

What Happened to the German War Reparations after the end of WWII

Georgios Karkampasis 0605290

Presented in fulfilment of the requirements for the degree of Master of Arts in European
Studies

Supervisor: prof. dr. **Erik Buyst**

Academic year 2015 – 2016

12160 words

Contents

List of graphs & tables	1
Acknowledgments	2
Executive Summary	3
Chapter 1 - Introduction	4
Chapter 2 - Literature review	6
Chapter 3 – Background to the Reparations Agreements: From Yalta to Potsdam	9
Chapter 4 – Dismantling German Industry: From Morgenthau to Marshall	13
4.1 The Morgenthau Plan	13
4.2 The Swift in Policy – Moving towards the Marshall Plan	15
Chapter 5 – Economic Recovery in Post-WWII Western Europe	20
5.1 The British Paradox	20
5.2 French Economic Recovery	23
5.3 West-Germany’s Economic Miracle	26
5.4 Comparing West Germany to Britain and France	28
Chapter 6 – The Problem with ‘In Kind’ Reparations	30
6.1 Controversy over Human Capital Reparations	32
Chapter 7 – Does Germany Still Owe to Greece?	33
Chapter 8 - Conclusion	37
APPENDIX	40
Bibliography	43

List of graphs & tables

Table 1. Manufacturing and Capital Goods Shares 1938 (Percentage Shares).....	11
Table 2. German production, 1940-5 (physical units).....	12
Graph: Real GDP Growth UK.....	22
Graph: Germany (West after 1945) and Britain: GDP Per Capita.....	28
Graph: Germany (West after 1945) and France: GDP Per Capita.....	29

Acknowledgments

I would like to thank Professor Erik Buyst and Geert Goeyvaerts, for their support and guidance throughout the writing of this Thesis.

Executive Summary

The end of WWII, heralded significant structural changes in the socio-political and economic development of Europe and the whole world. Germany was on the losing side, alienated and forced to pay war reparations to the winners of WWII, the Allies. In this paper, the economic implications and benefits of the war reparations for the Western Allies, the USA, the UK and France are examined; as well as the direct effects they had on the German economy and society. The war indemnities levied of Germany after the end of WWII, were unique in their nature, since the Allies opted for reparations ‘in kind’, which aimed at the complete disarmament of the German industry and as a result the complete annihilation of its war machinery potential. The dismantled plants, were shipped to the Allied countries as reparations. The Reparation policies were abandoned relatively fast by the Western Allies, when economic and political concerns started escalating. The post-WWII years are significant for Western Europe, since a number of factors contributed in the rapid economic growth, among them being the reparations received from Germany. In light of the recent revival on the debate on whether or not the full war debt of Germany towards Greece is fully settled, a brief analysis on this topic will be surveyed. This paper concludes with the major findings on the economic and political effects of the Allies’ reparation policy as well as the arguments against the productive nature of reparations ‘in kind’.

Chapter 1 - Introduction

On the 8th of May 1945, Germany surrendered unconditionally to the Allies thus ending the war in Europe. The Allies met in Yalta and then Potsdam to determine the full amount of the war debt owed to them by Germany. The Allies opted to claim reparations '*in kind*' rather than to accept any monetary indemnities, since the monetary reparations claimed after WWI became the cause of strife and ultimately a detriment to the future peace of Europe. Keynes in 1919¹, described the *Versailles Treaty* as a "Carthaginian Peace" and argued extensively against the reparations imposed then on Germany.

On this occasion, the Allies adopted a different policy and claimed as reparations the industrial disarmament of Germany. There were many reasons and, as was stated in the Potsdam protocol, they aimed at the dismantling of German plants directly involved in the arms industry. Through this process the German war machine would cease to exist. The dismantled plants would be re-erected in an Allied nation to assist in rebuilding its industry that was destroyed by the German aggression during WWII. By annihilating the German industry, the Allies hoped to abolish the Nazi political structure and rebuild a new Germany based upon democratic values. Behind this justification of denazification and military disarmament, the objectives were purely economic. The allies expected to gain from the absence of Germany in the European markets and improve their industries at its expense.

In this paper we argue that these '*in kind*' reparations were inefficient and caused overall fallacy. Sharing Keynes' notion on the unproductive nature of war reparations, this study will analyse the political and economic implications associated with the reparations negotiations, the effect of the reparations on the post-WWII Western European recovery as well as the many problems concerning the '*in kind*' reparations. Although a full academic study on the economic effects of the reparations does not exist, this paper will attempt to establish a link with the post-WWII economic position of the most important Western European economies, namely these

¹ Keynes was part of the British delegation in the Paris Peace Conference of 1919 and argued for a more generous peace. Later in the year he wrote "The Economic Consequences of Peace" arguing against the reparation policy of the Allies and voicing his concern over the economic and political consequences which would arise as a result in Europe. He considered the reparations to be an ineffective and harmful policy not only for Germany, but the Europe as a whole.

of Germany, Britain and France². We will also present evidence of the inefficiency of the reparations which justifies the relatively swift change in policy of the Western Allies.

It is hard to determine the effect of the reparations, on the economic recovery of Europe as it is hard to measure the degree of devastation the war caused, when we examine the socio-political effects that stigmatized the generations to come. In the case of Greece, the socio-political effects of the Nazi occupation have remained largely unexplored and for the sake of the European integration the Greek governments have willingly remained silent. It is not the scope of this paper to examine the long term detriment³ the Nazi atrocities caused in the post-WWII Greece, but the last part of this paper will attempt to provide some insight on the current debate that threatens the unity of the EU and more specifically the Eurozone, on whether or not Germany is still liable to pay reparations to Greece.

² The economic position of Eastern Europe and specifically the USSR will not be examined in this paper. Not because of their lack of importance but for two reasons. One due to space constraints and secondly because for Western Europe the post-WWII era herald an era of cooperation and integration, whether in Eastern Europe the same time period a different kind of 'integration' process was implemented and forced upon the countries by the USSR.

³ For the readers interested in the devastation the German occupation caused in Greek, in terms of its culture, its people, its institutions and its overall socio-political identity, John P. Anton's "Greece, Germany and the Complex Issue of War Reparations" is an excellent read offering an original insight into the particular issue.

Chapter 2 - Literature review

The early literature dealing with WWII reparations covers mainly the political background of the agreements, rightly so as they proved immense in the following years. Little has been said on the effect of the reparations on the economic restructuring of Western Europe. The research concerning this topic has often been limited to a descriptive analysis of the turbulence which surrounded the Allied policies in the early post-WWII years.

Caincross (1950) concentrates mostly on the 1945 - 47 period and illustrates the development of British policy on the reparations issue. Farquharson (1997) describes the change of policy from 1947 to 1949. He successfully uncovers the inconsistency of the American policy towards Germany between 1945 up to the early 1947. He also portrays the manner in which worsening economic conditions had a profound effect of the change of policy from the Western Allies towards Germany.

The official protocols from the Yalta and Potsdam conference provide a clear illustration on how the state of affairs formed in 1945 and the early period after the end of WWII. Mosely (1950) depicts the essential political background to the policy changes from Yalta to Potsdam and the growing discontent among the Allies. Evidently some of the causes of the *Cold War* can be traced as early as 1945.

In the case of economic growth and reconstruction in the post-WWII era, the effect of the discontinuation of the Allies' reparation policy has not been discussed thoroughly. Instead the debate often revolves around the much discussed EPR⁴. Of all the Western European economies, which achieved tremendous growth in the post-WWII era, West Germany's economic miracle stands as the most successful.

The opinions around the German economic miracle vary. Reichel (2001) attempts to determine whether it was based on Erhard's sound economic policy or simply a reconstruction boom after the war. Using formal growth theory and specifically the *Solow Growth Model*, he claims that by using empirical evidence, there are signs of conditional convergence for the case of

⁴European Recovery Policy or Marshall Plan was a program of Economic aid initiated by the US for the reconstruction of Europe. The EPR transferred some \$13 billion to Europe in the years 1948-51. There are numerous accounts that dispute EPR's claim of significance to European economic recovery. Some of the most insightful are: A.S Millward, *The Reconstruction of Western Europe, 1945-1951* (1987). See also: J. Gimbel's, *The Origins of the Marshall Plan* (1975). See Also: T. Cowen's, *The Marshall Plan, Myths and Realities*(1985)

Germany's post-WWII economic growth⁵. Although “there was in fact strong reconstruction growth, is unable to fully explain Germany's growth record as growth rates in the 1950s and 60s were significantly higher than the pure reconstruction model predicts” (Reichel, 2002, p. 441).

Ritschl (2008) debates the importance of the post war shock against convergence against the institutional shake up and argues in favour of the first. He argues that the shock in conjunction with the subsequent recovery, is more important than neoclassical convergence and structural change to clarify German economic growth in the 1950s and the big difference it exhibited compared to British economic growth in the 1950s (Ritschl 2008).

Germany's economic miracle, in retrospect, was the successful implementation of Erhard's currency reforms, market liberalisation and the necessary construction boom after the end of WWII. In the economic progress of Germany there were a number of socio-cultural reasons that contributed to the acceleration of it, but the scope of this paper is to mainly discuss the economic and political aspects⁶.

Henderson (2008) argues that the ERP's contribution to West Germany's miraculous economic growth and other European nations was not as significant as it was led to be believed. “Cumulative aid from the Marshall Plan and other aid programs totalled only \$2 billion through October 1954. Even in 1948 and 1949, when aid was at its peak, Marshall Plan aid was less than 5 percent of German national income. Other countries that received substantial Marshall Plan aid exhibited lower growth than Germany” (Henderson, 2008). Instead he claims the successful implementation of the ‘social free market’ policy was the main driver behind economic growth. Milward (1987), to an extent, shares the same opinion, he discredits the significance of the Marshall Plan in the economic reconstruction process of Europe. Tyler (1985) considers, rightly so, the ERP's claim to be a significant factor the in economic recovery of Western Europe to be a myth.

Furthermore on the topic of economic recovery, Milward (1992) offers useful insight on the reasons behind Germany's success and Britain's failure. The European market, offered much

⁵ Reichel offers a comprehensive analysis in his article: *Germany's Postwar Growth: Economic Miracle or Reconstruction Boom?* (2001). Also Baldwin and Wyplosz, in Chapter 7 of their book: *The Economics of European Integration*, analyse at length the Solow Growth Model.

⁶James Van Hook, in his book *Rebuilding Germany: The Creation of the Social Market Economy, 1945-1957*, offers a detailed discussion on the social and cultural aspects of Germany's economic boom.

competition, therefore the British opted for the easy choice of the commonwealth markets thus creating the necessary space for German exports to thrive. On the French economic recovery Milward (1987) successfully ties the effect of the reparation policy on the successful modernization of the French industry. The French steel industry especially benefited greatly from mining the Ruhr, the Rhine and the Saar, which remained as a French protectorate until 1957. France delayed the re-unification of Saar with West Germany in order to fortify its economic interests in the area.

Perhaps the most interesting conclusions arising from this discussion are the reasons behind the cooperation of the West-European nations, the American influence and the motives behind the formulation of the ESCS and the EEC. Cooperation was the only way forward, West-Germany joined the ESCS for many reasons, among them to be rid of the French hegemony and France joined because the diplomatic avenues were being diminished otherwise, making European integration the only viable solution against the Soviet threat.

From then onward most of Europe underwent a tremendous degree of integration, which was recently challenged. The Eurozone crisis that begun in 2009, revived the ghosts of the past. Questions over the degree of cooperation between the nation members were put forth and from the discussion the query whether or not Germany is still liable to pay reparations to Greece was reignited. Christodoualkis (2014) and Fleischer (2010;2012) examine at length the debt forced upon the Greek government during the 1942-44 Nazi occupation of Greece and the research concludes that although the reparations issue is largely settled the unpaid loan should still be accounted for. This paper will conclude with a short analysis on this current debate.

