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Who Paid Hitler' Debts?

The United States, Israel, and the Grand Bargain of 1952

February 2024

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INTRODUCTION

In May 1945, a few days after the war ended in Europe, the 48-year-old economist, Calvin Hoover, received an urgent phone call from Washington, D.C. The caller was William J. Donovan, director of the Office of Strategic Studies (OSS), the predecessor institution of the Central Intelligence Agency (CIA). Donovan wanted Hoover to head a team to gather intelligence on the economic conditions in Germany. The victors had won the war, but urgently needed more information to win the peace.¹

The United States, as the major Western occupying power, had to find answers to a series of tough questions. How long should US troops stay overseas? Could Germany be allowed to regain its old industrial strength? Who would pay for all the atrocities committed by the Nazi regime? Germany was responsible for the deaths of millions of soldiers and civilians, among them six million Jews. The material costs reached dozens of billions of US dollars. And the extent of human misery inflicted by the reign of terror burst all imaginable limits. Who should pay Hitler's debt?

It was a real dilemma. If Germany was kept down, it would never be able to pay even a small part of reparations. If it was allowed to restore its old economic strength, the reparations bill could be significantly higher, but there was the danger that a reinvigorated Germany would take revenge for the lost war. It was the same dilemma the Western Allies had faced after the end of the First World War, and it was well remembered in 1945 that they had miserably failed in their task to implement a realistic reparation regime.²

Hoover, the son of a railroad worker who had become a professor of economics at Duke University in Durham (N.C.), was a good choice for such a fact-finding mission. He knew Europe from first-hand experience. He had fought in the First World War in France and had been in Moscow in 1929-30 to study the Soviet Union's planned economy and in Germany in 1932-33 to understand the roots of the Nazi movement. Accompanied by his wife, Faith Sprole, and his two daughters, he had participated in everyday life like a normal citizen and learnt German. The Duke professor had also served in the OSS after the Japanese attack on Pearl Harbor of December 1941. For nearly two years he worked for the Stockholm office which was the centre of operations into Germany. He knew Donovan's organization very well.³

After some hesitation, Hoover agreed to accept the job for a maximum of four months and immediately began to recruit staff in Washington. In late May 1945, he flew to Frankfurt and was shocked by what he saw: 'The center of Frankfurt had been almost pulverized by Allied

bombers.’ To gather information for his report, he travelled around the country, notably visiting Munich. Again, he could hardly believe how the war had changed the city: ‘We ended our tour in Munich, where I had spent the last month of my stay in Germany with my wife and daughters in 1933. I had thought it the most beautiful of German cities. Now it was a bombed-out wreck. The great public park, the lovely *Englischer Garten*, was the encampment of one of our tank repair battalions. The beautiful little lake where my children had observed with delight a mother duck swimming with her downy brood of ducklings was now dry and being used as the dumping ground for debris from bombed-out houses.’

Later, he went to Berlin to report to General Lucius Clay, the military governor of the US occupation zone. The extent of destruction there surpassed even what he had seen in Frankfurt and Munich. ‘The center of Berlin was an unbelievable desolation, and no area had wholly escaped severe war damage’ he observed. ‘An odor of death overhung the city, compounded of sewage backed up in destroyed sewers and of inadequately buried bodies.’ The main issue for Hoover when it came to preparing his report was how to both promote and control the redevelopment of Germany’ industrial base. Of course, the destruction he had seen influenced his judgement. Recognizing that steel was the crucial input factor for most German industries, he proposed setting the quantity of steel that could be produced annually. He settled on 7.8 million tons, a substantially higher level compared to the proposal of the US State Department (3.5 million tons), but General Clay readily accepted it and used it as the basis for his subsequent negotiations with the Soviet Union and the two Western allies, France and the United Kingdom. In September 1945, Hoover flew back to Washington and resumed his academic life at Duke University, confident that his assignment was completed. But on 8 October 1945, the *New York Times* published elements of his still secret report and criticized his proposal to substantially increase German steel production. The sensational news was immediately picked up by various radio commentators who denounced Hoover for appeasement. Time Magazine was particularly aggressive, attacking General Clay personally. The mood in the United States was vigorously anti-German. In a Gallup Poll conducted a few months earlier nearly half of all respondents advocated rigid controls on Germany’s economic activity, and a third supported the partition of the country. In addition, more than 80 percent of Americans were sympathetic to the idea that three to four million German workers should be transferred to Russia to help reconstruct that country for two to three years.⁴

Hoover was depressed when he saw how the American public reacted. He was convinced that a low level of German industry would lead to social and political chaos. To seek comfort, he

turned to the British economist John Maynard Keynes who had become famous for his book *The Economic Consequences of the Peace* published in 1919, correctly predicting that the harsh reparation agreement concluded in Versailles would harm the German economy, strengthen the radical parties, and provoke another war. Hoover had been in regular contact with Keynes since a visit to Cambridge in the early 1930s. They both shared the belief that weak demand was the main reason for the Great Depression, and Hoover had advocated the adoption of Keynesian policies in the United States while serving as an economic adviser in the Roosevelt Administration from 1933 to 1936. In June 1934, they both received honorary doctorates from Columbia University in New York.⁵

Hoover sent a letter to Keynes in which he complained about the public criticism of his report and encouraged him to speak out publicly in favour of a realistic reparation policy: 'Realising the effect which your *Economic Consequences of the Peace* had upon international opinion in the period between the two wars, I venture the hope that at an appropriate and convenient moment you might express your opinion on a reparations policy for this war.' He ended his letter on a pessimistic note: 'My deep concern that we should as far as possible forestall action in Germany which would make a truly desperate situation even worse and which might delay European reconstruction indefinitely is the excuse for my suggestion.'

