market for manufactured goods following the Korean War also encouraged this trend.

A question arises why Germany was so successful in maintaining price stability and restricting domestic demand while other countries like England and France failed. In both these countries the huge war-time expenditure had created an inflationary demand. In Germany, on the other hand, rigid wage and price controls had been continued even after
the cessation of hostilities, and war-time expenditures did not therefore manifest themselves in rising prices. The very fact of Germany's defeat in war also helped. But for this, the radical Currency Reform cancelling all Government debts and sweeping away the monetary backlog could not have been contemplated. It is again defeat in war which fostered a more co-operative attitude among German workers and trade unions. Domestic demand was initially at a low level and it was therefore, easy to regulate it in such a manner as to allow only small increases with increases in employment.

Export Finance and Insurance:

The view is generally held both in Germany and abroad that there was a severe shortage of capital in Germany throughout the period of economic reconstruction. This view has its genesis in the Currency Reform which drastically reduced all monetary claims, including those of industrial companies. The absence in Germany of a well-developed and properly functioning capital market has lent additional support to this view.

Admittedly, funds flowing from the capital market have been very little, but it does not necessary follow that there was a severe shortage of capital in Germany. The resources of the capital market were supplemented by the Government whose current account surpluses were either
were exempt from tax. Similarly, premiums paid on transport insurance were also exempted.

Extent of Tax Incentives:

It is difficult to form a correct estimate of the extent to which tax incentives diminished the burden of taxation on different income groups. According to official estimates, total deductions from taxable income amounted to DM 1,809.3 million in 1949, DM 2,164.1 million in 1950, DM 4,881.5 million in 1954 and DM 2,116.4 million in 1957. These estimates do not include depreciation allowances made possible by the Asset Revaluation Law and by the adoption of declining balance method. Even without these, in 1949 nearly 28 per cent of the income of those earning between DM 50,000 and DM 100,000 and nearly 38 per cent of the income of those earning over DM 100,000 was wholly exempt from income-tax. For the latter, the effective rate of tax worked out to only 38.7 per cent as against a tax liability of 75 per cent under the schedule of rates.

In the case of corporations, normal and special depreciation allowances were sufficient to finance almost the entire investment on equipment during the first two years after the Currency Reform. Depreciation allowances were a very important source of internal finance to all industries. Between 1950 and 1956, total private outlay on capital
equipment and inventory financing (excluding residential construction) amounted to DM 155.8 billion, and out of this, as much as DM 138.3 came from internal sources. Depreciation allowances alone accounted for DM 73.3 billion.

An examination of the changes in the German tax structure since the Currency Reform shows a definite shift of the burden of taxation on lower income groups. The increasing share of wage and turnover tax in total revenues, the progressive reductions in the rates of income-tax, the absence of any effective wealth and inheritance tax and generous depreciation allowances and tax rebates favouring higher income groups have all tended to increase the regressive element in the German structure.

German tax policy was subservient to the overall aim of increasing the pace of industrialization and exports. To achieve this aim, it was necessary to reduce the rate of increase in consumption and to increase the rate of investment. The tax policy was so formulated as to shift the burden of taxation on low income groups with a high propensity to consume, and to reduce the burden on high income groups with a high propensity to save and invest.

The restriction of domestic consumption was intended not merely for stimulating investment, but also for promoting exports. A fall in domestic consumption releases domestic output for export. If, however, the level of investment
falls as a result of an initial fall in domestic consumption, exports suffer in the long run due to a decline in productivity. It is therefore, necessary to ensure that the rate of investment does not decline as a result of a decline in domestic consumption. The German tax system ensured this by offering attractive incentives for promoting investment. Failure to save and invest subjected individual entrepreneurs and business corporations to almost penal rates of taxation.

With increases in output as a result of increased investment, the German producers were forced to follow an aggressive export policy to sell their output in the export markets. Here again, the insufficiency of domestic demand prevented domestic prices and costs from rising and gave domestic producers an edge over their competitors who were not as successful in curbing pressures of domestic demand. Of course, if export demand had been lacking, the level of investment would have fallen eventually. But after the Korean War, the demand in international markets for manufactured goods was rising rapidly and there was at no time a fear that export demand might fall.