Chapter 3 – Background to the Reparations Agreements: From Yalta to Potsdam

In February 1945, the United States, the United Kingdom and the Soviet Union reached an agreement with regards the war debt levied on Germany, a member country of the Axis powers which was on the losing side of WWII. The conference protocol, which was signed on the 11th of February 1945 stated that “Germany must pay in kind for the losses caused to the Allied nations in the course of the war” (Crimea (Yalta) Conference, 1945)⁷. Furthermore the protocol includes the following provisions: “removal of national wealth located on the territory of Germany as well as outside of her territory; annual deliveries of goods produced in Germany; and the use of German labour” (Crimea (Yalta) Conference, 1945)⁸. Germany’s national wealth constituted of its advanced industry and investments abroad.

The provisions proved hard to implement in the following years and were the cause of much controversy, especially the clause on the requirement of German labour to be used as a reparation method. Further negotiations were to be held in Moscow and later on, in Potsdam. “The Soviet Government claimed the sum of 20 billion dollars to be a justifiable amount, and 50 percent of what the Allied nations extract from Germany should be rewarded to the Soviet Union. The British government was reluctant to propose an exact amount” (Crimea (Yalta) Conference, 1945)⁹.

On the 17th of July 1945 the Potsdam conference commenced, two months after the surrender of Germany to the Allies. The political leaders aimed to resolve the issues of how it was best to handle Germany and how to allocate the proposed reparations. In Yalta, President Roosevelt acceded to the Soviet demands for attaining half of the complete reparations amount. A few months later, President Truman was of the opinion of mitigating the reparations costs and each country to extract reparations from their respective zone of occupation. The American position was justified given the economic disaster that the “Treaty of Versailles” caused. If history was not to be repeated, the reparations issue would have to be treated differently. The Potsdam conference, although it exhibited a strong inclination towards the reconstruction of Germany,

⁷Exact wording from the first paragraph in the protocol of the Crimea (Yalta) Conference of 1945 on the question of the German reparation in kind.

⁸As stated in the second paragraph in the protocol of the Crimea (Yalta) Conference of 1945, on the second paragraph, sub-sections a, b and c.

⁹ From the closing paragraphs of the protocol of the Crimea (Yalta) Conference of 1945.

still stressed the economic decentralization of the German industry, in terms of capacity and output.

Despite the numerous disagreements, between the Allies and the proposed amounts of reparations and the methods of extraction, the Potsdam conference concluded on the 2nd of August 1945. The agreement had a profound effect in the years to come. According to the protocol of the Potsdam conference, the key objective of the Allies was to achieve “the complete disarmament and demilitarization of Germany and the elimination of control of all German industry that can be used for military production” (Berlin (Potsdam) Conference, 1945, 1945)¹⁰. This clause aimed at the complete liquidation of the existing Nazi military infrastructure and its institutions as well as at the prevention of its re-emergence in the future. It targeted the industry which was directly and indirectly used for the production of armaments. What was remarkable, were the provisions targeting the democratization and denazification of Germany. The goal was “to convince the German people that they cannot escape responsibility for what they have brought upon themselves” (Berlin (Potsdam) Conference, 1945)¹¹ and “to prepare for the eventual reconstruction of German political life on a democratic basis” (Berlin (Potsdam) Conference, 1945)¹². It is evident that a strong discontent existed not only towards Nazi Germany, but towards the German population as well. In the eyes of the Allies, the German people had to repent for their sins and through the process of democratization in time Germany would be made capable again to join the circle of international cooperation.

“After the Potsdam meeting which set up machinery for deciding on reparations, the United States insisted that reparations could be paid out of current production only when Germany was in balance of payment surplus. The Reparations Plan eventually drawn up laid down that the Allies would be paid out of the surplus when production and exports had reached a level which would maintain the German population at the average living standard in Europe in 1936” (Milward, 1992, p. 400) and to “reduce German industry as a whole to about 50 to 55 percent of the 1938 level” (Gareau, 1961, p. 525). The conditions set in the Potsdam conference sent a clear message that Germany’s standard of living should not exceed under any circumstances that of the rest of Western Europe. As we can see below in table 1, in 1938 Germany had the biggest share in manufacturing and capital goods in Europe.

¹⁰ Exact wording from the protocol of Potsdam conference, part II, section A, paragraph 3, point i

¹¹ and ⁶ Quoted from the Potsdam conference protocol, part II, section A, paragraph 3, points ii and iv.

Manufacturing Shares:	USA	USSR	Germany	UK	France	Japan	Italy
	35.1	14.1	11.4	9.4	4.5	3.5	2.7
Capital Goods Shares:	USA	USSR	Germany	UK	France	Japan	Italy
	41.7	14	14.4	10.2	4.2	3.5	2.5

Source: (Hillmann 1952, p.439, p.446)¹³

Therefore a reduction to 50% of the 1938 level, aimed at allowing less than 7% share of the capital goods and manufacturing shares in the global markets. Also it offered France the opportunity to surpass Germany in terms of industrial strength.

Furthermore, the Potsdam protocol reduced the production capacity of chemicals, metals, machinery and other products directly related to the manufacturing of armaments, to their pre-war levels or prohibited the production of some of them altogether. Table 2 (bellow) depicts the production of arms in Germany, during the period of WWII. The Allies' aim was to decimate completely the armaments industry. The plan for the overall German economy was to decentralize it in order to eliminate the "present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts and other monopolistic arrangements" (Berlin (Potsdam) Conference, 1945)¹⁴. The economy was to be based on agriculture and other 'peaceful' domestic industries.

One of the most important provisions of the Potsdam protocol, which fell apart as soon as the Allies took charge of their respective occupation zones, was that Germany would be treated as a single economic zone and all facets of the German economy would adhere to common policies determined by the Council of Foreign Ministers and the Allied Control Council (Berlin (Potsdam) Conference, 1945)¹⁵. What is significant about the 'economic unity' of Germany, is the fact that this was the only way the Allies could achieve the extraction of such large reparations, together with a tight restriction of the German economy without risking an economic catastrophe. The failure of the Allies to cooperate amongst them, led to the

¹³ Hillmann distinguishes as Capital Goods "the optical, engineering, metal goods, shipbuilding, vehicles, chemical, and part of the heavy industries (i.e., pig-iron and crude steel)" (Hillmann 1952, 491). As a result the section of capital goods includes both general machinery, and the production of chemicals and metal. In this case the output of capital goods industries illustrates much better the quantities of machinery production and the country's industrial strength.

¹⁴ Quoted from the Potsdam conference protocol, Section B, paragraph 12

¹⁵ The Council of Foreign Ministers was established at the Potsdam conference with the purpose of determining the policies regarding the future of Germany. It consisted of representatives from the United Kingdom, the Union of Soviet Socialist Republics, China, France and the United States.

unnecessary suffering of the German population and, eventually, to the annulment of the remaining reparations in 1948. The reparations agreements detailed in the Potsdam conference were quite ambitious since it involved the depletion of much of the German industry, but at the same time it was expected that German agriculture would prove sufficient enough to provide for the public without the need for external assistance. However, this plan failed again. In 1946, Britain and the US concluded that Germany was becoming increasingly dependent upon foreign aid.

Table 2. German production, 1940-5 (physical units)

	1940	1941	1942	1943	1944	1945	Total
Ground and air munitions, thousands							
Rifles, carbines	1352	1359	1370	2275	2856	665	9877
Machine pistols	119	325	232	234	229	78	1217
Machine guns	59	96	117	263	509	111	1156
Guns	6	22	41	74	148	27	318
Mortars	4.4	4.2	9.8	23.0	33.2	2.8	77.4
Tanks and SPG	2.2	3.8	6.2	10.7	18.3	4.4	45.6
Combat aircraft	6.6	8.4	11.6	19.3	34.1	7.2	87.2
Warships,							
units Submarines	40	196	244	270	189	0	939

Source: (Harrison, 2013)

Germany's shipping industry was also included in the Potsdam protocol. Military and merchant navy was to be divided between Britain, US and the USSR, and the German submarines were to be sunk. The future of German trade was to be controlled by external forces, since its merchant navy force would no longer exist. Such a measure was essential for the economic control, the Allies planned on exerting on Germany.

Chapter 4 – Dismantling German Industry: From Morgenthau to Marshall

4.1 The Morgenthau Plan

Shortly after the division of Germany into four different occupation zones, the dismantling of its industry began. By the end of 1946 the dismantling of a considerable amount of plants had commenced, but only a limited amount of the equipment from the German plants had been dispatched. For the three Western Allies the dismantling of German plants lasted roughly until 1948, with France being the last country to comply with the wishes of the United States and Britain. In East-Germany the dismantling continued up to 1953, with the Soviet Union receiving “reparations payments between 1945 and 1953” (Linz, 1984, p. 2).

The United States, in 1945, pursued a hard-line policy against Germany. Bernard Baruch, political advisor to President Roosevelt and Wilson, alongside Henry Morgenthau argued in favour of the maximum possible - in economic terms - punishment of Germany and Japan. They believed the two countries should never be allowed to re-establish themselves as exporters in global trade (Schlauch 1970).

The intentions behind the harshness of the American policy aimed not only at punishing Germany and Japan, but also at rewriting the terms of trade for which these two would be allowed to compete at. The US and their allies would be able to lay hands on the opening in world exports and dominate global economic affairs. Furthermore, it was vital for the European nations to stand firm and become economically sovereign in a time where the American Dollar was becoming scarce¹⁶. Therefore, in theory at least, the gap in the world markets created by the decline of the German economy, would be filled by the rejuvenated European nations; which relished the benefits of the German industry reparations. From the part of the US, the

¹⁶ Soon after 1945, the US was running a rather sizable balance of trade surplus, causing the already big US reserve to grow further. The US had to reverse this situation in order to increase its exports and facilitate further the European countries in their import needs. To do so and balance out the global wealth, the US had to start running a trade deficit. One of the main incentives of the Marshall Plan, was to provide the European nations with the necessary purchasing power, in order for the US to become a net exporter in the Post-WWII world economy. Opinion vary among economist on whether or not trade deficits can exist in a healthy economy, but in order for a country to occupy a position of global economic leadership, it has to become a net exporter and run a balance of payments deficit in order to provide opportunities for emerging economies to enter its market and be able at the same time to import the economic leader’s products.

destruction of the German industry was falsely argued upon moral pretexts, concealing their true political and economic intents.

Although the morality of the motives can be questioned and contested plenty, the economic motives behind the harsh measures are obvious. The early plans for the deindustrialization of Germany were excessive, in the aftermath of WWII, the general feeling which swept across Europe and the US was that Germany should pay dearly for a war which felt very much like an annihilation attempt compared to other military campaigns.

Morgenthau claimed that the pastoralization of Germany would offer the opportunity to the UK to reap the benefits of a \$1,600 million export market. How true this could be, no one can say with certainty, but what is underlined in Morgenthau's argument is the economic motivation employed to sway Britain to his plan of total deindustrialization of Germany. (Milward 1992).

The Morgenthau Plan can be considered as a method of reparation, since it included the complete dismantling of German industry, of which a part would have been transferred to the Allied countries. It proposed "the destruction of German plants; the dismantling of German plants and their re-erection in Allied countries; the forced separation of industrial areas; the confiscation of industries which remained on German soil; and legal limitations on its production" (Gareau, 1961, p. 528).

The complete annihilation of the German industry was justified on the reasoning that a pastoral Germany, where agriculture would be the predominant force of the economy, would cripple any future rearmament and would create a nation of peaceful farmers. The main goal of Morgenthau's plan was the direct beheading of Germany's military war machine. Such a policy, however, could only lead to further distancing Germany from the rest of Europe, both in economic and political terms, serving only as a cradle for the creation of future conflict against the Allied nations.