How would Keynes respond? Did he share Hoover's concern that history was about to repeat itself? Would he publicly endorse his friend? A week later, Keynes gave a surprising answer. First, he let Hoover know that he was not allowed to make any public statement because he was involved in British-American loan negotiations in Washington, D.C. Secondly, he explained that a public statement from his side was not necessary because the present situation was entirely different from the one after the First World War. 'I believe that this time, both here in the U.S.A. and also in England, the majority share my views; whereas, last time, I was a voice crying in the wilderness and had, therefore, to cry loudly.'⁶

Hoover was disappointed by the response, but Keynes proved to be right – not immediately, but in the medium term. This time, the government of the United States eventually supported the reconstruction of Western Europe. After a difficult start, West Germany flourished economically and built a stable democracy, thus escaping the fate of the Weimar Republic. Instead of suffering from high unemployment and depression, the West Germans enjoyed a boom which would go down in history as an 'economic miracle'. By the middle of the decade, West German GDP per capita had already surpassed the pre-war level.⁷

How was this spectacular recovery possible? A great part of the story is well known. The Western occupying powers, above all the United States, supported Germany with a series of measures and transfers between 1945 and 1949. They provided emergency aid to the population under the so-called GARIOA program, carried out a currency reform, organized the Berlin Airlift, launched the Marshall Plan, and created the Federal Republic of Germany which united all three occupied Western zones in 1949. Historians may disagree on the exact effects of these measures, but they all are rightly remembered as important contributions to the German 'economic miracle' and the rebirth of Western Europe.⁸

What followed after 1949 is less known, however, because it tends to be treated as a logical consequence of the decisions taken in the years before. Yet nothing could be further from the truth. By 1949, the post-war reconstruction may have been at an advanced stage, but it was nowhere near completed. The Western powers were still searching for a formula which combined German sovereignty and prosperity with European security. Nor had they agreed on a final settlement of Hitler's debt and, as the exchange between Hoover and Keynes shows, financial reconstruction was crucial for a sustained recovery of the Federal Republic and Western Europe. What is more, the outbreak of the Korean War in June 1950 threatened to deplete the foreign exchange reserves of the West German central bank and trigger a major financial crisis. There is no doubt that the German recovery would have slowed down had the Western powers failed in completing the post-war reconstruction. And as economics and politics are always closely intertwined, the young Bonn Republic might have become as unstable as the Weimar Republic if the motor of the German economy had begun to stutter.

The solution imposed by the United States and its allies was a grand bargain which addressed all pressing issues related to the Federal Republic. First and foremost, the London Debt Agreement (1952-53) cancelled all remaining reparation claims against Germany – not openly, but by deferring them until a formal peace treaty with a reunited Germany would be concluded. This verdict was hard to swallow as it challenged all conventional notions of justice. Nazi Germany had committed unspeakable crimes, but its successor state, the Federal Republic, received lenient treatment, while those countries which had suffered from the Nazi terror were asked to shoulder the bulk of Hitler's debt. The Western powers also handed over nearly all sovereign rights to the former enemy. The successor state to Nazi Germany got almost everything it wanted only seven years after the end of the war.

Of course, the Federal Republic had to reciprocate. The London Debt Agreement obliged the Federal Republic to repay fifty percent of the pre-war debts and of the post-war assistance

including Marshall Plan funds, while the Luxembourg Agreement (1952) stipulated German reparations to Israel and the Claims Conference which represented the interests of private Jewish organizations. But the fiscal burden remained light. The ongoing 'economic miracle' made it easy to fulfil all financial obligations. The other concessions were modest, too. The Federal Republic only had to accept the continued deployment of foreign troops for the time being and ratify the European Defence Community Treaty which put the West German army under full supranational control. Of course, some German politicians found it unacceptable that sovereignty was not fully restored. But given the substantial concessions offered by the United States and its allies, most Germans supported the grand bargain and the idea of European integration.⁹

U.S. diplomats were satisfied, too. The Federal Republic continued to flourish, developed into a stable democracy, was integrated into the Capitalist bloc, and contributed to the defence of Western Europe. The Truman Administration had carefully considered its interests and came to the conclusion that the stabilization of West Germany was the top priority of its foreign policy in Europe. The result was peace and prosperity in Western Europe, not crisis, fascism and war.

