Hollinger
pH 8.5
Mill Run F3-1840
F. Morley to G.S.M. Nov. 1, 1939.

Enclosed article was written by Heinrich Bruning.

Authority: Mrs. Nix. 6/1/73.
It can be said that the economy of Germany has for a long time been set up on a war basis. However, now that hostilities have actually broken out and there is a state of war going on with Germany fighting against England and France and Russia being aligned on the side of Germany, there are certain new factors which are of importance in evaluating Germany's economic situation at the moment. Goering asserted, during the course of his September 9 speech, that Germany was safe from blockade and that she was entirely prepared economically for a long struggle. These assertions are continually being repeated in Germany's press in one way or another, but logic is not always present since one article will show that the food supply in Germany is sufficient and invulnerable from blockade, while another article will pour condemnation on the blockade alleging that it is meant to starve women and children in Germany. It is known that until the summer of 1939 Goering has championed a relaxation of foreign policy of aggressive nature because Germany has neither attained economic consolidation nor was fully ready for a general war and thus, according to reliable opinion, Goering realized fully that the speech he made on September 9 consisted of propaganda meant
meant to encourage public morale, although the sources being made up of patriotic Germans and having knowledge of the efficient espionage system are careful not to reveal just what the Reich's economic weaknesses are. No reliable judgment of Germany's ability to stand up against a long war can be made, therefore, before there exists further information regarding what war reservations of munitions and materials Germany has and until some indication is given regarding the character, extent, and method of the Reich's future military operations. Nonetheless, many reservations can already be applied to the assertions of Goering.

Goering's declaration regarding general trade, when he said the blockade was (?) thin because it covers only the area from Basel to Denmark, is misleading. The reason is that as compared to the delay with which the allies applied their blockade in the World War, pressure of the present blockade has already made itself felt in the major part of the overseas trade of the Reich. Of all her imports approximately twenty percent is made up of the trade Germany has with enemy nations. Twenty-three percent of her exports and thirty percent of her imports depend upon Germany's trade, now almost impossible, with countries overseas and in Europe. Only forty-three percent of Germany's imports come from neighboring countries. Thus far communication with these countries approaches normal conditions.
conditions. However, quite a large section of products imported from these countries adjacent to Germany are made up wholly or partly from materials which were imported in the past from abroad. It is probable that with a blockade in effect neighboring countries will be unable to import such goods into Germany. Thus it would seem that the Reich would be severed from at least half of her import reservoirs of necessary supplies, even when allowance is made for an augmentation of imports from countries like Russia and Rumania.

By means of Goering's discourse, coupled with a constant flow of press articles on the subject of Russia's large natural resources of raw materials, an attempt has been made to picture the Reich's loss due to the blockade as being supplanted by imports from Russia. Reliable opinion in Germany states that within the subsequent several months manganese, timber, and flax in limited amounts from Russia will probably be available to Germany. But that would necessitate some time and cooperation from the U.S.S.R., even to the extent of Russia's permitting experts from Germany to advise and direct in her centers of production before any Russian supplies would be available to Germany in important amounts. Also, it would be necessary to wait for improvement in present railroad communications between Germany and Russia and within the Soviet Union itself.
Changing from the subject of the general effect of blockade on the Reich's import trade to its influence on those basic goods necessary to nourish the German people and to sustain military operations, it can be stated that it is shown by a study of the food situation that taking into consideration home products and supplies which can be obtained from southeastern and northern Europe and from that part of Poland which Germany has occupied, undoubtedly the Reich is in a much better condition than she was in 1914 and it should be possible for her to obtain most vital products and thus to hold out against a blockade without suffering undue hardship.

There exists a serious lack of margarine. Margarine supplies approximately one-third of the fat needs of Germany, and it is made of materials which Germany imports from areas now cut off from the Reich. However, some emergency derivation might be developed from Poland, though the exact territorial areas to be ultimately reclaimed by the Reich is not yet known, nor is it known how much damage has been suffered by the productivity of that area. Another factor to be taken into consideration is the demands for which the present resources will be called upon, in order to nourish the people uprooted by the strife. Furthermore, only approximately forty thousand metric tons of animal fats, taking in the fat content of living animals, was exported.
exported in 1938 by Poland to nations other than the Reich, that is to say, less than two percent of the 1938 consumption of fats in Germany. The Reich's egg supply should be augmented to a greater extent by the occupied area of Poland. (The 1938 export of eggs by Poland to nations other than the Reich equaled approximately five percent of the diminished consumption of eggs in Germany.) The contribution which Poland will make to the Reich's supply of meat and feed grain should be more important as regards quantity. However, the production of these supplies in Germany, even without further imports from Poland, should be sufficient for the Reich's minimum needs for an indefinite time, due to the great reserves in grain which she has and due to the usual supplies of grain and meat from neighboring sources.