Opinions shifted towards a change of policy out of fear for future resentment from the part of the German population, which might prove a cause for a future military conflict and also since the Federal Republic of Germany apparently underwent a total moral transformation¹⁷ (Gareau

¹⁷ Due to the disagreements in the American Congress, on the future policy towards Germany, all viable reasons had to be employed, the congressmen argued on economic, political, social and even moral grounds. When simple economic reasoning was not enough to sway the majority of congressmen towards a change of policy, the argument that the German population regretted their actions in WWII was used successfully.

1961). Germany's reform was a far less important reason for the abandonment of the Morgenthau Plan however, Europe simply could not afford another war. It could not afford to exclude Germany in economic terms and the Allies simply could not sustain the vast German population.

Although, fortunately enough, the full Morgenthau Plan was never implemented, traces of it are evident in the early reparations negotiations between the Allies. Roosevelt's and Churchill's policies initially were to some accord in line with the Morgenthau Plan. Churchill, despite being an advocate of the creation of a pastoral Germany, only proposed the dismantlement of the industries which had a direct link to the creation of weaponry. By the time the Allied nations engaged in negotiations during the Yalta conference, the levels of deindustrialization differed much between them. It was only in the Potsdam conference that the Allies reached some agreement towards the level of reparations which were to be extracted.

4.2 The Swift in Policy – Moving towards the Marshall Plan

By the time of the Potsdam Conference, leniency from the part of the Western Allies was already evident. British and American policy makers disagreed on their proposals towards the Reparation Plan. The American estimate of the future level of German exports was fifty percent higher than the British one. By the end of the negotiations in March 1946, it was the British estimate that dominated. The Levels of Industry Agreement was supposed to maintain a cap on the German output, comparable to the standard of living according to that of Europe's in 1936. The proposal although inconsistent in some provisions resulted in setting a limit on the permitted level of capacity and output of German industry. Anything in excess to the permitted level would be considered as surplus and was liable to be paid as reparations (Caincross 1986; Milward 1992). The significance of this agreement lies on the fact that in theory British exports could have benefited from the pre-war levels of German trade, taking into consideration that Germany was liable to forgo plants as reparations.

Britain aimed in benefiting from the defeat of Germany by improving the capacity of its own industry, something that failed to do so in the long run. The German steel industry was one of the main areas which the British concentrated their efforts on. In order to acquire the blast furnaces of the Salzgitter steelworks and integrate them into their own steel making industry, they set a limit in the future German steel capacity which featured prominently in the Potsdam

Agreement (Milward 1992)¹⁸. Essentially the gain would be twofold for the British, on the one hand improving the capacity of their own steel industry and on the other depriving Germany of a vital component for the production of war machinery. The permitted level of German steel production that was agreed on, set “an arbitrary limit of 7.5 million tonnes annual capacity and 5.8 million tonnes actual output” (Milward, 1992, p. 402). The British demand for the fortification of their interests was a German output of 12 million tonnes of steel per annum, a rather unreasonable level much to the dismay and disagreement of the American negotiators.

The British demanded, to classify the production of civil aircrafts as part of the armaments industry. This claim aimed at fortifying their own aircraft industry and securing it from any future German competition. The same applied to the shipbuilding industry, an industry which already suffered in the post-WWI period. The British objective was to diminish German shipbuilding to small ships such as coasters until at least 1949 thus influencing directly the level of potential trade.

The British Ministry of Supply collaborated with the British industry leaders in order to select specific machinery suited for the needs of the British steel, chemicals and textiles industries (Farquharson 1996; Milward 1992). To achieve the desired boost in its post-war export drive, the British government steered their reparation claims towards the general policy line of minimizing German trade interference¹⁹. To safeguard British engineering exports, the German engineering output had to be reduced to one-third of its pre-war level production (Caincross 1982).

The Reparations Plan permitted Germany to increase its exports on certain manufacturing products past the 1939 level, in order to compensate for the imminent reduction in the exports of steel, engineering products and capital goods. Concessions were allowed on consumer goods that were relatively smaller in value, such as textiles, paper and toys among others. The British government believed that this trade off in export goods would positively influence the future of British exports.

¹⁸ Milward explains that the use of blast furnaces of the Reichswerke Herman Goering served to make use of low-grade iron ores and there was the potential of being perfectly integrated in the already existing steeling making production from low-grade midland iron ores pioneered by Corby by Steward and Lloyd in 1930.

¹⁹ The general consensus from the part of Britain was to ensure a peaceful future for Europe and at the same time, since the opportunity presented itself, to benefit from the acquisition of German industry and technology. Considering this, it run counter to the early American policy which aimed at destroying once and for all Germany's industrial potential. Plans such as the 'Morgenthau Plan' where excessive in the British opinion. A deindustrialized Ruhr would simply become a burden to the British taxpayer.

In May of 1946, General Clay²⁰ ordered the discontinuation of dismantling German industry within the American occupation zone, citing as the reason that Germany would be treated as a unified economic zone (Gareu 1961). Further dismantling would occur when Germany was to be treated as a single economic zone. Through the economic unification of Germany, a prosperous and, more importantly, self-sufficient environment would be created. The American view indicated that the means to acquire essential imports should precede the payment of any reparations. This unilateral veto was considered unfair by the rest of the Allies, not just the Soviet Union. But Britain reluctantly felt the pressure to comply with the American policy (Farquharson 1996). The unsustainability of the American policy was becoming evident: “between May 1945 and January 1947 the US zone alone received, among other commodities, 1.8 million tons of foodstuffs from abroad at American expense” (Farquharson, 1996, p. 366).

Britain and then France shifted their views towards a viable German future. The British and French halted the dismantling of industrial plants in their respective zones of occupation in 1948. It is interesting to consider the United States policy of ceasing the dismantling process as a diplomatic move against the USSR hoping to gain political leverage against them. The Soviets refused to consider any plans of an economic unification of Germany. Such a unification required a relative freedom of movement for the German population living in all four occupation zones. Through economic freedom and the opening of their market to trade, the Germans would eventually once again claim their right to self-determination. Which was anathema to the USSR and the control it exerted over its satellite states. The dividing line between the East and the West, capitalism against socialism, was drawn at the expense of the German population.

Furthermore, the initial US policy towards a complete detachment of the industrial regions of Saar and Ruhr was abandoned in 1946 to keep the territorial integrity of what remained of Germany. A part of the Saar region was exempted due to the French claim to establish its economic authority over the region.

In 1947, when the Allied powers met in London and Moscow, they agreed on increasing the German industry levels. Russia and France favoured smaller increases compared to their

²⁰ General Clay’s move eventually led to the creation of the ‘Bizona’ with the British consent and later it expanded into the ‘Trizonia’, which included the French occupation zone. The Soviet Union disapproved of an economic unity between the different occupation zones. Eventually, the clash of policies between the US and the USSR, was one of the major causes of what would lead to what later was described as the ‘Cold War’.

American and British counterparts. France voiced heavy objections causing the negotiations to conclude in a stalemate. The US and the UK decided to raise the levels of industry in their own occupation zones, without the approval of all four powers. It is estimated that this change in policy “saved approximately 636 plants from dismantling and raised them from one-third to two-fifths” (Clay, 1970, p. 324). These 636 plants can be considered as a significant rise in both the levels of capacity and output. The increase in industry occurred in the sectors of metallurgy, chemical and general machinery. Industries which were specifically targeted two years before as potential threats for any future rearmament of Germany. The change of policy from the part of the British and American governments betrayed a feeling of remorse regarding the earlier levels of deindustrialization they imposed and proved their excessive character. The early plans for dismantlement were now considered inadequate to yield the necessary results for the economic sustainability of Germany.

The British dream of surpassing Germany’s industrial output exports was short lived. The European demand for capital goods in order to maintain the process of reconstruction surpassed expectations. It certainly exceeded the supply capabilities of the United Kingdom (Millward 1992). Although the British manufacturing capabilities were increased compared to those of 1939, it could still not meet the ever increasing demand. The ERP offered the US the necessary political leverage to pressure towards reducing the restrictions on German output. It resulted in decreasing the amount of German plants due for dismantling. In 1948, the London Conference permitted Germany to increase its steel capacity and output despite many objections especially from the French government.

Further revisions on the reparations agreement and the dismantling of German Industry occurred under the deteriorating relations between the USSR and the US, as well as the founding of the German Federal Republic. A highly influential factor in the revisions of the reparations policies was the implementation of the ERP. The American Public, alongside its politicians, considered reductions of the German industrial capabilities to be unreasonable, while at the same time it meant that subsidies through the ERP would have to be injected in the German economy. Doubts were cast whether or not the dismantling of German plants was in line with the ERP (Gareu 1961). It is evident that the American influence was strong enough, in order to reduce and discourage any further the deindustrialization of Germany.

The British were keen in revising their dismantling program in order to minimize the anti-British sentiment in Germany. Many of the plants which were intended to be dismantled by

1949 were in the British zone of occupation. The German public believed that the dismantling of German plants aimed toward eliminating a commercial competitor for the British manufacturers. In 1949, Chancellor Adenauer requested further concessions in reducing the level of dismantling. From 1949 onwards the restrictions on German industrial output were slowly reduced until they were altogether eliminated in 1955. In the case of East-Germany, the Soviets followed a much more ambitious dismantling policy, where they deprived the region of the vast majority of its plants.

The most significant consequence of the EPR was the realization that if economic aid was to be given to Germany, it would not appear logical to continue with the dismantling of German plants. In Bizonia the percentage of German plants that stood to be dismantled were lowered to 1% in 1947. Taking advantage of the American policy, the Germans pushed to minimize the dismantling of plants as much as possible in Bizonia. The EPR caused a shift in the dynamics of reparation negotiations. From 1947 to 1949, Britain did not materialize the reparations it demanded as the United States gave “priority to reconstructing the German economy rather than to reparations” (Farquharson, 1996, p. 377). This caused much grievance from the part of the British Board of Trade, while at the same time the failure of Britain to supply enough provisions to its own zone was the cause of much criticism from the US.

More importantly though, in many cases in the American occupation zone it was only machinery that was removed from the plants. By leaving the plants intact, the security concerns over rearmament of Germany remained, to the dismay of the British. Looking at the bigger picture here, the US contributed directly to the future economic recovery of Germany, and of Western Europe, by allowing many plants to remain intact.

The Marshall Plan proved to be a turning point for the future of the US policy and the economic revival of Europe. Only two years after the end of WWII, the importance of an immediate economic revival in Germany was evident. Stalin refused to participate in the EPR program and dismissed it as being the means of a revival of Germany. This was true in economic terms, since the burden of Germany was becoming unbearable for the Western Allies. In terms of the Soviet policy, the EPR was largely used as a propaganda tool against the United States.

Chapter 5 – Economic Recovery in Post-WWII Western Europe

5.1 The British Paradox

Milward (1992) argues that the rate of industrial growth declined in Britain during the post war years although income and employment grew. The British economy was growing at a much slower pace than the rest of the continent. Comparing the six EEC member countries with Britain, industrial output was higher in the former countries as well as labour productivity: “In 1950 British manufactured exports were one quarter of the value of world manufactured exports” (Milward, 1992, p. 396). Furthermore, national income declined and GDP grew at a slower rate compared to the Federal Republic of Germany and France. British GDP for the 1950-60 period grew at an annual average of 2.7%, lagging behind that of its competitors at the time, with France’s GDP growing at a 4.6% annually and the most impressive being that of the Germany’s with 7.75% per annum. By 1939 British and German industry were equal competitors in the world market both in terms of productivity and output. Comparing the two national levels by the end of the 1960s, Germany had outperformed the British industry, especially when taking into account the defeat of Germany in WWII which almost led to the complete annihilation of its industry.