This positive outcome raises the question why the United States and its Western allies succeeded in finding a solution for the reparation issue after 1945 whereas they had miserably failed after the First World War. As this book tries to demonstrate, the principal reason was that they had learnt from history. They decided to fight the war until Nazi Germany surrendered unconditionally and then occupied the country until all problems were sorted out. Most importantly, the occupation allowed the United States and its Western allies to enforce their claims and agreements. After the First World War they had declined or lacked the power to occupy Germany. Accordingly, they could only hope for German compliance, a hope that would never be fulfilled.

Western policymakers had also learnt from the interwar years that imposing harsh financial conditions on a defeated country would do more harm than good. The colossal failure of the reparation regime initiated by the Treaty of Versailles in 1919 was still in everybody's mind. The Western politicians who were in charge of building a stable Western Europe had all been born in the late 19th century and experienced the collapse of the post-war order in the 1930s. They were determined to adopt another approach after the Second World War. Of course, the financial generosity displayed after 1945 was only possible thanks to the unprecedented

financial and military power of the United States. But the success after 1945 was primarily a question of will, not simply a consequence of U.S. power and prosperity.¹⁰

The dramatic and fascinating story leading to the settlement of Hitler's debt will be told in five acts. It starts in early 1950 when U.S. Secretary of State Dean Acheson gathered his advisors to discuss a new plan for Western Europe and ends in the summer of 1953 with the ratification of the London Debt Agreement by the U.S. Senate. The implementation of the plan had a difficult start and threatened to fail several times. But in the end, it received the support of all governments involved in putting all the pieces together. The grand bargain of 1952 ushered a new era.

PART I: THE PLAN

1. HITLER'S DEBT

On a cold and cloudy Tuesday afternoon in early March 1950, US Secretary of State Dean Acheson gathered his advisors in his spacious office on the fifth floor of the State Department to discuss a pressing issue. Appointed in January 1949, Acheson was one of the most influential figures of the second Truman Administration. He directed 59 embassies, 14 legations, and 196 consular offices as well as 6,000 officials in Washington D.C. and nearly 16,000 employees abroad. The self-confidence of the Western superpower was embodied in the 'New State Building', a plain and modern seven-story edifice built in 1941, with a tall four-column portico marking the centre of the symmetric structure. The Secretary's office overlooked the main entrance on Twenty-first Street.¹¹

The foundation of American leadership was its dynamic economy. In 1950 US industrial production accounted for about 50 percent of the global total. Its agricultural sector was the most productive in the world. The Wall Street banks dominated international finance. The US dollar was the leading global currency on which the international monetary system of Bretton Woods agreed in 1944 was based. Economic capacity, in turn, was the basis of America's extraordinary military strength and technological superiority in the arms race. And finally, the world's oldest democracy also projected enormous soft power through the diffusion of its popular culture. Hollywood's blockbuster movies were played in all the big cities of the

Western Hemisphere. Jazz and pop music had large audiences overseas, especially among young people. The 'American way of life' attracted aspiring people from everywhere. The United States was a magnet for all talents in science, art, and industry.¹²

American power was not unlimited, however. Stalin's Soviet Union controlled Eastern Europe and possessed nuclear bombs, Nehru's India pursued a distinct socialist course, and Mao's China had just joined the communist bloc to the dismay of Washington. Even in Western Europe the United States was not winning on all fronts, and it was the worrying situation across the Atlantic that drove Acheson to gather his advisors. The launching of the Marshall Plan in 1948, the creation of NATO and the establishment of the Federal Republic of Germany in 1949 had been 'dynamic steps', he explained. But he also observed that the Western Allies were 'losing their momentum', and the Soviets were showing more self-confidence. 'We cannot hold our position defensively, we will slip backward', he told his advisors. 'It is, therefore, necessary to find some new idea or new step which would regain the initiative.'¹³

Acheson's analysis was accurate. Five years after the end of the war the situation in Europe was indeed worrisome. The Marshall Plan had fostered the economic and political integration of the Federal Republic of Germany into Western Europe, but from the beginning it was designed as a temporary initiative running out in 1951. The creation of NATO provided some security, but at this point it was no more than a paper tiger. It had no troops, no supreme commander, and West Germany was not a member, which left Western Europe vulnerable on its Eastern flank. The status quo was not sustainable.¹⁴

The Secretary also had a correct picture of the newly created Federal Republic. Although having a constitution, an elected government, a currency, and a flag, it constituted only a semi-sovereign state without any real authority. In reality, it was ruled by three High Commissioners – from France, the UK and the US – who exercised 'supreme power', as one of them would later write in his memoirs: 'They legislated, conducted the foreign affairs of Germany and were in the last resort responsible for everything which was done in the country. They had the power to arrest and detain without trial. They could suspend or prohibit the publication of German newspapers. In addition to the exercise of the joint responsibilities shared by the High Commissioners, each High Commissioner could legislate independently in his own zone.'¹⁵

The superiority of the occupying powers was also highly visible and increasingly humiliating. The High Commission was located in a former hotel on the hill of Petersberg from which the Commissioners could look down to Bonn, the capital of the Federal Republic, on the other side of the Rhine. It was notably the hotel in which British Prime Minister Neville Chamberlain had

resided in September 1938 when negotiating the terms of the infamous Munich Agreement with Hitler. Sir Ivone Kirkpatrick who was now the British High Commissioner had been part of Chamberlain's delegation. Remembering this grave historical mistake, the High Commissioners wanted to stay as long as necessary to make sure that the Federal Republic became a stable and reliable state. But the departure of the occupying powers could not be deferred forever. West Germans were losing their patience, and the United States was running out of time.¹⁶