The calculation for Germany's relative self-sufficiency in food is based on standards of food consumption which have been lately restricted. A special German food commissioner stated in an unpublished study that from the viewpoint of health average food consumption standards are unsatisfactory. It is presumed that this is viewed from the angle of a deficiency in vitamins, especially the dearth of fruit during years of poor crops, although no special deterioration of general health is understood to have been discovered. The reaction vis-à-vis the reduced rations is more important. This public reaction, although it accepts generally
these enforced rations as being necessary and enough to keep life going, considers that when bound together with the difficulties embedded in agreement to the rationing system the morale of the people will be adversely affected and might prove to be an important internal factor, should the system be continued for long.

Turning to the provision for fundamental strategic goods, the insufficiency today of the Reich's domestic production of ore and the fact that Germany is denied access to important supplies due to armed conflict and blockade is Germany's plainest weakness in her war economy. Iron ore to the amount of thirty-two million tons was produced in 1916 by Germany with Austria, Hungary, and Luxemburg, and supposedly Germany received further supplies from those parts of Belgium and France which she had occupied. Today the Reich's production of iron ore is only fifteen million tons a year, (taking into consideration even the particular efforts of the last year) and a considerable part of this ore has an iron content considerably lower than ores of Lorraine retaken by France. With iron content for a measure the Reich has been forced to get almost eighty percent of her needs of iron ore from foreign supplies. Germany's imports of high-grade ore in 1938 came to twenty-two million tons, while eleven million tons were produced within Germany.
Germany itself. By making use of deposits of poor quality, the Government in Germany planned to increase ore production to 25.7 million tons. However, it was envisaged that three years would be necessary to accomplish this. Though this job undoubtedly will be speeded up, considerable time must intervene before the program can be completed, if war conditions allow that it ever be brought to completion. Supposedly while the World War was in progress, Germany imported the major part of the ore output of Sweden. This came to six million tons in 1918. Nine million tons of ore from Sweden were taken by Germany in 1938, but 5.5 million tons of this amount were produced in the northern mines and were sent via a route which has now ceased to be available, i.e., by way of Norway and the North Sea. Evidence exists to the effect that the Reich has suggested that Sweden maintain fully her shipments of iron ore. However, according to reliable sources to do this it would be necessary for the Swedish Government to construct handling and railroad equipment. Thus considerable delay would be involved before large amounts of ore could be shipped via the Baltic from the most northern mines. Whereas certain other countries provided her with about forty-five percent of her ore needs in 1938, Germany is now severed from these areas. Thus even should the 1938 levels of shipments of Swedish ores be maintained; even should
should Luxemburg keep up her shipments to Germany of ores, which amounted in 1938 to 1.7 million tons; even should Germany use Poland's yearly production of eight hundred thousand tons; even if Germany's domestic production should be, by some unusual effort, quickly brought up to its presumed yearly maximum of 25.7 million tons, the supply of iron for greater Germany would still remain less than the amount Germany had in the World War period.

Regarding Germany's reserves of petroleum products, her lack of these things improved when the Reich acquired the Polish fields having an annual output of sixty-six million metric tons of crude oil. This amount contrasts with 4.8 million tons which Germany imports and 1.7 million tons of different petroleum products which she produced in 1938 within the country. The Shell Oil Company's German director died en route back to Germany several days ago, but it was stated by the German press that his mission to Rumania was successful. Supposedly this was a mission to "persuade" Rumania to supply Germany with further oil supplies to be repaid in goods. Rumania supplied Germany with less than twenty percent in value of the petroleum products imported to Germany in 1938. Anent a source which is reasonably reliable the reserves of petroleum that Germany has plus her output at home are enough to supply her wants for one year of active fighting.
Concerning the coal situation, Germany is an important exporter of coal. Hence the war and blockade should affect Germany little in this regard. Germany might even be enabled to raise the amounts she exports let alone to meet requirements for war, due to the fact that she is now in control of the mines in Poland with their twenty-eight million tons surplus. Nevertheless, Germany would appear to be most vulnerable to the effects of the blockade when it comes to imports of cotton, tin, rubber, nickel, copper, and several further materials. Though dependable information has not been received regarding what military reserves Germany has or what possibilities she may have for replacing the above-mentioned metals with substitutes, a trustworthy source reports that Germany's supplies of copper fall below the reserves of 1914.