The political implications of the decline in manufacturing were very important. It increased the level of national pessimism in Britain and further alienated its population not only from Germany but also from the rest of the continent. In France and Germany, consumers had the opportunity to enjoy a larger number of goods. British welfare declined in terms of material goods and with that the feeling of moral superiority, which was evident through the early 1950s, started deteriorating. The victors of WWII were unable to comprehend the “German economic miracle” and how the defeated nation surpassed them in GDP levels.

The main cause of the German economic boom was its productive industrial manufacturing. German industry became almost non-existent soon after the end of WWII, which could well be the cause of such an immense increase in industrial output in the 1950s. In contrast to the case of Germany, the rebuilt process was not so successful in Britain, who also suffered excessive losses in its industrial capacity, such as the annihilation of the industrial city of Coventry.

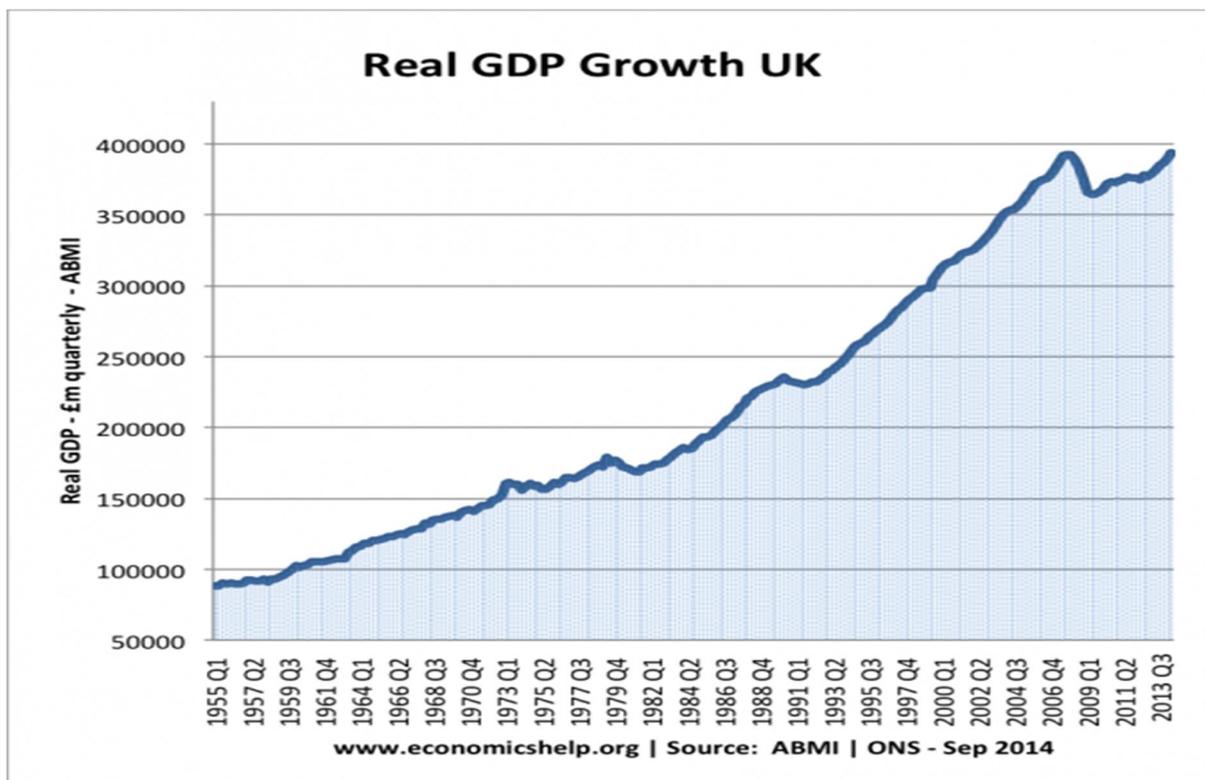
The causes of the poor performance for the British manufacturing industry were manifold as Milward (1992) states: “lack of investment, inefficient investment; the failure of the banking system to provide credit; lower labour productivity; a refractory labour force; poor management; an antiquated system of labour relations; poor business organization; a feeble entrepreneurship; shoddy goods; an inattention to export markets; inadequate research; excessive attention to pure research and not enough to actual process of manufacturing; lack of interest in labour training and technical education; high military spending; and government policy.” (Milward, 1992, p. 397). These are the most important causes among others. The general feeling of the past successes that was widespread among the British society is a major reason why industry declined. The entrepreneurs and politicians of the time diverted their attention away from the industry. Believing that social success lied in other activities, such as services which were not so well developed as they are today, manufacturing was overlooked which offered Britain significant gains from the 1700s until the period before the outbreak of WWII. Excessive military spending on the other hand should have offered a small boost in the British economy, but still the means of research and development were outdated leading to inefficiency and as a result economic losses.

The heavy blame lies with the British government and businesses, which were incapable of taking advantage of a favourable towards them situation and exploit it to its fullest potential for their own benefit. Germany suffered the restrictions imposed on its industrial capacity and output, heavy losses on land and human labour and the ruined trade networks. “Compared to Germany, the United Kingdom was in a favourable position to achieve much in terms of industrial output. It was given ample opportunities which were unfortunately wasted and instead of dominating in the European market, somehow it retreated” (Pollard, 1983, p. 1010).

After 1948 and the elimination of many restrictions on German exports, the threat towards British manufacturing increased. A protectionist sentiment arose, which betrayed the deep level of intimidation that the German industry projected. Even the car industry in Britain, which in theory should have reap the benefits of the German reparations was threatened. The Volkswagen plant was considered too large to be successfully integrated with any of the existing British car manufacturing firms. The removal of restrictions on the German scientific instrument industries led to a dark realization that British firms would not be able to compete with their German counterparts. Despite government subsidies and a period of freedom from German competition, they were unable to compete on the same terms (Milward 1992).

The same fate awaited the British steel industry. Despite the four year period which remained undisrupted from German competition and increasing its capacity, a feeling of defeatism swept across the whole industry. To provide the necessary space for the return of the German steel industry a shrinkage on the British one had to occur. The mistake of the British firms was to undermine the relationships they could built with the importing markets of mainland Europe. Instead they shifted their focus towards the commonwealth countries, which had as a result the stagnation of British trade for the 1951-4 period (Milward 1992). That was a big mistake from the part of the British policy makers. Instead of focusing on the markets of mainland Europe and competing with the German firms they shifted their focus elsewhere, giving the necessary space for the German industry to prosper. The illusion of the “safe” markets which Britain chose, proved unprofitable in comparison to the risks which Germany took, which paid dividends in the end. Germany “piled up a surplus on commodity exports of \$10,65 million between 1951 and 1958, most of it earned in Western Europe” (Milward, 1992). The success of Germany in Western Europe became their platform of expansion towards the global markets and the reluctance of Britain to compete with the German industry in Europe, also proved to add to the German success internationally in the long run.

Despite the shortfalls of the post-WWII British economy, real GDP grew consistently from the mid-50s until the recent global recession in the mid-00s, as we can see in the table below.



Retrieved from: <http://www.economicshelp.org/blog/11697/debt/post-war-boom/>

5.2 French Economic Recovery

The most important question facing France in 1945 was *how to rebuilt France?* The German occupation had a profound effect, both politically and economically, upon France. Although France, technically, emerged victorious from WWII, its economy, society and infrastructure were utterly ruined. Food supplies were low, due to the ransacking of the German army, inflation sky-rocketed and the economy was virtually non-existent. The coherent policies of the French government, especially the Monnet Plan, alongside with the aid received from the ERP and war reparations received from Germany contributed towards the economic recovery of France in the post-WWII period.

In the aftermath of WWII, Jean Monnet proposed the *'Monnet Plan'*²¹. The main incentive was the economic recovery of France with the aid of German resources seized as reparations for WWII. German factories were dismantled and moved to France and the coal-rich and industrial region of Saar was occupied by France for the period 1947-1956²², becoming the Saar Protectorate. The resources and production of Saar offered France a much needed boost to rebuild its industry. The initial plan aimed at increasing French industry at 150% of its pre-war level, using coal and steel from Ruhr and Saar.

The decisions taken in Potsdam, without the participation of France, were not far removed from French expectations, especially the restrictions imposed in Germany's industrial output and capacity. "The full range of French proposals for the future of Ruhr was first placed before the British in 1945" (Milward, 1987, p. 128). The proposal aimed at establishing an international state which included the coalfields of Rhine, governed by delegation comprising of French, British and Benelux representatives, far removed from American and Soviet controls. Milward argues that "to subtract Ruhr from Germany would permanently weaken the German economy to the point of Danger" (Milward, 1987, p. 128). The implementation of such a policy would only resulted in repeating the mistakes of Versailles. The American and British views were, obviously, negative towards the plan France proposed. The French motives behind the proposed future of Ruhr were simple, French steel production and output would have increased at the expense of steel production in Ruhr. It was Monnet's early ambition that French

²¹ Not to be confused with the wider known "Monnet Plan" of 1950 regarding the European Coal and Steel Community.

²² France retained the right to extract coal from Saar until 1981.

economic recovery would be based on the notion that France could become Europe's largest steel producer. The detriment of German exports in all industries would provide the necessary impetus for France's exports. The early Monet plan tied the future of French economic recovery with that of Germany's, or the lack of a significant German recovery. Although it fell through in economic terms, it set the future for French foreign policy.

France compared to the United Kingdom had a series of much more coherent restructuring policies (Milward 1992). The Policies adopted at the time, supplemented by the dismantling of the German industry until 1948, provided France with the much needed stimulus required to improve its economic conditions. The ineffective economic policies before WWII, had as a result the poor military organization, which caused France to fall victim to the Nazi occupation from 1940 to 1944. The determination of the French government not to allow such a catastrophe to befall them in the future and the strong feeling of animosity they felt towards the Germans had as a result a series of public funding policies targeted to stimulate economic growth. Milward very accurately comments that "in France the stagnation after 1933 was the cause of the political and military collapse. Up to 1953 state expenditure dominated investment in the French economy. Public funds financed 58 per cent of investment over the year 1947-52. The central bank's balances were mainly made up of low interest bearing treasury bonds; it was being treated, it complained, as the 'biggest bank on the square'" (Milward, 1992, p. 403).

The process of reconstruction for France caused a much needed modernization of its industry, together with the technology assimilated from the German industry set the prerequisites for the future of the French industry and its overall economy. In contrast to Britain where public investment, in the period after the end of WWII, was not highly sought after, in France it prevailed. The French government's planning machinery worked in precision, achieving the essential boost in economic activity and ridding France of the label of a "backward" economy, which had unwillingly adopted during the inter-war years. Overall it caused a sense of achievement and national pride among the French population which led to embracing a larger, more competitive international manufacturing sector. France embraced the European market and stood bold to the "economic" (this time) threat of Germany's fast recovering economy, whereas Britain retreated from Europe in search of less competitive markets.

Considering the importance of German coal and coke for the French steel industry, since the Lorraine blast furnaces were geared for German coal, the reparations agreement had a positive effect on the future production of French steel. In France by "1952 pig-iron output had reached

9.77 million tonnes. At that level total coke consumption by the industry had risen to 9.35 million tonnes, of which 5.50 million was domestically produced and 3.85 million came from imports” (Milward, 1987, p. 131). The majority of coal imports were made up by imports from Ruhr and France benefited from the generous “Allied allocation of 1 million tonnes of Ruhr coal a month” (Lynch, 1981, p. 163). The increase in French steel production had a spill over effect in the increase of domestic coal production, increasing its output “by 8.1 million tonnes from 1947 to 1951” (Milward, 1987, p. 131).