Secretary of State Acheson was also under enormous domestic pressure. The opposing Republicans launched one attack after another against the Truman Administration. They blamed it for losing China to Mao's Communists and letting the Soviets develop an atomic bomb. They criticized it for turning a blind eye to the infiltration of the US government by domestic communists, with the most vicious allegations coming from Wisconsin Senator Joseph McCarthy. Acheson was one of the main targets because he embodied the East Coast liberal establishment like no other. He came from well-educated middle-class family, had studied at Ivy League universities, was a partner of a prestigious law firm in Washington D.C., had a trimmed moustache, and often wore a three-piece suit with a pocket square. McCarthy called him 'a pompous diplomat in striped pants with a phony British accent'.¹⁷

True, the Democrats found themselves in a strong position. In the 1948 elections, they had won the presidency once more and regained both houses of Congress by large margins. Formed during the presidency of Franklin D. Roosevelt, the so-called New Deal coalition which encompassed blue-collar workers, white Southerners, ethnic and religious minorities as well as intellectuals continued to dominate. The common goal was a strong role of the government in economic and social affairs, enabled by a powerful federal bureaucracy and financed by high income taxes for the wealthy. While the Republicans had controlled domestic politics after the First World War, the Democrats were the ruling party after the Second World War.

Nevertheless, Acheson could not be casual about the attacks of the Republicans. If he lacked the will and the capacity to sort out the European situation, he would have to resign, and there was a real chance of failure. The root of all problems was the unresolved 'German problem'. How could the Allies give full sovereignty to the Federal Republic without sowing the seeds for another war on the continent? Understandably, France was afraid of a resurgent neighbour after having fought three major wars against Germany since 1870. Everybody agreed that the strategy of containment cooked up after the First World War had completely failed on numerous fronts. But what would a better plan look like?

Solving the 'German problem' would not only bring more geopolitical stability. It would also clear the way for the settlement of all pending financial claims against Germany which were related in one way or another to Hitler's dictatorship. Foreign investors refused to lend as long as they were kept in the dark about the future debt level of the Federal Republic. West German banks and enterprises therefore remained excluded from international capital markets and were constrained in their expansion. German exports were subject to the threat of confiscation in the country of destination as long as there was no financial settlement. Eventually, the lack of borrowing capacity threatened to stall the swift recovery of the German economy and Western Europe. Thus, there was also pressure from the financial side to develop a plan.¹⁸

Of course, U.S. diplomats had not been idle since the defeat of Nazi Germany, knowing that they needed to find a better solution than their predecessors after the First World War. The unrealistic reparation plan following the Versailles Treaty of 1919 undermined the post-war order that the peace agreement was supposed to create. The main problem was that the United States declined to reduce its war-related financial claims against France and Great Britain which in turn saw no other option than to shift the burden to the Weimar Republic. The resulting reparation bill proved much too high. Several attempts were made to adjust the original payment schedule to the realities on the ground, but eventually they all failed. Trapped in debt, the German government under Chancellor Heinrich Brüning lacked the means to combat the recession starting in the late 1920s, and eventually the whole financial and monetary edifice began to unravel in the summer of 1931, prompting Brüning to stop servicing the debt of the Reich, introduce capital controls and nationalize the large banks. 'The craziest things happen in politics', Joseph Goebbels, the chief propagandist of the Nazi Party, wrote in his diary in mid-July 1931. 'The credits have dried up. Chancellor Brüning has run into serious problems. The Reich is verging on bankruptcy. Our hour approaches with eerie certainty, and we will seize it. After Brüning, it is our turn.' Eighteen months later Hitler was named Chancellor.¹⁹

After this colossal failure the lesson for the American post-war planners was that any agreement dealing with Hitler's debt had to spare both the Western allies of the United States and West Germany from being overburdened by financial claims. Of course, Germany had to pay something. The Nazi Regime had conquered and plundered large parts of Europe, persecuted and killed millions of people, and introduced forced labour on a grotesque scale. But the idea of achieving fair compensation for all these German crimes was entirely unrealistic. Hitler's debt was simply too high.²⁰

There was another reason to be smart and careful. Financial claims were made not only by countries plundered by Nazi Germany, but also by private creditors holding German government and corporate bonds issued between 1924 and 1930. The German Government started defaulting on these bonds in the late Weimar Republic in the wake of the 1931 financial crisis. Then, the Nazi dictatorship, under the guidance of Hjalmar Schacht, President of the Reichsbank from 1933 to 1939, widened and accelerated the process, defaulting on one loan after another, either partially or completely. As the private holders of these bonds resided predominantly in the United Kingdom and United States, their interests could not be ignored.²¹

How did the Truman Administration treat all these different financial demands? In the immediate post-war period, it tried to work out an agreement together with the United Kingdom and the Soviet Union. But that proved impossible. The Soviets took reparations from current production, while the Western allies rejected this policy, citing the bad experience with the Weimar Republic after the First World War. Instead, they opted for removing all industrial equipment that was not necessary for maintaining a certain level of industrial production and a minimal standard of living in West Germany.

