

S E C R E T

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SEVENTH ARMY INTERROGATION CENTER
APO 758 US ARMY

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:Auth: CG, 7th Army :
:Init: P.K. :
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REORGANIZATION OF THE GERMAN MONETARY SYSTEM AND NATIONAL ECONOMY

1. SOURCE

FUNK, Walter, Dr, REICHSBANKPRAESIDENT (Minister of Economy).

Rating: C-3

Date of Information: May 45

Interrogator: W.K.

2. BASIS OF REORGANIZATION

In order to reorganize the monetary system it is necessary to go back to the basic cells of the national economy. The main factor involved would be the establishment of a sound banknote. Just as the community is the foundation of the State, the banknote can be considered the foundation of the national economy. This, however, can be attempted only after a provisional state of affairs in the administration of the government is established.

In relation to the fundamental reorganization of communal and provincial administration, the reorganization of finances (without institutions of armament and war production) will have to adhere to the following points:

a) Establishment of Official Legal Tender

The existence of two or more currencies must be avoided in order to eliminate the danger of devaluation of one type of money by the other. "Bad money" in the end also infects "good money". The best solution lies in replacing the REICHSMARK by Occupation currency. The basic condition is, that there should exist sufficient means of payment in American Occupation money. The construction of a new German currency should be reserved for future times.

FUNK estimates the total amount of banknotes now in circulation at 60 to 70 billion Marks. He proposes that an exchange ratio of 10:1 be established, leaving 6 to 7 billion Marks of Occupation currency in circulation, exclusive of the currency needs of the Allied authorities and armies. He suggests that no more than 1000 Marks be issued for personal use.

b) Establishment of Financial Machinery

A national bank should be established and provided with the necessary means of payment for public and private circulation of money. This bank would issue money only to public banks (whose needs are to be ascertained by Allied control agencies), and to industry, though these banks, against genuine drafts and bills of exchange. Money could be made available to German public banks by the issue of bonds, sponsored by the Allies or by communal governments, the value of these bonds being secured through the Allied financial administration on the basis of income from taxes, tributes, etc.

c) Control of Existing Bank Accounts

The problem of existing bank accounts can be solved only in conjunction with the problem of the public debt, which needs special consideration. Unregulated disposition of bank accounts cannot be permitted as long as the public debt problem remains unsolved. Exceptions may be warranted in those cases where there is no currency on hand, and the possibility for procurement, other than withdrawal, does not exist.

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d) Tax Revision

The complicated German tax system should be disposed of in its entirety. There should be a general income tax scale, ranging from 5 to 20%, plus indirect taxation on all commercial activities.

e) Property, Labor and Industry

The most significant problem in Germany today is the extensive gap between the "haves" and "have-nots", that is those who came out of the war unscathed; and those who lost all, their homes, property and personal belongings through the war. FUNK suggests a general mortgage on all forms of property. He claims that reconstruction can in this way be effected by private enterprise. Further, the dispossessed must be helped to close the gap with those economically more secure in order to avoid dangerous political reverberations. In this way, according to FUNK, life can return to a great extent to normal withing six months, provided however, that the present price and wage scales remain fixed. The stabilization of currency can be accomplished only on the basis of those prices and wages. The exchange value of the Mark for foreign currencies can be determined only much later.

Dr FUNK claims that German industry possesses, or has access to, sufficient raw material to complete successfully the first stage of reconversion to peaceful production without the necessity of outside help. He also states that there is a sufficient supply of consumers good to satisfy the most pressing needs. FUNK claims he made efforts until the last moment to prevent a senseless waste and destruction of consumer's goods. According to him, there is no need for unemployment to exist in Germany. Every person can be employed according to his skill or vocation. He suggests that the German Labor offices could be helpful to Allied authorities in this connection. FUNK states, in conclusion, that the points mentioned above could be discussed and worked out in detail on the basis of the existing situation and intentions of the Allied governments. In any case, he maintains, the above measures are certainly useful in facilitating the prevention of inflation.

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