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GERMAN REPARATION AND RESTITUTION
AFTER WORLD WAR II

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Glossary

Yalta, Crimea Conference, early 1945.

Potsdam, Tripartite Conference at Berlin, July 17 to August 2, 1945.

Preparatory Conference, Tripartite Preparatory Conference on Reparations,
October 29 to November 14, 1945.

Paris Conference, Paris Conference on Reparations, November 15 to December 21,
1945.

IARA or the Agency, Inter-Allied Reparations Agency, Brussels.

FEA, Foreign Economic Administration.

Control Council, Control Council for Germany.

Preamble

As many of you know, I was with the Department of State from soon after Pearl Harbour to the spring of 1946 when University officials tactfully suggested that my leave of absence might be terminated. Their patience in permitting a leave of almost four and one-half years was greatly appreciated. After about one-third of a century, I am still interested in the problems on which we worked during the war years and especially the problems of reparation and restitution in view of economic conditions in the allied nations at the end of the war. In early 1945 we had investigated the needs of our allies to which reparations might contribute. President Roosevelt on January 20th had asked Judge Samuel Rosenman to undertake a mission to Western European countries to determine civilian supplies needed in liberated areas. The mission, of which I was a member, had two members from the State Department, two from the War Department, one from Treasury, and two from the Foreign Economic Administration (FEA), as well as a few staff people. We conducted an intensive preliminary survey in Washington until February 9th and then left for London. On the night of our arrival, Judge Rosenman received a cable from President Roosevelt, who was in Algiers on his way home from the Yalta Conference, which requested that he join the presidential party immediately. He went back to the USA with the President on the Quincy and did not return to the mission until March 4th. So we stayed in London much longer than we had expected and used the time reasonably well in talks with British officials on economic conditions in the UK. From March 4th on until early in April we had many discussions with officials in six countries and a memorable briefing at Shaef Headquarters in the Palace at Versailles. As personal

1 Civilian Supplies for the Liberated Areas of Northwest Europe, Report to the President of the United States by Samuel I. Rosenman, Committee on Foreign Affairs, House of Representatives, Seventy-Ninth Congress, First Session.

May 5th and the German surrender on May 14th, 1945.

Countries in April and May before the liberation of the Netherlands on under consideration. They also motivated the airlift of food to the Low our reparations policy, at least by way of confirmation of policies already Report have been mentioned because they may have had some influence on This investigation of conditions in the back areas and the Rosenman man after permission had been given by President Truman on August 11, 1945. ¹ the House of Representatives, 79th Congress of which Sol Bloom was chair- The Rosenman Report was published by the Committee on Foreign Affairs of President Truman on April 26th, just two weeks after Roosevelt's death. possible, alleviated by the United States. The report was submitted to economies of our allies and the needs which should be recognized and, if sufficient to say that this report presented a very grim picture of the I will not review the recommendations of the Rosenman Report. It is in London at that time.

of the embassy, some military people, and some who just happened to be and a very solemn occasion attended by Ambassador Winant, other members me and two or three other members of the mission. It was really a "wake" April 12th. A meeting was held that night to which Judge Rosenman took We were in London at the time of President Roosevelt's death on were most willing, for obvious reasons, to talk with us.

sion went to all interviews but we did meet many important people who interviews with people at very high levels. Not all members of the mis- representative of the President, Judge Rosenman had "clout" and we had

Planning for Reparation and Restitution

Determination of US Policy

Discussion on reparation started in the Department of State and later in an interdepartmental group long before the war was over. At one of the first meetings the experience after WW I was reviewed. Then our policy was to obtain maximum compensation in fixed monetary payments over a period of years, actually through more exports than imports by Germany, what we call a favorable balance of trade. Germany then was in no position to make payments other than through trade surpluses. You may remember the dismal record of these reparation and war debt payments during the inter-war period. Allied demands on Germany were unrealistic. Lord Keynes in his book, Economic Consequences of the Peace, said that the reparations demanded by the allies after WW I were at least three times what Germany could possibly pay through export surpluses. In fact, the reparation burden was in part transferred to the United States in the form of economic aid and repudiated loans. So the policy determined after WW II stressed reparation in kind, i.e., in industrial equipment, merchant marine, supplies of various sorts, and German foreign assets throughout the world. The principal objectives were to hasten the recovery of the allied nations and to reduce Germany's war potential. We wanted a single pool of reparation in which all the allies would share equitably in relation to their contributions to the war effort and we wanted it quickly to aid in rehabilitation. But we did not favor a punitive approach, one which would unduly hamper the recovery of Germany, as did the USSR. We were somewhat ambivalent in our policy position but the USSR was not. It wanted huge reparations and had no concern for the rehabilitation of Germany. We wanted reparations but also the economic recovery of Germany and both,

1 This protocol was not officially released until March 18, 1947. It was published in full in the New York Times of March 19, 1947.