Milward (1987) argues against the implementation of the Monnet Plan. The direction on which it was focused, relied heavily on Mercantilist principles, where French industry growth would benefit from restricting the growth of German industry. The Monnet Plan was far removed from liberal internationalism, the main rationale was to make use of German resources and infiltrate German and International Markets at the expense of a weakened Germany (Milward 1987). Milward’s argument is correct to a large extent, but it fails to capture the advantage which Monnet offered to the French economy. The benefits of modernization in France not only created a stronger economically and politically France, but they extended to favour the whole European market in the years to come. European unity was not a main objective of Monnet’s policy in its early stages, it became important after April 1948 when Monnet realised it was a crucial US objective. It was then that he wrote to Schuman proposing a future cautionary policy. To avoid current dangers the “only possible solution was through the creation of a federation of the west” (Milward, 1992, p. 335).

Unwillingly, to a degree, and unknowingly (taking into consideration the future evolution of European integration) France played an integral role in promoting West European integration. It might have happened through the political pressure of the US and Britain, through the ERP and the economic unification of West Germany, but nonetheless it happened. One of West Germany’s main objective joining the ECSC in 1951, was to be rid of the French occupation. Reluctantly and without a full understanding for future implications, both countries benefited from each other. Without the coal from the Saar and Ruhr mines, French steel production would have been substantially lower and without the French influence, West Germany’s integration process might have been slower to launch.

5.3 West-Germany's Economic Miracle

For Germany, American and British policy to which France eventually had to conform, intended that after the unconditional surrender some form of national government would be created as quickly as possible.

The division of Germany into four zones of occupation proved to be economically unsustainable. By the late 1946 the political landscape was changing. The partition of Germany was proving to be an unsustainable financial burden, with British and American foreign aid becoming necessary for the survival of the German public. The merging of the three economic zones controlled by the Western Allies was deemed to be the most reasonable one. The political situation would stabilise and what was to become 'West Germany' would serve as a buffer zone, a bulwark of some sort, against the much feared Soviet expansionism. It was in the interests of Britain, for Germany to become a successful exporter so they would be relieved of the occupation cost.

The ERP, which proved generous enough for a number of European countries in conjunction with the economic unification of West-Germany which was agreed upon by the London-Six Power conference²³ of 1948, offered France as well as the rest of Western-European countries true incentives to abandon the destructive reparation policies in Germany. From 1948 to 1960 West Germany achieved a remarkable economic recovery, the *Wirtschaftswunder* (economic miracle) is a much debated topic among economists; the trade liberalization, the economic reform and the reconstruction boom which swept Western Europe after WWII, are all valid reasons for Germany's economic growth. Often the fact that the Allies discontinued their policy of dismantling German industry is often neglected, failing to appear as a major reason to Germany's miraculous economic growth. The Allies' policy of economic unity of the western occupation zones was the first step towards West Germany's continuous economic growth until 1960. For the period 1950-60 West Germany's "GNP grew at an average of 6% per annum and GDP rose at 8% per annum" (Eichengreen & Ritschl, 2008, p. 2).

²³ The London-Six Power conference, which took place in London in 1948, was a meeting between the three Western occupation Allies and the Benelux countries.

Adenauer's²⁴ adoption of the *social free market*²⁵ policy and the currency reform proved to be a success. "Output continued to grow by leaps and bounds after 1948. By 1958 industrial production was more than four times its annual rate for the six months in 1948 preceding currency reform. Industrial production per capita was more than three times as high" (Henderson, 2008). The lift on the restriction of industrial output, proved to be the necessary prerequisite for Adenauer's implementation of successful reform policies. As a result for the period 1949-60 industrial productivity achieved an upward trend. In 1949 industrial production increased by 24% and until 1960 it achieved a 15% annual growth rate of increase²⁶. The significant increase in the industrial output, would have been impossible without the change of policy from the Western Allies.

The industry sectors of mining, steel and energy benefited from the West German government's direct involvement in the planning process. Similar to the government intervention of France in the increase of its industry, West Germany achieved much through the implementation of coherent policies that fostered economic growth. This was the difference in the success of these two countries compared to Britain's decline of industrial growth.

Although the eastern European markets were lost to West Europe and subsequently to West Germany, foreign trade increased. For the period 1948-50, West Germany's foreign trade increased 84% and throughout the 1950s at an annual rate of 16%²⁷. Methodically, West Germany transformed its trade deficit into a trade surplus, exporting initially raw materials. By the late 1950s the main bulk of the exports revolved around manufactured goods. This was another long term effect of the lift of the Allies on the ban on German industrial output and exports. "The intra- Western European trade circuits recreated by West Germany's recovery provided a vigorous export market in 1949-50 for all West Germany's neighbours" (Milward, 1987, p. 471). The increase in trade benefited the whole of Western Europe, transforming at the same West Germany in an important exporter and importer in the West European Markets,

²⁴ Konrad Adenauer was West Germany's first post WWII chancellor from 1949 to 1963. "He led his country from the ruins of World War II to a productive and prosperous nation that forged close relations with France, Great Britain and the United States" Quoted from the BBC History Archive : http://www.bbc.co.uk/history/historic_figures/adenauer_konrad.shtml

²⁵ The Soziale Marktwirtschaft, or "social free market," based at Germany's University of Freiburg was a school of thought that opposed totalitarianism and had propounded their views at some risk during Hitler's regime. Its leader was Walter Eucken.

²⁶ Statistical data quoted from San Jose State University. Retrieved from <http://www.sjsu.edu/> (<http://www.sjsu.edu/faculty/watkins/germany.htm>)

²⁷ Statistical data quoted from San Jose State University. Retrieved from <http://www.sjsu.edu/> (<http://www.sjsu.edu/faculty/watkins/germany.htm>)

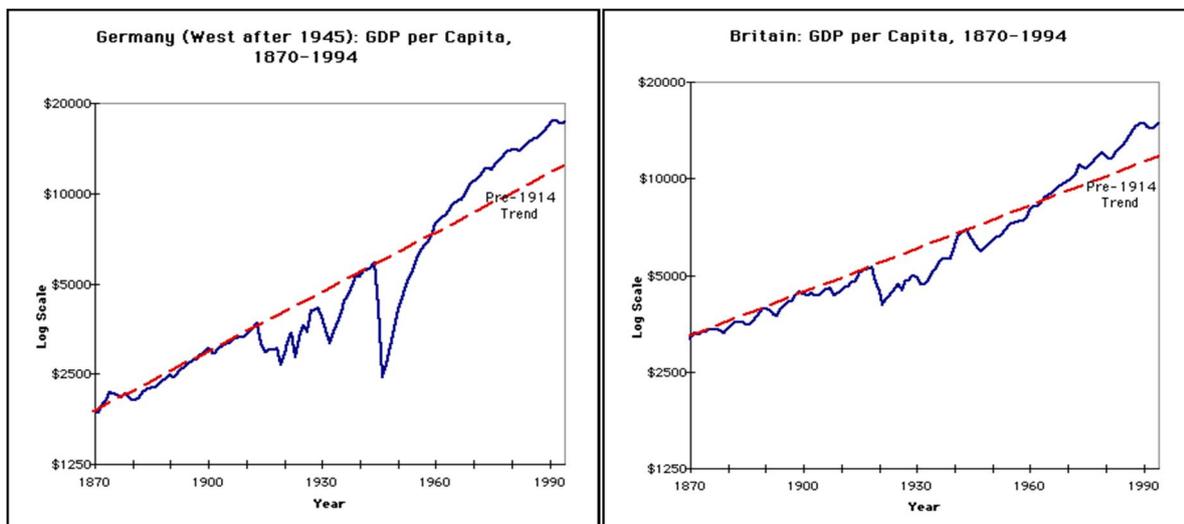
a position which Britain willingly but mistakenly vacated. Although to an extent it was necessary for Britain to seek trade partners outside the European market, the reluctance on the part of the British to embrace competition proved to yield substantial results for the future financial position of Germany in Europe and the world.

To what extent the *Wirtschaftswunder* was an actual miracle it has been disputed widely. Ludwig Erhard “never saw himself as a “miracle man.” He always emphasized that Germany’s rapid growth was due to a sound economic policy, in particular the implementation of a free economic system” (Reichel, 2002, p. 427). The economic historian Werner Abelshauser argued that the Germany’s growth was the result of a reconstruction boom after the end of the war (Abelshauser 1983). The currency reform of 1948, should be taken into account also. The *deutschemark* replaced the *reichsmark*, a valueless currency which caused what was left of the German economy to convert into a barter economy.

The termination of the Allies harmful policies of dismantling German industry, offered Erhard and Adenauer the opportunity to adopt the *Social Free Market* policy and alongside with the reconstruction boom, it created an unprecedented economic growth in West Germany during 1948 - 1960.

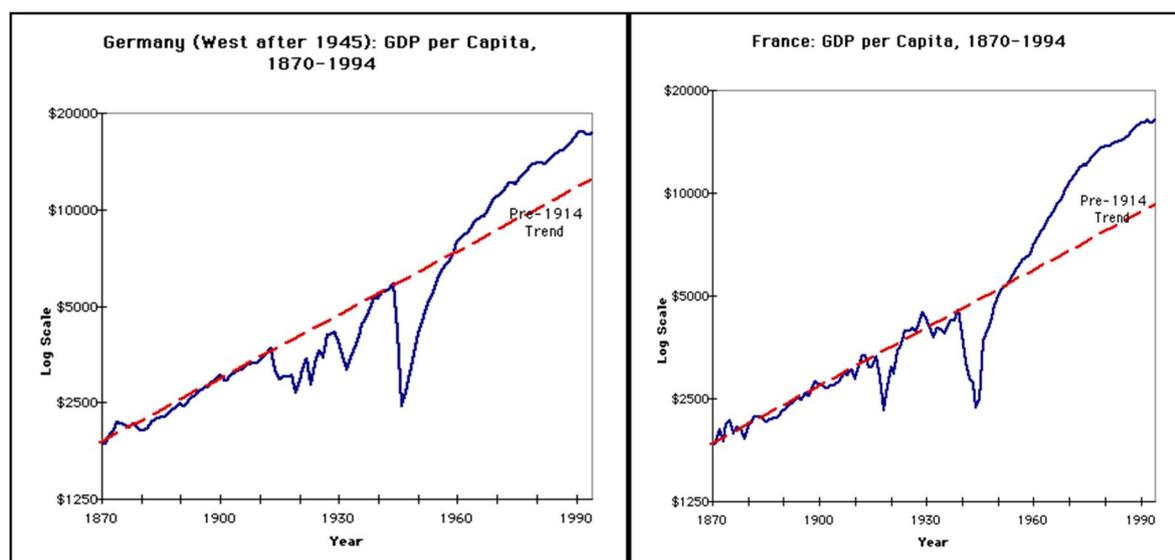
5.4 Comparing West Germany to Britain and France

Comparing the post-WWII economic performance of West Germany against that of Britain, as we can see in the tables below, West Germany achieved a higher GDP per Capita growth from the 1950s onwards.



Source: (DeLong, 1997)

France's GDP per Capita is similar and even a bit higher than West Germany's in the post-1950s period, as we can see in the table below. The reasons for France's and West Germany's success and Britain relative failure, can be considered to be the emphasis to maximizing their industrial capacity and their devotion to modernization.



Source: (DeLong, 1997)

Britain's slower growth rates, as mentioned before in the beginning of this chapter, are manifold. But two of the most important reasons are the lack of attention to their industry and their reluctance to engage in the competitive European markets. Considering that increased competition yields many benefits, such as increasing efficiency and achieving modernization, Britain missed a significant opportunity to become, maybe, the most dominant post-WWII European economy.

Chapter 6 – The Problem with ‘In Kind’ Reparations

Soon after the end of WWI, Milton Keynes argued against the reparation policy, imposed upon Germany by the Allies in the *Versailles Treaty*. He proposed for the minimum war debts to be levied on Germany for the sake of the future prosperity of Europe. In his book ‘The Economic Consequences of Peace’ he offered a comprehensive narration of the fallacies, which the European nations succumbed to and their destructive economic outcomes. He also proposed that the US should provide Europe with financial aid, a plan very similar to the Marshall Plan, which was implemented soon after the end of WWII. The policy of imposing immense war debts and extracting reparations proved counterproductive and destructive for Germany and Europe, as the weakened economic conditions contributed to Hitler’s ascent to power and subsequently to the war that followed.