To conclude, by restricting domestic consumption and promoting investment, German tax policy helped the growth of exports in two ways: first, by ensuring that an exportable surplus was available for meeting the rising export demand;
and secondly, by reducing pressure on prices and costs and making it more profitable for industries to seek export markets than to sell at home. More directly, the high rates of depreciation allowances also helped reduce cost. Faced with insufficient demand at home and tempted to invest by high rates of depreciation allowances and other tax incentives, industries were forced to adopt an aggressive export policy in order to sell their output.

 Monetary Policy:

In Germany, the authority for formulating monetary policy rests with the Bank deutscher Länder which was reorganized and renamed Deutsche Bundesbank in August, 1958. From the beginning, the most important task of the Bank was to regulate domestic demand so as to prevent the pent-up demand of immediate post-war years from pushing up domestic prices. With the experience of two price inflations within living memory, the German public and the monetary authorities attached the greatest importance to the maintenance of a stable level of prices.

Apart from preserving the value of the new currency, there was yet another and equally important reason for regulating domestic demand. In the immediate post-war years, Germany was heavily dependant on imported food and raw materials for reconstructing her war-devastated economy. Her exports on the other hand were low and insufficient to
pay for imports. It was, therefore, essential for Germany to increase exports faster than imports for maintaining long-run equilibrium in her balance of payments. For this purpose, it was necessary to ensure that domestic demand remained low, or in any case, the rate of increase in domestic demand was small. A high level of domestic demand increases imports and reduces exports. On the other hand, a low level of domestic demand not only discourages imports but also forces producers to sell in export markets. The level of domestic demand has also an important bearing on domestic prices. If, the rate of increase in domestic prices is slower than the rate of increase in prices abroad, sale in domestic markets becomes less profitable than sale in foreign markets and the incentive to export increases correspondingly.

The need for keeping internal demand and prices low for promoting exports was first emphasized during the slump of 1949 when the lack of internal demand was explicitly recognized as the driving force behind the steady growth in exports. During the slump, the Bank deutscher Länder also gave indications of its future policy by discouraging domestic schemes for creating employment on the ground that it endangered price stability. Reliance was placed on export demand to stimulate economic activity.

With the outbreak of the war in Korea in June, 1950 domestic demand increased sharply. Both imports and exports rose, but the rise in imports was greater. Germany's deficit with the countries of the European Payments Union very soon
reached the limit of its original quota of $320 million. To tide over the crisis the EPU granted a special credit of $120 million. A series of steps were also taken by the Bank deutscher Länder to check the expansion of domestic demand. All pending licences were cancelled. In spite of all these measures, the balance of payments position did not improve. The position became so acute that by the end of February, 1951 even the special credit of $120 million granted by the EPU was all but exhausted. To forestall the inevitable crisis, the liberalization of imports was temporarily suspended.

The balance of payments crisis of 1950/51 again served to focus attention in Germany on the importance of keeping internal demand and prices low for promoting exports. The Bank deutscher Länder laid considerable stress on the need for promoting exports by "forcing down of the demand on the internal market ...." It continued its tight money policy during the next two years even though towards the end of 1951 the balance of payments position had considerably improved. Beginning with the middle of 1952, however, some of the restrictions imposed during the height of the Korean crisis were gradually relaxed. This phase lasted till August, 1955. During this period prices remained remarkably stable mainly due to rapid increases in production and saving. The accumulation of large budget surpluses by Government also helped to keep the price level in check.
invested by the Government itself or lent to private investors. These surpluses between 1948 and 1960 amounted to DM 108.6 billion.

By far the biggest source of investment finance came from the industries themselves in the form of undistributed profits and depreciation allowances. Between 1950 and 1958 undistributed profits of enterprises (including public enterprises and utilities) amounted to DM 90.3 million which was even more than the combined savings of all private households. These were in many cases sufficient to cover not only the entire investment on capital equipment, but occasionally also for meeting part of the working capital requirements.