The heads of state agreed in a secret protocol annexed to the report of February 11, 1945 that "Germany shall make compensation in kind for the losses which it inflicted on the allied nations during the war" and that "the countries which bore the main burden of war, which suffered the heaviest losses and which organized victory over the enemy shall benefit in the first place by reparation."1

Negotiations Prior to the Reparations Conference
The first international discussion of reparation was at the Crimée Conference at Yalta, the one between Roosevelt, Churchill, and Stalin in early February of 1945, about two months before Roosevelt's death. In their discussions it soon became apparent that the USSR was thinking in terms quite at variance with those of the UK and the USA. This was the first indication that the USSR would be intransigent on reparation policy. In fact, there never was agreement on substantive matters. Stalin proposed reparation payments of \$20 billion, one-half for the USSR and the other half for all others. Roosevelt accepted this figure with the caveat that it was only as a basis for discussion. Churchill said that he would not approve it, because it was completely unrealistic, and it was. Of course, it assumed reparation from current production and Stalin suggested annual deliveries over a ten-year period. This tentative acceptance by Roosevelt haunted us during later negotiations for USSR officials have always insisted that Roosevelt had agreed on reparations from current production while at Yalta.

quickly. This ambivalence caused dissension at home and with our allies, as I will note later.

On April 27th Edwin F. Pauley of California was appointed by President Truman to be his personal representative on the Allied Commission on Reparation which was established at Yalta and Isador Lubin, Commissioner of Labor Statistics, as his associate. Pauley was to be head of the American delegation to the Commission meetings. From the time of their appointment to mid-July, Pauley and his staff spent much of their time in Moscow. His report indicates that little if any progress was made in reconciling the diverse positions of the USSR and the common position of the Western Powers. Pauley's final report on the negotiations in Moscow was not released until August 30, 1945, i.e., after the Potsdam Conference was over. It was a record of almost complete frustration in the attempt to reach a common position, but it did set the stage for Potsdam.

The Potsdam Conference

The Tripartite Conference of Berlin, usually referred to as Potsdam, was by all odds the most important of all allied post-war conferences. It convened on July 17th, 1945 and closed on August 2nd. Truman, Stalin, Churchill (and Atlee) were there; also Byrnes, Molotov, and Eden (and Bevin); the chiefs of staff and many advisers. The conference was interrupted for two days during the British elections which were won by the Labor Party. Churchill was deposed and the new Prime Minister, Clement Atlee, together with the new Secretary of State for Foreign Affairs, Ernest Bevin, came to the conference on July 28th. But it is doubtful if this change in leadership had any influence on the decisions of the conference. As a precautionary measure, Churchill had taken Atlee to the conference as a member of the British delegation.

It was at Potsdam that the USSR and the US, UK, and France as a group met head on at high level in an attempt to get some measure of agreement

on reparations despite differences in attitudes and objectives. Basically, their positions were irreconcilable. Thus, the agreement reached did not represent a meeting of the minds through compromise and concessions by both parties. This is apparent in some of the provisions of the conference report. For instance, Sec. 11, A2 says, "So far as is practicable, there shall be uniformity of treatment of the German population throughout Germany."¹ These are weasal words. No one could reasonably believe that this would happen. "So far as practicable" really meant that there would always be justification for lack of uniformity. Sec. 11, B13 said, "In organizing the German economy, primary emphasis shall be given to the development of agriculture and peaceful domestic industries."² This really made no economic sense. It was the aftermath of the Morgenthau plan tentatively approved by Roosevelt at one time, that Germany should be forced to become an agricultural state and, therefore, unable to wage war in the future. Sec. 11, B14 said that "During the period of occupation Germany shall be treated as a single economic unit."³ This provision, if implemented, meant that zonal barriers would be disregarded in so far as control of the economic life of Germany was concerned. It never stopped the USSR from doing whatever it wished in its own zone. As a result, the people there suffered much more than those in other zones and rehabilitation of the economy thus was much slower there also.

The conference report said that "Reparation claims of the USSR shall be met by removals from the zone of Germany occupied by the USSR and from appropriate German external assets"; also that "the reparation claims of the United States, the United Kingdom and other countries entitled to

^{1,2,3} Tripartite Conference at Berlin, Department of State Bulletin, Vol. XIII, No. 318, pp. 153-161.

reparations shall be met from the western zones and from appropriate German external assets."¹ So the desire of the western allies for a single reparations pool was disregarded. The distribution of reparation agreed upon was as follows:

USSR and Poland: All removals from the USSR zone, actually anything they wished to take; German external assets in the USSR, Poland, Hungary, Rumania, Austria, and Finland; 25% of the industrial equipment removals from the other three zones, 10% free and 15% in an exchange for an equivalent value of food and raw materials; one-third of the German merchant marine; but no claim on the "gold pot."