Similarly, in the case of WWII reparations, the policies proved early on to be unsustainable both for the Allies and Germany. More specifically there are certain unique conditions that reparations ‘in kind’ generate. Although there is no conclusive study concluded with empirical evidence associated with the costs and benefits of reparations ‘in kind’, there are obvious problems arising through the process of claiming them.

The country most affected is obviously the country which is required to pay the reparations. In this case Germany. The living standards decreased dramatically for the Germans, since their industry suffered dismantling and heavy restrictions were imposed on its output and capacity. Maybe one of the most immoral practices of the Allies, were to purposely reduce the standard of living of Germany, to that of the pre-war levels. Through the worsening living conditions, the cost associated with maintaining the German population alive in their respective occupation zones increased for the allies, which ultimately led to the implementation of wrong policies.

A major obstacle in the process of feeding the German public was the scarcity of working farms in 1945. The devastation of WWII had spread throughout the countryside annihilating much of what it could be used as agricultural land. Also through the heavy reliance on agriculture the Allies unknowingly aided the Nazi agricultural institutions and their practices to remain active for a time. “Both British and American control officials retained, on an ad hoc basis, agencies of the former Reich Food Estate. German farmers continued to speak habitually of their *Kreisbauernführer* (district farm leader), as late as 1947, though by that time democratic farmer’s meetings had been revived. Nazi agricultural institutions for production, collection

and distribution of food thus all remained, though British denazification screening changed much of its personnel” (Schaulch 1985, p.543)²⁸.

The very aim of denazification is threatened since “the harsh effects of industrial disarmament make it difficult for a democracy to apply such a program after time has dissipated the initial hatred endangered by war” (Gareau, 1961, p. 531). When the occupation forces act as tyrants depriving the land of its industrial capabilities, it is understandable that the local population will default towards political beliefs opposing the occupation powers, in this case the Nazi regime.

On a political level the reparations policies caused much distain and disagreement among the Allies. Issues over which industries were directly involved with armaments production, the extent to which the dismantling would occur and how long it would last, magnified after the Potsdam conference. The Potsdam treaty revealed many disparities between the Allies on the exact manner of economic reconstruction and the actual reparation claims. It was stated that “Germany would be treated as a single economic unit” and that “common policies must be established” (Van Wagenen, 1948, p. 79)²⁹. The policy of economic unity soon after Potsdam collapsed, revealing the fragile and uncomfortable nature of the Allies’ cooperation³⁰.

Moving on, considering the practical side and the economic costs of industrial disarmament, they appear to be unsustainable and an inefficient way of transporting reparations. Often industrial equipment is suitable only for certain regions and their climate conditions, therefore the dismantling and re-erecting of industrial equipment in a new region might lead to loss of efficiency. Also the shipping of the industrial parts in a new location, as well as the cost of re-erecting it might prove too expensive. The possibility of the equipment being damaged, whilst being transferred should be taken into consideration as well.

Overall the economic, political and social costs associated with the industrial disarmament proved to be unsustainable. The allies were quick to react and change their policy to accommodate future cooperation rather than distancing.

²⁸ For further explanation please refer to the Appendix, point 1

³¹ Van Wagenen quotes Article III, Sec B14 of the Potsdam Treaty.

³⁰ For further explanation please refer to the Appendix point 2

6.1 Controversy over Human Capital Reparations

Perhaps the most unsettling and controversial part of the reparations policy was the provision to include forced human labour in the reparation provisions and the use of ex-Nazi scientists employed either by the USSR or the US.

It was the Soviets that demanded German captives to be used in labour camps in order to provide the necessary man power to rebuild the destroyed infrastructure in Eastern Europe. An immense part of the Soviet human capital perished during WWII and a large part of their industry was damaged beyond repaired, due to the German aggression. The Yalta protocol included the clause for German prisoners to be used as labourers and it was sanctioned by Churchill and Roosevelt³¹. France, the US and Britain made use of German POWs, despite the public outcry, but by 1948 the US and Britain released most of the captives, followed by France in 1949³².

The use of German scientists after the end of WWII, became an issue of much public debate. The US and the USSR were the countries that employed the most Nazi scientists through the operations *Osoaviakhim* and *Paperclip* respectively. The reasons were to improve their technological know-how and deny each other to gain the advantage in space technology. In the case of the US, controversy arose over the issue over the level of involvement in Nazi practises some the German scientists had engaged in. It undermined greatly the process of denazification of Germany and concerns over the US using double standards were voiced.

³¹ Paragraph 2, point C “Use of German Labour” from the Crimea (Yalta) Conference protocol

³² For further explanations on the Forced Labour issue refer to the Appendix, point 3

Chapter 7 – Does Germany Still Owe to Greece?

“The intermediate is not in object, but in relation to ourselves”

Aristotle, Nicomachean Ethics, Book 5³³

A legal analysis³⁴ although in this context is important, it is outside the scope of this chapter. Instead a brief overview of the discussion surrounding the occupation loan will be presented and the reasons why the negotiations are still at a standstill.

Currently there is no official bilateral agreement on the present value of the loan, therefore valuations vary significantly. From the part of Greece the general consensus argues for a figure large enough to alleviate the current debt crisis in which Greece is in, even to completely pay it off. From the part of Germany no official estimate is provided, since they claim all war indemnities and debts issues have been settled in the London conference of 1953.

The Axis occupation of mainland Greece lasted from 1941 until 1944, and until June 1945 in some Aegean islands and Crete. During the period “Germany and Italy forced the Bank of Greece in 1942 to provide vast credit facilities for financing their armies” (Christodoulakis, 2014, p. 1). The decision was taken in the fiscal Conference held by the Axis powers in Rome in 1942, determining the occupation expenses to reach a “maximum of 1.5 billion GRD³⁵ while any further credit would be debited for the Bank of Greece” (Bank of Greece 1947; Christodoulakis 2014). The loan can be considered to be a form of expropriation, since in the board of the Bank of Greece there were commissioners representing the Reich and Italy and

³³“Under the Aristotelian concept of compensating fairness, an injustice is removed in a way that makes the situations of both parties similar ex post; though it is emphasized that this is not an absolute concept and it should be calculated with regard to the current status of each party”(Christodoulakis 2014, p.44).

³⁴The Hague Convention permits occupation forces to expropriate public assets of the occupied country to compensate for the occupation costs inflicted by their army. As long as the expenses are of the administration of the occupied territory remain at pre-occupation levels as determined by the legitimate government and do not escalate to pillaging, private property is forbidden to be confiscated (Christodoulakis 2014). Therefore the Articles 46, 47, 48 and 53 provide the degree to which a country can be pillaged legitimately. In WWII the Axis powers were in clear violation of The Hague convention, imposing demanding expropriation tactics, seizing and looting amounts of cash and resources far greater than the legal levels.

³⁵The exchange rate of the Greek Drachma to the Euro was fixed in 19 June 2000, at the rate of 340.750 drachma to the euro.

were in charge of the monetary and banking policies, therefore it is fair to consider the loan as a “Forced Occupation Loan to Germany³⁶” (Christodoulakis, 2014, p. 4).

Soon after the FOLG was extracted, the Axis powers advanced in North Africa, resulting in an increase of their operational expenses. Inflation was high in Greece and it increased further, due to the occupation powers demanding larger amounts of money to finance their expenses. “Inflation increased 15.3 million times, during the 1940-1944 period” (Iliadakis, 2002). The initial agreement for the FOLG was amended, forcing the Bank of Greece into printing new money and further fuelling the existing hyperinflation (Mazower 1994; Bank of Greece 1995). Furthermore, “on December 1942, the amount of occupation expenses was raised to a maximum of eight billion GRD, adjusted for inflation, and if any further disbursements exceeding that limit would take the form of a loan. On 18 May 1943, the above ceiling rate was abolished and raised the reference inflation rate for adjusting the amounts received” (Christodoulakis, 2014, p. 4). This provision essentially meant that the real rate of return was effectively zero. It transformed the FOLG into a kind of normal credit facility.

Although the agreement for the FOLG was in fact unorthodox, Germany had already made 19 payments before the end of the war, underlying Germany’s full obligation of repaying its debt³⁷. It is important to note, that in the FOLG agreement, there is no clause specifying the rate of interest on the payable instalments or any surcharge. Therefore, one can assume that the FOLG was charged at a 0% interest.

The FOLG can be considered as a form of ongoing credit facilitation, meaning that it was not covered in by the agreement on the German External Debts, of 1953 in London. Considering this, Greece still has a valid claim on the FOLG. The reasons why no negotiations to settle the FOLG are plenty with the most prominent being the ineffectiveness of Greek politicians to pursue policies what would have benefited their country³⁸.

In contrast to popular belief, Greece never agreed to write-off the Occupation Loan. The timing was rather unfortunate for Greece to engage in meaningful negotiations after the end of WWII. The reason why, is the civil war that commenced in Greece soon after the end of WWII. “The

³⁶For brevity the Forced Occupation Loan to Germany will be referred to as FOLG.

³⁷ It is also important to note that, on 25 October 1943, Rome capitulated and Germany took over the Italian share of the FOLG. Appendix 2, Figure 1 offer a graphical representation of the occupation cost of Italy and Germany and their credit shares accordingly.

³⁸ It has been speculated that the FOLG claim were dropped by Karamanlis, former Prime Minister of Greece, in a secret negotiation with the former German Chancellor, in the 1958 summit. Although it sounds a lot like a conspiracy theory, the truth often is found somewhere in between myth and reality.

civil war was ideal for the Germans...we read in the German accounts of the period: Thanks to the civil war and the crimes³⁹ committed by the communists, the events and memories of the occupation were concealed” (Fleischer, The 1953 London Agreement, 2012a). Attempts to engage in negotiations in the summit of 1958 and then again in 1965, proved unfruitful. Furthermore the political landscape in Greece underwent significant changes. Resulting in the post-civil war fragile order, being demolished by the military coup of 1967 and the Junta regime that lasted for 7 years.

From 1974 onwards, the issue of the FOLG was raised sporadically and in an informal context and was magnified again in 1990, brought upon by the reunification of the Germany. In the Two-Plus-Four Treaty, the issue was brought forward once again. The treaty failed to include any provisions for the FOLG, which was now considered void⁴⁰. The matter was appealed to international courts, but with not avail. In 1998 and again in 2001, the FOLG issue was raised gain but with no success. As Fleischer notes: “it looked as if the Greek side had run onto an invisible wall” (Fleischer, 2011).

Recently the issue reached its highest popularity in 2010 with the events of the Eurozone crisis, leading to the Bailout Agreement. The events that led to the almost catastrophic collapse of the Greece, charged emotionally the political atmosphere of the EU. The FOLG, although taken out of context⁴¹ often, it became the flagship in the political battle against the harsh austerity measures. It was Greece’s last desperate attempt to safeguard its damaged pride through a voice filled with desperation, due to the fact that negotiations on the Greek debt were characterised by the ineffectiveness of the Greek politicians and also the proposals of the German side, resembled more ultimatums rather than viable solutions for Greece, resulting in reviving the ghosts of the Nazi occupation.

As it was shown in this chapter the issue of the FOLG, was never forgotten or resolved. Valuations on the exact price of the FOLG, vary greatly. In 1944 prices, its value reaches “\$228 million...with an annual premium of 0.50%...the present value of the FOLG would be \$12.9 billion at 2012 prices. Under recent exchange rates, this becomes Euro 10.50 billion at 2012

³⁹ The choice of the word “crime” is rather poor but understandable, since the world was dichotomised soon after the end of WWII, the cold war commenced. With both sides expressing strong feeling of discontent and hatred against each other. In the case of the Greek civil war, it is still highly disputed which side committed the worst atrocities and, which side is to blame for the beginning of the civil war.