Commercial banks have also been an important source of finance. The banks were generally in an extremely liquid position and were in position to meet the demands of industry and trade for short-term and to some extent also long-term credit. Even in 1950, short-term lendings of credit institutions to industries amounted to DM 6.93 billion and long and medium-term credit DM 1.89 billion. In 1958, they had risen to DM 15.38 billion and DM 12.76 billion respectively.

In addition to normal sources of finance, German business firms also seem to have obtained credit from abroad.

In general, though certain sectors of the economy, like housing and basic industries might have initially
experienced a shortage of capital, the economy as a whole has not seriously suffered from want of capital. Capital accumulation has proceeded at a rate higher than before the War and also higher than in most other countries of the world.

In the field of export finance, the Bank deutscher Länder created special facilities for exporters. To meet the need for short-term export finance, bills of exchange and export drafts were accepted for rediscount at rates obtaining in importing countries. This concession was, however, withdrawn in 1956/57.

The first step for providing medium and long-term export finance was taken in 1950 with the opening of a rediscount line for DM 300 million. The management of this line was entrusted to the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation) which had been established earlier in November, 1948. Under this scheme, exporters issued Solawechsel or promissory notes. These were endorsed by the exporters' bank and the KfW and presented to the Land Central Banks for rediscount. The minimum period of assistance was six months and the maximum four years. In exceptional cases, loans for over four years were also granted. The discount rate was only 4 per cent and the total cost to the exporter was a moderate 5½ per cent. The exporter was required to insure the credit with the Hermes Credit Insurance
Company. The KfW also gave advance commitment even while negotiations for an export deal were in progress. By April 1961, the rediscount line had been increased to DM 600 million. In addition, there was a separate rediscount line of DM 126 million for financing exports to Yugoslavia.

In early 1952, the rediscount line of the Bank deutscher Länder was transferred to the newly created Ausfuhrkredit A.G., (Export Credit Corporation). Thereafter, the KfW limited itself to long-term financing.

The Ausfuhrkredit A.G., (AkA) was established on March 28, 1952 as a consortium of 26 commercial banks. Its sole function is to provide medium-term suppliers' credit in the field of exports.

The operating funds of the AkA are derived from two lines of credit - credit line "A" and "B". Credit line "A" amounting to DM 269 million was provided by the participating banks. After May 1960 this amount was increased six times until it reached DM 2,500 million in February, 1968. Credit under this line is open only to member banks of the consortium.

The "B" line is the rediscounting facility of the Bank deutscher Länder transferred from the KfW. In January, 1968 the facility under this line amounted to DM 2,500 million.

The rates of interest for credits under the "A" line are generally 2 per cent higher than for credits under the "B"
line. For both lines of credit the exporters' share was fixed at 20 per cent and AkA financing was limited to 80 per cent of the invoice value minus advance payments, if any, made by the importer. Subsequently, the Bank deutscher Länder raised the exporters' share to 40 per cent for credits under the "B" line. In the middle of 1966, it was again reduced to 30 per cent.

Since 1962, AkA has been extending credits under the "A" line upto a maximum of 8 years. In October, 1963 the system of parallel credits was introduced. Under this system, an exporter was permitted to finance his exports mainly from the "B" line of credit at the lower rate of interest, and beyond the sums eligible under this line, was allowed credits under the "A" line upto the maximum permissible limit.

From April 1, 1962 when it commenced operations till the end of 1958, AkA had concluded 2563 credit agreements for DM 3158.7 million, financing exports worth DM 7052.5 million. By the end of 1967, total credits amounted to DM 10,095.0 million, and they financed exports worth DM 19,236.3 million.