Already at the Conference in Potsdam in the summer 1945 it became clear that the fundamental differences between the Western allies and the Soviet Union could never be bridged. The compromise was that the Soviet Union received 25 percent of dismantled industrial facilities in Western zones, while the remaining 75 percent were designated for allocation among all Western Allies. Less than a year later, in May 1946, the collaboration collapsed. The contrast to the occupation of Japan is remarkable. There, the United States was the only occupying power and could enforce its cautious approach without any resistance. Eventually, Japan would pay less reparations than the Federal Republic. Conversely, the Soviet Union would extract much more reparations from East Germany than the Western Allies from their occupied zones.²²

Because the U.S. government declined to impose a high reparation bill on West Germany, the countries plundered by Nazi Germany did not receive much. Their claims were defined by the Agreement on Reparation from Germany signed in January 1946 in Paris. The list included all victorious countries and countries which had been occupied by Nazi Germany, including Albania, Czechoslovakia and Yugoslavia, but excluding Poland which was already under full Soviet control (see table 1.1). Until the end of 1949, the Inter-Allied Reparation Agency (IARA) transferred the bulk of reparations amounting to about US\$ 1 billion, which corresponded to only four percent of West German GDP in 1949. U.S. officials openly admitted that the amount paid by the Federal Republic had been ‘a drop in the bucket when compared with the losses

which had been sustained during the war'. It was not even much more than what the other defeated nations which were all smaller than Germany had to pay: Finland (US\$ 500 million), Hungary (US\$ 400 million), Italy (US\$ 360 million), and Romania (US\$ 500 million).²³

Country	Category A* (reparations, percentage)	Category B** (assets, percentage)
Albania	0.05	0.35
Australia	0.70	0.95
Belgium	2.70	4.50
Czechoslovakia	3.00	4.30
Canada	3.50	1.50
Denmark	0.25	0.35
Egypt	0.05	0.20
France	16.00	22.80
Greece	2.70	3.35
India	2.00	2.90
Luxembourg	0.15	0.40
Norway	1.30	1.90
New Zealand	0.40	0.60
Netherlands	3.90	5.60
Union of South Africa	0.70	0.10
United Kingdom	28.00	27.80
United States of America	28.00	11.80
Yugoslavia	6.60	9.60
Total	100.00	100.00

Source: Agreement on Reparation from Germany, on the Establishment of an Interallied Reparation Agency and on the Restitution of Monetary Gold (Paris, 14 January 1946), Article 1; Hinrichsen (2023), p. 140.

Notes:
 *Category A: Monetary restitution.
 **Category B: Property left by Germany in occupied areas that could be sold, industrial assets inside Germany, and German ships.

Most importantly, the Truman Administration considered the 1946 agreement the final settlement of all war-related claims against Germany. Admittedly, Paragraph B of Article 2 mentioned the possibility of further reparations. But there was no obligation, as the same

paragraph stipulated that the final settlement of German reparations had to be combined with a peace treaty with Germany. In view of the rising tensions between the United States and the Soviet Union, which made any peace treaty highly unlikely in the near future, this clause implied that the reparation issue would be deferred until a very distant point in time. The 1946 agreement also made it clear that the Truman Administration wanted to compensate all private creditors holding pre-war German securities. Paragraph C of Article 2 stated that pre-war claims against Germany were not excluded. Thus, the 1946 agreement transformed the settlement of Hitler's debt in a fundamental way. It fobbed off all government creditors with modest compensation while keeping the door open for all private creditors.²⁴

Yet, US officials soon recognized that the 1946 agreement was insufficient. The Western zones of occupied Germany recovered only slowly, costing hundreds of millions of US dollars per year. The policy was inconsistent. On the one hand, the Western Allies, aiming to foster the German recovery, declined to impose a high reparation bill. On the other hand, out of fear of a reinvigorated Germany they hampered the German recovery by imposing a rather low 'level of industry' as the contemporaries called it. This in turn kept the German economy below potential, and so required enormous amounts of funds just to feed the German people. What is more, as the neighbouring countries were highly dependent on German coal and investment goods, the slow reconstruction of the German economy hampered the recovery of Western Europe.