Turning to the textile situation, though the newspapers in Germany often speak of Russian cotton production, thus far cotton exports from the U.S.S.R. do not surpass an annual production of about thirty thousand bales, which amounts to approximately two and one-half percent of the 1938 importation of one million two hundred thousand bales into Germany. One understands that that part of Poland which has been occupied is supplied with enough cotton and finished textiles for several months and that this supply is
is now in the hands of German forces. However, when use has been made of this supply Poland, as far as textiles go, will probably become a drain on Germany, for the Reich's home production of natural and synthetic fibres accounted approximately for merely a third of her 1938 consumption of textiles, and this in view of the fact of large investments. It would seem, however, as if Germany would be in a more favorable position than she was in the World War period, even taking into account this insufficient though increasing output.

Concerning the supply of labor, Germany's occupation of Poland might seem to provide her for the moment with enough labor to carry on necessary industrial and agricultural output. As the situation stands, unemployment again exists in Germany due to the fact that the population has been withdrawn from exposed western areas; and because material is no longer available work in unnecessary trades and industries has diminished. Already it is believed that several hundred thousand persons are without employment, though figures regarding this are unavailable. The authorities are concerned over this situation, though it has been said that the Government will give work to the unemployed, because of the existence of possible causes for social uneasiness, a situation which may remain until they can finish the process of moving and training the unemployed to take up work on essential projects.
projects. Thus as conditions are now, Germany should be able to get men without difficulty for her industrial and military needs. Later on, though, Germany might encounter trouble in this regard which she did not meet during the last war. For then she possessed some assets amounting to twelve billion marks and she was able to employ these to pay for a great part of her vital imports in place of having to put into the making of goods for export plant materials and labor which she needed for the making of munitions.

It is still a carefully kept secret regarding what the foreign exchange and gold position, actual and potential, of Germany is. During a confidential talk regarding an article which appeared on June 30, 1930 in The New York Times and which claimed that one billion marks ($400,000,000) could be mobilized by Germany, it was stated by a source which is dependable and authoritative that the true gold supply which could be mobilized by Germany was far less than four hundred million marks ($160,000,000). On August 30 it was disclosed that the gold reserve of the Reich Bank and the gold discount bank amounted to one hundred and ten million marks only. Therefore, in case of a war of long duration, unless Germany turns to military occupation or puts pressure on neighboring supply sources, she will seemingly have to put a much larger proportion of her factors of production into the output of goods for export than she did.
did in 1914, since she lacks foreign exchange and gold with which to pay for her imports.

Since figures are unavailable the calculations and observations made above cannot be looked upon as comprehensive or basic, nor can they be considered completely reliable since new factors may develop at any moment and bring in elements which at this time cannot be evaluated. However, from the above one may draw the conclusions that follow: It would seem that perhaps for several years, anyway for a long period of blockade, Germany will be able to supply her population with minimum food requirements as far as quantity goes but not qualitatively. Moreover the labor and facilities that she has for manufacturing and transportation seem sufficient enough for her military needs. On the other hand, the situation as it concerns raw materials in most goods, with the exception of coal, will eventually become one of scarcity and inferiority until it reaches a deficiency point which, in the case of several vital metals, will become dangerous if the war should prove as lengthy and as wasteful of material as the war of 1914. Germany is put in a definitely disadvantageous position due to her relative absence of foreign exchange and gold. This situation would be aggravated by a prolonged war unless some method is found to overcome and correct that position. It can be said briefly that though her position from a financial and
and economic view is one which justly is the cause of serious worry to her leaders, yet it is not as serious as is often indicated by statements frequently expressed abroad, and the conviction which is often expressed that the collapse of Germany is imminent is certainly not justified.

Should peace efforts prove a failure and should the war get more serious, it is true that the people's morale in Germany might easily be undermined due to the prolonged aviation. It is also true that the same situation might cause them to adopt a front of active discontent and that should the country's resources continue to be drained this would be shown not merely in every section of national activity but likewise in the bodily resistance of the population. Moreover, much depends upon what the regime does in the future as to whether the two factors mentioned above would be permitted to reach the breaking point. Looking back into the past, it would seem that any attempt to keep morale up would be by trying to gain greater victories in the military field, and a need to increase resources for Germany would probably tend to cause further campaigns for acquisition of territory. Be it as it may, enough basis exists for argument which some people put forward holding that German plans would not be deterred by any consideration of effects from the long-term economic viewpoint as long as Hitler stays
stays in power, but for him an increase of economic and financial stringency would prove an incitement rather than a deterrent.