Until 1961 credits under the "A" line were consistently below 50 per cent of the value of the export contract. Beginning from 1962, the percentage rose and during 1966 and 1967 it averaged 62 per cent. Under the "B" line credits
averaged 50 per cent from 1952 to 1955, but thereafter fell steeply and remained so till the end of 1964 (average 37 per cent). Beginning with 1965, however, the percentage began to rise again.

Over the period, there has been a gradual lengthening of the period of AkA credits. Credits for exports of consumer goods have been virtually stopped.

On the whole, the AkA has been able to meet the needs of exporters for medium and long-term credit. It is however, not correct to say that the phenomenal growth of German exports since 1952 is due to generous export credit facilities provided by Government sponsored institutions. Out of DM 187 billion worth of goods exported by Germany between 1952 and 1958, AkA financed exports of only DM 7 billion. The assistance provided by AkA has been only marginal.

Export Credit Insurance:

In Germany, an extensive system of export credit insurance was first introduced in 1926. After the Second World War, it was reinstituted in August, 1949 when the Government agreed to provide insurance cover to exporters upto a maximum of DM 120 million. The ceiling was increased step by step until it reached DM 22 billion in 1968. The State also provides additional guarantees in respect of untied credits etc.
The day-to-day management is carried on by Hermes Kreditversicherungs-Aktiengesellschaft who act under instructions from the Federal Government. The Federal Government bears all risks, political and economic.

A distinction is made in Germany between contracts with private firms and contracts with foreign governments or public bodies. The rates are generally higher for the former. The manufacturer or exporter is required in all cases to participate in the risks up to a certain percentage of production costs or invoice value as the case may be. At present, the manufacturer's share is 20 per cent in the case of commercial risks, 15 per cent in the case of conversion and transfer risks and 10 per cent in the case of other political risks.

The risks covered are:

(a) Pre-shipment Risks:

This cover is given for goods which require to be specially manufactured or which require a long production period. The rate charged is 1 per cent of the guaranteed amount. If risks after delivery are also insured or if no insurable risk arises in the post-shipment period, the premium rate is reduced to 0.75 per cent.

(b) Post-shipment Risks:

Two types of risks are covered, commercial and political. Commercial risks are defined as those
arising from the insolvency of the buyer and political risks those arising from the action of the State.

Policies cover, (a) a single transaction, (b) a number of transactions with a single foreign buyer, and (c) a number of transactions with different foreign buyers.

The premium rates are:

(i) Contracts with private buyers:

- 0.75 per cent of the guaranteed amount for cash against document payments.
- 1.5 per cent for a period upto 6 months and an additional 0.1 per cent for each month beyond the first six months.

Lower rates are charged for policies covering a number of transactions with different foreign buyers.

(ii) Contracts with public authorities:

- 1.0 per cent for the first DM 3 million.
- 0.75 per cent for the next DM 2 million and 0.5 per cent for amounts in excess of DM 5 million.

In addition 0.05 per cent per month is charged when the period of payment does not exceed 2 years and 0.04 per cent per month when it exceeds 2 years.

Under the German system, an exporter desiring to take an insurance cover has to insure against all insurable risks.
The only exception is the conversion and transfer risk which can be covered after goods are shipped. Another special feature is that premium rates are not graded as in the United Kingdom between different markets on the basis of the degree of risk involved. This has led German exporters to insure only exports to high risk countries.

In Germany, about 10 per cent of all exports are covered by insurance. 90 per cent of all guarantees are in respect of exports to developing countries. Between 1960 and 1967, DM 69.3 billion worth of exports was covered by insurance. Premiums and other charges amounted to DM 755.7 million, or a little over 1 per cent of the value of insured exports.

Upto 1967, purely commercial losses were only DM 31 million or less than 0.045 per cent. Losses due to political and other causes were higher. The net payments upto June 30, 1968 on account of all losses amounted to DM 942 million. This includes payments made to exporters on account of the conversion of the value of exports into long-term debts, and what can be regarded as final loss was therefore much less.

On the whole, no element of indirect subsidy is involved in the Export Credit Insurance Scheme. Export credit insurance cannot also be said to have been a major factor in the growth of German exports.