Of course, the US, the UK and France not only subsidized, but also drew some resources from the occupied zones. They acquired German patents, imported German coal at a reduced price, and deployed more than a million German prisoners for labour services for some years. If we include these figures, the total amount of West German reparations increases to about US\$4 billion and DM17 billion respectively. Nevertheless, the occupation was costly. That regime proved unsustainable.²⁵

Former U.S. President Herbert Hoover who had been charged by President Truman with touring Germany and Austria to report on the state of the economy clearly stated the dilemma. 'To persist in the present policies will create, sooner or later, a cesspool of unemployment or pauper labor in the center of Europe which is bound to infect her neighbors', he wrote in his report to President Truman published in March 1947. 'We can keep Germany in these economic chains but it will also keep Europe in rags.' Accordingly, Hoover recommended that the U.S. government 'should free German industry, subject to a control commission, which will see that she does no evil in industry, just as we see that she does not move into militarism through armies

and navies. The difference between this concept and the "level of industry" concept is the saving of several hundred millions of dollars a year to American and British taxpayers. It is the difference between the regeneration and a further degeneration of Europe.²⁶

Truman agreed with Hoover, and the emerging Cold War made it rather easy to make a U-turn of U.S. policy towards Germany. In June 1947 it launched the so-called Marshall Plan named after Secretary of State George Marshall, the widely admired Army's Chief of Staff during the Second World War. When asked by an advisor why he declined to call it the Truman Plan, the President responded: 'Anything going up [to Congress on Capitol Hill] bearing my name will quiver a couple of times, turn belly up and die. I've decided to give the whole thing to General Marshall. The worst Republican on the Hill can vote for it if we name it after the General.'²⁷

Truman was right. The Marshall Plan was approved by Congress and turned out to be successful. Not only did it foster the recovery of West Germany and Western Europe by liberalising European trade and thus restoring the old European division of labour, it also served as a compensation for the countries seeking more reparations from Germany after the disappointing 1946 agreement. Through the Marshall Plan, the U.S. government distributed about US\$ 13 billion to 17 European countries, with most of the funds being grants. The Cold War turned the vanquished Germans into victors, while the US paid another part of Hitler's debt.

To be sure, the compensation paid to the countries formerly occupied by Nazi Germany was still modest relative to the damage. But the Marshall Plan introduced a commitment mechanism for both the United States and the countries seeking more reparations which had an appeasing effect. And because the sums transferred from the United States to Western Europe were modest, it enjoyed the support of American voters. Indeed, the Marshall Plan even reduced the yearly payments to the Western zones of Germany. The Government Aid and Relief in Occupied Areas (GARIOA) launched immediately after the end of the war amounted to more than US\$ 2 billion while the Marshall Plan funds remained below US\$ 1.5 billion. The difference was that the Marshall Plan streamlined all financial help and introduced some conditionality.²⁸

The Marshall Plan also confirmed the superiority of all post-war assistance given by the United States. Whereas most Western European countries received grants rather than loans, all funds distributed to West Germany were loans with a so-called seniority clause attached to them. It implied that all pre-war and war-related claims against Germany were subordinate to the claims made by the U.S. government. This confirmation was expressed in December 1947 when U.S.

Secretary of State George Marshall asked the State Department in Washington ‘whether the past and future advances to Germany will continue to be regarded as subject to repayment by the German Government or would be included in the category of grants in aid for which no payment would be expected.’ The State Department wrote back a telegram stating that ‘it is expected that aid to Germany ... will not be grant but will be a claim against German economy to be settled from excess of exports or in peace treaty. Some repayment may be possible, particularly because of absence of German foreign debt, assuming no other claims are given priority. However, more important is value of this claim in treaty negotiations as basis for keeping other claims down. Germany was enemy and we cannot make grants while using loan procedure with former allies.’ Thus, by attaching the seniority clause to the Marshall Plan loans extended to Germany the U.S. government had the upper hand in the ensuing negotiations on all financial claims against Germany.²⁹

Of course, Secretary of State Acheson knew about all this progress in the reparation issue when he gathered his advisors in March 1950. As Under-Secretary of State from 1945 to 1947 when the Truman Administration turned from a cooperative to a confrontational stance towards the Soviet Union he had helped to create the Marshall Plan. In early May 1947, a month before George Marshall made his famous Commencement speech at Harvard University by which he launched the Marshall Plan, Acheson addressed the Delta Council in Cleveland, Mississippi, to prepare the public for the change of policy. ‘European recovery cannot be complete until the various parts of Europe’s economy are working together in a harmonious whole’, he explained to his audience. ‘And the achievement of a coordinated European economy remains a fundamental objective of our foreign policy.’³⁰

Still, he was right to paint the situation in dramatic colours. Much had been done, but a successful outcome was not secured yet. Everything depended on bringing the French government on board, but there seemed to be no initiative coming from Paris. Acheson had encouraged French foreign minister Robert Schuman more than once to come up with a smart plan. His most emphatic plea dated from 30 October 1949. In a personal message he wrote to Schuman that ‘we here in America, with all the will in the world to help and support, cannot give the lead. That, if we are to succeed in this joint endeavor, must come from France.’ Acheson was thinking of creating supra-national institutions which addressed specific problems. What was lacking, however, was a realistic proposal he could submit to Schuman. Perhaps his advisors sitting on the couches in his office had some good ideas?³¹

Unfortunately, they had not much to offer during the one-hour meeting. Only John McCloy, the US High Commissioner for Germany, who happened to be in town to report to President Truman and Congress, had a clear agenda. 'The important thing is to move in the political field and it is my personal view that what is needed is a drastic step toward political unity such as the establishing of articles of confederation for Europe.' McCloy also suggested to admit the Federal Republic to NATO. 'This would have a very stirring effect in Germany.' But his initiative was considered too radical by Acheson and his advisors. Even McCloy's brother-in-law, US Ambassador to England Lewis Douglas, expressed serious doubts that the idea of a European confederation was a practicable proposal.³²