⁴⁰ Although Chancellor Erhard committed himself into repaying the FOLG in 1964, after Germany’s reunification.

⁴¹ Many Politicians and Journalists as well as the public was under the impression that the discussion revolved around the WWII reparations, which were settled, long before.

prices” (Christodoulakis, 2014, p. 43)⁴². The treaties of 1953 and 1990, clearly state that the matter of the war reparations is settled. But the counter-argument proposes that the case of this loan is unique in Europe. “The monies extracted from the Bank of Greece were not formal loans that could be said were written off in 1953 or in 1990. They were extracted under what we might call today an ‘Ongoing Credit Facilitation’ mechanism that was acknowledged as such by the German authorities at the time and, as such, are not subject to any unilateral write-offs” (Varoufakis, 2013)⁴³.

At the time of writing of this paper (2016), 3 bailouts have been issued to Greece with little effect towards the reduction of the Greek debt. It is probably a matter of time, until a portion of the Greek debt is trimmed, for the remaining debt to be restructured and become viable. For the sake of unity and cooperation within the Eurozone and the EU, in light of the representing values of the European ideal and for the greater good of eliminating the negative labels for both Germany and Greece; bilateral negotiations would serve in resolving the issue once and for all. The resolution of this issue will extend beyond the scope of trimming the Greek debt and will serve as a stepping stone towards stabilizing the current fragile political climate in Europe.

⁴² A highly overestimated valuation of the FOLF was proposed to be around 2 trillion euros. The estimate was offered by Albrecht Ritschl, professor of economic history at the London School of Economics in an interview in 2014.

⁴³ Varoufakis made an interesting proposal in 2013 that was largely ignored, but would have offered a first step towards the much need discussion of the FOLF issue. “So, here is the simple proposal: The German government conveys to its constituents, to the German public, that Germany has a responsibility to make amends for the ‘overdraft facility’ that was imposed upon the Central Bank of Greece by German authorities. It offers Greece a cashless agreement according to which the two credit facilities will cancel each other out, thus effecting an immediate reduction in Greek debt of around €40 billion. The German government can add, in its missive to German citizens that the proposed ‘deal’ will, in the end, have been paid by monies the federal government has earned due to the implosion of the bond markets of countries like Greece.” (Varoufakis 2013).

Chapter 8 - Conclusion

In Europe the Second World War ended in 1945, but the discussion on the war reparations is still significant to this day. The recent Eurozone crisis revived the ghosts of the past. In the case of the most badly affected country, Greece, the question on whether or not the issue of the German war reparations is settled, remains unanswered. Public opinion divided and the media reported vividly the war of words the Greek and German governments engaged in. As it was mentioned in Chapter 7, the case for reparations is settled, but the issue of the occupation loan still haunts the diplomatic relations of Greece and Germany. It would be in the best interests of both parties to engage in negotiations towards resolving the issue, since the occupation loan has been largely taken out of context and used as a tool of political propaganda to attack the very unity of the European Union. The willingness of Germany to engage in negotiations would serve to restore the damaged image of the EU in terms of genuine solidarity. Also it would serve as a reminder that Germany did not forget its history, as the willingness of the Allies to grant Germany the necessary leeway to restore their polity and economy, offered Germany the opportunity to achieve the economic feats it has.

Soon after the end of WWII, the reparation policies the Allies implemented were excessive. The degree of devastation the Nazi army caused was unprecedented, the losses in terms of human lives and material possessions were immense. Thus resulting in the harshest measures taken by the Allies. The reparations were not only a form of compensation, it was also a form of revenge against Germany for the atrocities of WWII. The question arising from this discussion, is whether or not the German public were to blame for the Nazi regime. Also one has to consider, to what extent their punishment for their involvement in WWII, was justifiable. Adolf Hitler, committed suicide, before he could be arrested. Thus, the main orchestrator of the Nazi regime escaped punishment. Many Nazi officers, escaped prosecution by fleeing Germany and some Nazi scientists were employed by the Allies as the signs of the Cold War first appeared. The ones that were arrested, were either executed or sentenced to life imprisonment. Undoubtedly the ones that suffered the most were the ordinary German citizens, many perished in labour camps and others of famine. When judging the situation by today's standards, the punishment inflicted upon Germany was severe. But once we compare it to the annihilation the Nazi war machine caused adjoined to the outlook of the winners' right after the end of WWII, the punishment seems to be excessive. It is unfair though by any means to attach the 'Nazi' label to the vast German population, as many were caught in the midst of a

war where the basic notions of humanity often failed to materialise. The end of the reparation policies, was the cause of their economic inefficiency, rather than any moral and humanitarian objection from the part of the Allies.

As it is analysed in Chapters 3 and 4, the reparation policies were abandoned by 1948 from the Western Allies, once realising that a strong economically Germany is more useful to them. In the case of the USSR the policy of dismantlement of the German industry continued until 1953, contributing to the broader fallacy of the 'Planned Economy' model, the USSR followed. Germany became the ground zero of the Cold War, the natural border of Western Capitalism from one side against the Soviet Socialism from the other.

The economic gains were significant for France particularly. The acquisition of German industry and the implementation of the Monnet Plan, modernized completely the French industry and set the base for future economic prosperity. As it was observed in case of Britain, the years following the end of WWII, saw Britain retreating from the European markets, afraid to engage in competition. Also the national prestige for the British no longer could be associated with wealth being generated from industry, the attention shifted towards the services sector. These two reasons, in combination with the ineffective government policies contributed in depriving Britain of a great opportunity to reclaim the status of a leading industrialiser in Europe.

The gap generated by the absence of Britain in the European markets was soon filled by a fast recovering West Germany. The German economic miracle was a combination of factors, such as the reconstruction boom after the end of WWII and the implementation of the Social Free Market model. None of these would be possible for Germany without the termination of the reparations policy and the abandonment of industrial disarmament by the Allies.

As it was argued in Chapter 6, industrial disarmament proved to be an inefficient method of extracting war indemnities. A plethora of socio-political and economic problems arise from the process of deindustrialization of a country with such an industrial potential as Germany. "Industrial disarmament is unnecessary" (Gareau, 1961, p. 533), a policy of a complete military decommission is acceptable and when implemented with establishing commission to oversee the complete demilitarization of the economy and prevent any future rearmament is justifiable. Such a policy will serve to alleviate diplomatic tensions and reduce the feelings of animosity. In the case of Germany, the reparation policy of the Allies, transformed the aggressors of WWII

into the victims, offering Germany the diplomatic space to protest the dismantling of its industry.

As Gareau writes: “Traditional military disarmament, perhaps supported by a system of military and industrial inspection, will accomplish its purpose without the aid of industrial disarmament, and without the waste and ill associated with industrial disarmament” (Gareau, 1961, p. 534).

Perhaps, the most important outcome of the discontinuation of the reparations policy was the encouragement of the European nations to cooperate. A deep integration was achieved, leading to the creation of the first European institutions, such as the ECSC and the EEC, the predecessors of the EU. Often this integration process occurred unintentionally or unwillingly, nevertheless the outcome remains the same; the birth of the EU, a *sui generis* institution, hard to define in terms of conventional political concepts, which promotes an unparalleled degree of economic and political integration, within its member states. The termination of Germany’s industrial disarmament gave birth to the peace project that was to become the EU.

APPENDIX

Point 1(further explanation from chapter 6): The British policy makers found themselves in a difficult situation, having to deindustrialise their occupation zone and at the same time to manage a large enough food production in order to feed the German population. Their reluctance to completely uproot the Nazi agricultural institutions is justifiable, the need for food production was too great to experiment with other agricultural policies. Despite this, the actual demand for food exceeded its production capacity leading to tough measures from the part of the British. By 1946 the daily calorie intake for an adult male in a sedentary occupation was lowered to 1500 from 2500 and similar reductions in the calorie quotas for more men in more active professions occurred. Considering that a healthy workforce in active and labouring occupations require enough food in order to be productive, a reduction on the necessary calorie intake will affect their morale and it will limit their physical capabilities. As a result the level of production will eventually diminish. The example of coal production in Ruhr is sufficient to enlighten us. “Ruhr coal production fell off an average of 32,000 tons per day from February to March 1946, even though miners’ rations allowed them 2,900 calories per day” (Schalch 1985)⁴⁴. The calorie quote for active and very active workers before 1946 was between 3,000 to 4,500 calories per day.

The worsening food conditions affected all the labour intensive industries such as steel, coal and textiles production. The very nature of the “in kind” reparations and the deindustrialization of Germany was proving to be less beneficial than originally planned, at least for the American and the British. The economic unification of the four occupation zones was of paramount importance, to avoid mass starvation of the German population and minimize economic assistance from the Allies towards Germany. These conditions led to the creations of the “Bizonia” which economically united the American and the British occupation zones.

Point 2 (further explanation for chapter 6): The Potsdam Treaty provision on the economic unity of Germany was significant because it proposed common policies: covering the industrial management of the country; the monument of the agriculture and also the economic policies of price setting; trade provisions; and even the living standards. That is noteworthy is that soon

⁴⁴ Schalch quotes the report of the ‘Select Committee on Estimates: German Expenditures. 1946 xxi’

after, only the United States and the United Kingdom were prepared to follow a policy of economic unity among the occupation zones of Germany. It is evident that the political alliance between the three Western Allies and the USSR was rapidly deteriorating and even among the three Western allies, France stubbornly would continue to pursue the annihilation of the German industry until it had to conform with the policy line of the US and Britain. For the case of France the dismantling program offered an opportunity to converge to the industrial standards of the rest of Western Europe. It was the chance to modernise their industry at the expense of Germany, therefore they pursued the dismantling policy until their economic gains reformed to absorb the ERP.

Point 3 (Further explanation for chapter 6): France made use of German labour to clear mine fields, which many of them died or were maimed doing that. “By September 1945 it was estimated by the French authorities that two thousand prisoners were being maimed and killed each month in accidents” (MacKenzie, 1994, p. 501). Overall the French industrial expansion required 4,000,000 German labourers for 4 years to be employed in mining, agriculture, and rebuilding.

In Britain in 1946, “400,000 German POWs were held captive and up to one fifth of all farm work in Britain was being done by German POWs, and they were also employed on road works and building site” (Richards, 2011) Due to the public outcry in Britain and the debate in the parliament, by 1948 the Germans POWs who wanted to repatriated, were allowed to do so.

Noam Chomsky and Edward Herman (1979) debated on the moral implications of human reparation in his book "*After the Cataclysm: Postwar Indochina and the Reconstruction of Imperial Ideology*". He stated that “in Britain there were some 400,000 German POWs. By autumn 1944 they were being used for forced labour as a form of 'reparations'. Repatriation began in September 1946 and continued until the summer of 1948, over three years after the German surrender. After the war, too, the POWs spent the harsh winter of 1945-46 in tents in violation of the 1929 Geneva Convention. The POWs referred to themselves as 'slave labour', with some justice" (Chomsky & Herman, 1979, p. 36). The psychological states of the POWs greatly deteriorated, starting from a state of anxiety in 1946 and concluding to a state of depression and nihilism in 1948. Further on, Chomsky writes that "in the United States, as in Britain, prisoners were used for forced labor. Truman delayed repatriation for 60 days for POWs essential for the harvest. POWs performed 20 million man-days of work on army posts

and 10 million for contract employers (farm work, lumber, industry etc). Some were assigned to work at the Chemical Warfare Center at the Edgewood Arsenal in Maryland” (Chomsky & Herman, 1979, p. 37). It is evident that the forced labourers were used as much as possible by the Allies and released only once the public uproar was such that threaten their domestic political interests.