Yet, the 55-year-old McCloy, an energetic man with a bald head and broad shoulders, could not easily be ignored. As High Commissioner for Germany he was reporting directly to President Truman, not to the State Department. With good reason, Acheson called him 'the irrepressible McCloy'. He came from a modest background and grew up alone with his mother after losing his father and his brother at a young age. From 1941 to 1945, he had been so effective as Assistant Secretary of War that Henry Stimson, his superior, once doubted that 'anyone in Washington ever acted without having a word with McCloy'. He also left a large footprint while serving as second president of the World Bank from 1947 to 1949. It was therefore no surprise that President Truman named him US High Commissioner in Germany, one of the most challenging positions in his administration.³³

Admittedly, McCloy's unwavering determination to get things done and win the war made him sometimes ignore constitutional concerns. Most notably, for security reasons, he strongly endorsed the internment of tens of thousands of Japanese-Americans on the West Coast after the attack on Pearl Harbor. He also opposed the bombing of Auschwitz, arguing that it would divert US forces needed elsewhere, kill Jews instead of protecting them, provoke retaliations by the Nazi camp leadership and should be carried out by the British bombers. Obviously, he thought more in practical and administrative terms, not fully grasping the extent of horror which could have been reduced by destroying the railway tracks and the gas chambers.

McCloy had a special relationship with Germany as he was married to Ellen Zinsser who was of German descent and spoke the language fluently. He also knew Germany from his earlier professional life. As partner of a prestigious Wall Street law firm he had been assigned the infamous Black Tom case named after the tremendous explosion at the Black Tom ammunition depot in Manhattan in 1916. The US authorities suspected an act of German sabotage. During this mission, McCloy dealt with Rudolf Hess and Hermann Göring, and he even received an

invitation to be in Hitler's private box at the Olympic Games in Berlin in the summer of 1936. McCloy was able to find evidence of a German plot and won the case which gained him some fame.³⁴

With Acheson and McCloy disagreeing, American foreign policy was blocked. Thus, when Acheson boarded the presidential plane 'Independence' in early May 1950 to travel to the foreign ministers meeting in London, he went empty-handed. The final paper of Subcommittee B which prepared the negotiations on West Germany only suggested setting up 'a working party'. Acheson's expectations were so low that he was counting on spending a few relaxing days in Paris before travelling to the meeting in London.³⁵

¹ For the legacy of the Second World War see (Abelshausen 2011), 59-87; (Betts 2020); (Judt 2005), 13-40; (Lowe 2012); (Mazower 1998), 215-252; (Spoerer and Streb 2013), 212-215; (Vonyo 2018), 52-86.

² For an overview of the interwar years see (Boyce 2009); (Clavin 2000); (Eichengreen 1992); (Feinstein, Temin and Toniolo 1997); (James 2001a); (Ritschl 2013); (Tooze 2014).

³ The following paragraphs are based on (Hoover 1965), 208, 225, 233-235, 243-245. Hoover's mission is also described by two other contemporaries: (Ratchford and Ross 1947).

⁴ NYT, 8 October 1945, 1; (Cairncross 1986), 106; (Hoover 1965), 248-249. For the polls see (Gallup 1972), 502, 506.

⁵ (Hoover 1965), 124-125, 150, 172-173, 180. On the impact of Keynes' book *The Economic Consequences of the Peace* see (Clavin et al. 2023).

⁶ (Moggridge 1980), 399-401.

⁷ (Bolt and van Zanden 2020).

⁸ The debate on the Marshall Plan was launched by (Milward 1984) and expanded by (Abelshausen 1991). Important contributions to the debate are (Abelshausen 2011), 129-152, (Berger and Ritschl 1995); (DeLong and Eichengreen 1993); (Eichengreen 1995); (Eichengreen and Uzan 1992); (Hogan 1987); (Maier 1991), (Ritschl 2008); (Vonyo 2018). For an overview of the different views see (Steil 2018), 339-375.

⁹ Few historians and economists have written about the London Debt Agreement. This book builds upon this small, but excellent research: (Berger and Ritschl 1995); (de la Villa 2021); (Fisch 1992); (Gall 2004); (Galofré-Vilà et al. 2019); (Guinnane 2015); (Herbert 1989); (Kaiser 2013); (Rombeck-Jaschinski 2005, 2017); (Scholtyssek 2013); (Vogel 1967); (Tooze 2011). The report by (Abs 1991) builds on historical sources, but is partly self-congratulatory as Abs was the chief negotiator of the Federal Republic. The Luxembourg Agreement is well researched, especially by (Hansen 2002). Other important publications are (Fischer and Lorenz 2015); (Goschler 1992, 2005); (Herbst and Goschler 1989); (Jelinek 1990, 1997, 2004); (Sagi 1986); (Sharett 2011); (von Jena 1986); (Weitz 2000, 2011); (Wolfssohn 1988, 1989). Useful memoirs are (Goldmann 1980) and (Shinnar 1967).

¹⁰ For a comparison of the post-1918 and the post-1945 reconstruction see e.g. (Clavin 2005), 519-520; (Feldman 2005), 495-496; (Hinrichsen 2024), 1-16, 115-129, 139-143; (Junker 2004); the contributions in (Levy and Roseman 2002); (Macmillan 2003), 485-494; (Maier 1977, 1981, 2023); (Stone 2012). For the history of war reparations see (Hinrichsen 2024) and (Moffett 2023), 69-96. For a comparative view on reparations see (Berg and Schaefer 2009).

¹¹ FRUS, 1950, Volume 3, Doc. 345; (Beisner 2006), 101.

¹² On the dominance and attraction of United States after 1945 see e.g. (Daunton 2023), and (de Gracia 2006).

¹³ FRUS, 1950, Volume 3, Doc. 345. Indirect quotes of the original are always transformed to direct quotes throughout the book.

¹⁴ (Beisner 2006), 258-261; (Pollard 1985), 222-242; (Trachtenberg 1999), 95-145.

¹⁵ (Kirkpatrick 1959), 216-218.

¹⁶ (Kirkpatrick 1959), 110-134.

¹⁷ Quoted in (Beisner 2006), 305.

¹⁸ (Ritschl 2016), 279; (Rombeck-Jaschinski 2005), 81-94.

¹⁹ Quoted in (Straumann 2019), xxi.

²⁰ (Ritschl 2008); (Scholtyseck 2013), 338. A new estimate by (Roth and Rübner 2019) suggests that all potential financial claims amounted to more than ten times of Germany's GDP in 1944. For a critical view of the method used by Roth and Rübner see (Lillteicher 2017).

²¹ (Guinnane 2015), 6-8; (de la Villa 2021), 143; (Middendorf 2020), 298-303.

²² FT, 19 July 1952, 4; (Buxbaum 2011), 2; (Cohen 1967), 273-274; (Fisch 1992), 137-143, 200-202, 233-239; (Rumpf 1985), 77-79; (Steil 2018), 61-67. On the failure to conclude a peace treaty with Germany between 1945 and 1949 see (Küsters 1999), 115-433.

²³ The official figures amounted to US\$ 412.8 millions, but expressed in 1938 US\$. To get the values in 1949 US\$, they have to be multiplied by two (Economist, 10 June 1950, 1280.) The reparations received by the IARA countries then increase to about US\$ 1 billion or DM 4.2 billion which corresponded to about four percent of West German GDP in 1949. Gross Domestic Product figures are from (Ritschl and Spoerer 1997), 52. (Fisch, Reparationen), 204-210, argues that the official IARA figures were too low and estimates that their real value was about US\$ 5-6 billion which corresponded to 20 to 25 percent of West German GDP in 1949. This amount is substantially higher but still moderate relative to the damage done by Nazi Germany during the war. Quote: US Delegation of TCGD to US Department of State, 4 September 1951 (NA, RG 59-1514), quoted in (Rombeck 2005), 178.

²⁴ Agreement on Reparation from Germany, on the Establishment of an Interallied Reparation Agency and on the Restitution of Monetary Gold (Paris, 14 January 1946), Article 2. Cf. FRUS, 1945, Volume 3, Doc. 1065.

²⁵ (Cairncross 1986), 190-193; (Buchheim 1990), 95 (table 5); (Clavin 2005), 524.

²⁶ Herbert Hoover, On the Necessary Steps for Promotion of German Exports, so as to Relieve American Taxpayers of the Burdens of Relief and for Economic Recovery of Europe. Report to the President, March 18, 1947: https://hoover.archives.gov/sites/default/files/research/ebooks/b3v5_full.pdf (retrieved on 20 November 2023). Cf. (Steil 2018), 82.

²⁷ On the change of U.S. policy towards Germany from 1945 to 1947 see (Hogan 1987), 26-53, and (Mausbach 1996). Truman's quote in (Steil 2018), 111.

²⁸ (Ritschl 2008).

²⁹ FRUS, 1947, Volume 2, Doc. 290 and 291. The second letter is quoted in (Berger and Ritschl 1995), 499, who highlight the importance of the seniority clause.

³⁰ (Beisner 2006), 66-76; Department of State Bulletin, 1947, pp. 991-994 'The Requirements of Reconstruction': Address made before the Delta Council at Cleveland, Miss., on 8 May 1947.

<https://www.trumanlibrary.gov/library/research-files/speech-dean-acheson-requirements-reconstruction> (retrieved on 30 November 2023).

³¹ FRUS, 1949, Volume 3, Doc. 308; FRUS, 1949, Volume 4, Doc. 277. See also (Milward 1984), 391-392.

³² FRUS, 1950, Volume 3, Doc. 345.

³³ (Acheson 1969), 439. Short biography in (Isaacson and Thomas 1986), 65-71, and (Schwartz 1991), 1-28; long biography up to 1949 in (Bird 1992), 21-307. Stimson quoted in (Schwartz 1991), 12. Nomination by President Truman described by (Schwartz 1991), 41-42.

³⁴ (Schwartz 1991), 9.

³⁵ FRUS, 1950, Volume 3, Doc. 480.