Bibliography

- Abelshauser, W. (1983). *Economic History of the Federal Republic of Germany, 1945–1980*. Suhrkamp. Frankfurt.
- Anton, J. (2011). *Greece, Germany, and the Complex Issue of War Reparations*. Mediterranean Quarterly, Volume 22, Issue 2, p. 11 – 19. Bank of Greece. (1974). Director's Report for the Years 1941 – 1946. Athens.
- Bailey, C. (2010). *The European Discourse in Germany, 1939–1950: Three Case Studies*. German History Vol. 28, No. 4, p. 453–478.
- Baily, M. & Kirkegaard, J. (2004). *Transforming the European Economy*. Institute of International Economics. Washington, DC.
- Bank of Greece. (1978). *The First Fifty Years of the Banks of Greece*. Athens.
- Bank of Greece. (1995). *The German Obligations Adjusted for Inflation*. Special Studies Division. Athens.
- BBC History . (2014). *Konrad Adenauer (1876-1967)*. Retrieved from BBC History : http://www.bbc.co.uk/history/historic_figures/adenauer_konrad.shtml
- Berlin (Potsdam) Conference, 1945. (1945, August 2). Berlin.
- Beyerchen, A. (1982). German Scientists and Research Institutions in Allied Occupation Policy. History of Education Quarterly, Vol. 22, No. 3, Special Issue: Educational Policy and Reform in Modern Germany, p. 289-299
- Carden, R. (1979). *Before Bizonia: Britain's Economic Dilemma in Germany, 1945 - 46*. Journal of Contemporary History. 1 July. Periodicals Archive Online p. 535 - 555.
- Carlin, W. (1994). *West German Growth and Institutions, 1945-90*. University College London.
- Comin, D. & Hobijn. B. (2010). *Technology Diffusion and Postwar Growth*. NBER Macroeconomics Annual.
- Chomsky, N., & Herman, E. S. (1979). *After the Cataclysm: Postwar Indochina and the Reconstruction of Imperial Ideology*. Pluto Press.
- Christodoulakis, N. (2014). *Germany's War Debt to Greece. A Burden Unsettled* . Palgrave Macmillan.
- Clay, L. (1970). *Decisions in Germany*. Greenwood Press.
- Cowen, T. (1985). *The Marshall Plan: Myths and Realities*. In D. Bandow, ed., *U.S. Aid to the Developing World*. Washington, D.C.: Heritage Foundation.
- Crimea (Yalta) Conference, 1945. (1945, February 11). Yalta.
- Deighton, A. (1993). *The Impossible Peace: Britain, the Division of Germany, and the Origins of the Cold War*. Clarendon Press.

- DeLong, B. J. (1997). *Post-WWII Western European Exceptionalism: The Economic Dimension*. Retrieved from <http://www.j-bradford-delong.net/>: http://www.j-bradford-delong.net/Econ_Articles/ucla/ucla_marshall2.html
- Eichengreen, B., & Ritschl, A. (2008). *Understanding West German economic growth in the 1950s*. London: London School of Economics and Political Science.
- Dornbusch R, Nolling W. & Layard R. (1993). *Postwar Economic Reconstruction and Lessons for the East Today*. MIT Press.
- Fogel, R. (2005). *Reconsidering Expectations of Economic Growth After World War II from the Perspective of 2004*. IMF Staff Papers, Vol. 52. IMF
- Farguharson, J. (1985). *The Western Allies and the Politics of Food. Agrarian Management in Postwar Germany*. Berg Publishers.
- Farguharson, J. (1991). 'The Essential Division'. *Britain and the Partition of Germany 1945-1949*. German History. 1 February. Periodicals Archive Online, p. 23 - 45.
- Farquharson, J. (1996). *Marshall Aid and British Policy on Reparations from Germany, 1947-1949*. Review of International Studies, Vol. 22, No. 4, 361-379.
- Farquharson, J. (1997). *Governed or Exploited? The British Acquisition of German Technology, 1945-48*. Journal of Contemporary History, Vol. 32, No. 1, p. 23-42.
- Fleischer, H. (2010). *The Occupation Loan and the German Obligation to Greece*. In Fleischer, H., *Occupation - Resistance* (p. 73 - 75). Athens.
- Fleischer, H. (2011, June 26). Interview. Epsilon.
- Fleischer, H. (2012a.). *The 1953 London Agreement*. Kathimerini Daily , October 14, p. 15.
- Fleischer, H. (2012b). *The Recognised Occupation Loan*. Kathimerini Daily, October 14. p.15
- Gareau, F. H. (1961). *Morgenthau's Plan for Industrial Disarmament in Germany*. Western Political Quarterly, 517 - 534.
- Glezos, M. (2006). *The Black Book of the Occupation*. Athens.
- Gimbel, J. (1975). *The Origins of the Marshall Plan*. Stanford University Press.
- Gimbel, J. (1990). *The American Exploitation of the German Technical Know-How After World War II*. Political Science Quarterly, p. 295 - 309.
- Gottlieb, M. (1950a). *The German Economic Potential*. Social Research, Vol. 17, No. 1, p. 65-89.
- Gottlieb, M. (1950b). *The Reparations Problem Again*. The Canadian Journal of Economics and Political Science. Vol. 16, No. 1, p. 22-41.
- Hansen, R. (2011). *War, Suffering and Modern German History*. German History Vol. 29, No. 3, p. 365–379.
- Harrison, M. (2013a). *Industrial mobilisation for World War*. University of Warwick .

- Harrison, M. (2013b). *Hitler's War and the German Economy: A Reinterpretation*. University of Warwick
- Henderson, D. R. (2008). *German Economic Miracle*. Retrieved from The Consise Encyclopedia of Economics : <http://www.econlib.org/library/Enc/GermanEconomicMiracle.html>
- Heller, W. (1949). *Tax and Monetary Reform in Occupied Germany*. National Tax Journal 2, no. 3, p. 215–231.
- Hilton, L. (2010). *The Black Market in History and Memory: German Perceptions of Victimhood from 1945 to 1948*. German History Vol. 28, No. 4, p. 479–497.
- Hirshleifer, J. (1987). *Economic Behavior in Adversity*. University of Chicago Press.
- Hogan, M. (1987). *The Marshall Plan: America, Britain and the Reconstruction of Western Europe, 1947-1952*. Cambridge University Press.
- Landauer, C. (1948). *The German Reparations Problem*. Journal of Political Economy, Vol. 56, No. 4, pp. 344-347.
- Iliadakis, T. (2002). *Reparations and the German Occupation Loan*. Athens: Pelasgos.
- Mosely, P. (1950). *Dismemberment of Germany: The Allied Negotiations from Yalta to Potsdam*. Foreign Affairs, Vol. 28, No. 3, p. 487-498.
- Keynes, J. M. (1919). *The Economic Consequences of the Peace*. Retrieved From: <http://www.econlib.org/library/YPDBooks/Keynes/kynsCP.html>.
- Klopstock, F. (1949). *Monetary Reform in Western Germany*. Journal of Political Economy 57, no. 4, p. 277–292.
- Lasby, G. (1975). *Project Paperclip: German Scientists and the Cold War*. Athenaeum
- Linz, S. J. (1984). *World War II and Soviet Economic Growth, 1940-1 953*. University of Illinois.
- London Shcool of Economic and Political Science . (2014). *Calling Germany on its hypocrisy in the Eurozone debt crisis*. London : London Shcool of Economic and Political Science .
- Lutz, F. (1949). *The German Currency Reform and the Revival of the German Economy*. Economica. 16 May, p. 122–142.
- Lynch, F. M. (1981). *The political and economic reconstruction of France 1944-1947 in the international context*. University of Manchester.
- MacKenzie, S. P. (1994). *The Treatment of Prisoners of War in World War II*. The Journal of Modern History, Vol. 66, No. 3., 487–520.
- Mallard, G. (2011). *"The Gift" Revisited: Marcel Mauss on War, Debt, and the Politics of Reparations*. Sociological Theory, Vol. 29, No. 4, p. 225-247
- Mazower, M. (1994). *Inside Hitler's Greece: The Experience of Occupation, 1941 - 1944*. Alexandria Editions. Athens.

- Mendershausen, H. (1949). *Prices, Money and the Distribution of Goods in Postwar Germany*. American Economic Review 39, June, p. 646–672.
- Milward, A. S. (1987). *The Reconstruction of Western Europe, 1945-51*. University of California Press.
- Milward, A. S. (1992). *The European Rescue of the Nation-State*. London: Routledge.
- Milionis, P. & Vonyó, T. (2015). *Reconstruction Dynamics: The Impact of World War II on Post-War Economic Growth*. University of Groningen.
- Orsi, R. (14, August 2015). *Weaponisation of War Memories and Anti-German Sentiment*. Retrieved from <http://blogs.lse.ac.uk/>:
<http://blogs.lse.ac.uk/eurocrisispress/2015/08/14/weaponisation-of-war-memories-and-anti-german-sentiment/>
- Paipais, V. (2013, May 8). *The politics of the German war reparations to Greece*. Retrieved from <http://blogs.lse.ac.uk/>: <http://blogs.lse.ac.uk/eurocrisispress/2013/05/08/the-politics-of-the-german-war-reparations-to-greece/>
- Pollard, S. (1983). *The wasting of the British Economy: British Economic Policy 1945 to the Present*. Journal of Economic Literature. Vol. 21, No. 3, 1009-1011.
- Pollard, S. (2002). *Peaceful Conquest: The Industrialization of Europe 1760-1970*. Oxford University Press
- Reichel, R. (2002). *Germany's Postwar Growth: Economic Miracle or Reconstruction Boom?* CATO Journal; Vol. 21 Issue 3, 427 - 442.
- Richards, J. (2011, February 17). *German POWs*. Retrieved from BBC History : http://www.bbc.co.uk/history/british/britain_wwtwo/german_pows_01.shtml.
- Ritschl, A. (2014). *Germany's Unpaid Debt to Greece: Economist Albrecht Ritschl on WWII Reparations That Never Were*. Retrieved from <http://www.truth-out.org/>:
<http://www.truth-out.org/news/item/27261-germany-s-unpaid-debt-to-greece-albrecht-ritschl-on-germany-s-war-debts-and-reparations>.
- Ritschl, A. & Eichengreen, B. (2008). *Understanding West German Economic Growth in the 1950s*. University of California, Berkeley, USA & London School of Economics, UK.
- Schlauch, W. (1945). *American Policy Towards Germany, 1945*. Journal of Contemporary History, Vol. 5, No. 4, pp. 113-128.
- Schwarz, H. (2010). *The division of Germany, 1945–1949*. In Leffler, M. & Westad, .O. *The Cambridge History of the Cold War Volume 1: Origins*. Cambridge University Press.
- Smolny, W. (1999). *Post-War Growth, Productivity Convergence and Reconstruction*. University of Konstanz, Germany.
- Turner, I. (1987). *Great Britain and the Post-War German Currency Reform*. The Historical Journal, Vol. 30, No. 3, p. 685-708.
- Van Hook, J. (2004). *Rebuilding Germany: The Creation of a Social Market Economy, 1945 - 1957*. Cambridge University Press.

Van Wagenen, R. W. (1948). *Cooperation and Controversy among the Occupying Powers in Berlin*. *The Journal of Politics*, Vol. 10, No. 1, 73-100.

Varoufakis, Y. (2013, October 15). *Interviewed by Geraldine Dooge (ABC Radio National) on Greece's Wartime 'Loan' to Germany. Plus a simple proposal for killing two birds with one stone*. Retrieved from www.yanisvaroufakis.eu:
<https://yanisvaroufakis.eu/2013/10/15/interviewed-by-geraldine-dooge-abc-radio-national-on-greeces-wartime-loan-to-germany-plus-a-simple-proposal-for-killing-two-birds-with-one-stone/>.

Wallich, H. (1955). *Mainsprings of the German Revival*. New Haven: Yale University Press.

Wolfe, S. (2014). *The Politics of Reparations and Apologies*. Springer