Other Allies: German external assets in all other allied countries, also those in the hands of the neutral countries; 75% of the industrial equipment to be removed from the US, UK and French zones; 66-2/3% of the merchant marine; the USSR reciprocal deliveries of food and raw materials; the gold; and miscellaneous supplies from the western zones.

Further, the report specifically stated in Section IV, 5 and 6 that the amount of equipment to be removed from the western zones on account of reparations must be determined within six months after August 2nd when the conference closed; and that the removals had to be completed in two years after the six-month period allowed for designation. This became a very important decision as later events indicated.

Paris Conference on Reparations

The Potsdam Conference set the stage for getting reparations under way. So on August 27, 1945 the US, UK, and France jointly invited their allies, other than the USSR, to submit data on their reparation claims

¹Ibid, p. 6.

against Germany together with supporting data. On October 15th they invited all claimants to send delegates to a reparations conference to be convened on November 9th in Paris. On October 23 James W. Angell, was appointed as American Representative on the Allied Commission on Reparations--Germany and chief delegate to the conference. At that time he was Assistant Administrator of FEA under Leo Crowley and Professor of Economics at Columbia on leave. Concurrently, I was appointed as his deputy both on the Commission and at the conference. I was then Acting Director of the Office of Financial and Development Policy (OFD) and Chief of the Division of Foreign Economic Development (FD) in the Department of State. The order of these appointments was right. Not only was Mr. Angell a very able person but particularly well informed on the European economies. In 1929, he had written a book on The Recovery of Germany after WW II and thus had a good background for his new assignment.

The American delegation left Washington for Paris on October 26th. Since it was initially expected that the conference would not last more than two or three weeks, the Inviting Powers, the United States, France, and the United Kingdom, sought preliminary agreement on as many points as possible before the conference was officially convened. So discussions began on October 29th between the three delegations. Preliminary agendas for the official conference were prepared and tentative agreements were reached on a number of issues. It was discovered that the three powers were not thinking in like terms about the distribution of reparations. For instance, the United Kingdom and France were far apart on the proportion of reparations which each thought that the other should receive.

So what came to be known as the Tripartite Preparatory Reparation Conference was most helpful. Not fully, but in part, it prevented disruptive confrontations among these three major powers before the other fifteen delegations in the plenary sessions.

The Task of the Conference. At Potsdam the first division of reparations, that between the USSR and all other claimants as a group, had been made and the sources identified. Then the principal task, simply stated, was to divide the reparations equitably among the eighteen members of this group and to make restitution when that was appropriate. The task was not to determine the amount of reparation in any category. Reparations could not be fixed in exact quantitative terms in advance but ultimately were in large part the result of decisions by the Control Council for Germany presumably in accord with the policies approved by the Allied Commission on Reparations. However, final approval for the determination of assets for removal from the zones rested with each zone commander. As we shall see shortly, General Clay, commander of the US zone did not hesitate to use his authority, perhaps unwisely. So the conference had to divide unknown quantities in most categories among the allies, and thus had to do so on a percentage basis.

The second major task was to plan an organization to take control of the reparation assets as they were released by the zone commanders, to determine to which of the claimants they should go, and to expedite delivery. So plans were drawn up for an Interallied Reparation Agency (IARA) to be established in Brussels. In regard to some reparation categories, notably German external assets, the zone commanders had no control so the Agency was free to act independently in acquiring such assets and for arranging for their distribution. The conference had many other tasks as the records

show such as distribution of the merchant marine and the "gold pot," as it was called. These will be discussed briefly later.

Determination of Shares in Reparation

Presumably, distribution of reparations was to be based on the data made available at the request of the US, UK, and France on August 27th. These data covered war damage, war expenditures, costs of German occupation, looting by armed forces, man years spent in the armed forces, and much more. They really had little statistical comparability and the items were not commensurate. The French claims for war damage, for instance, rested on materially higher estimates of unit costs than did the British. Claims for direct damage reported were \$53.7 billion in 1938 values. Claims for war and occupation costs during hostilities totaled \$234 billion, and military man years came to 70 billion. To analyze these data was a major problem so, after the conference opened, the heads of the statistical groups of the US, UK, and France were appointed as an informal statistical committee within the Secretariat to do the necessary statistical work.

The Inviting Powers explored many different combinations of factors but finally the combination proposed by the US was adopted. The formula was an unweighted arithmetical average of each country's percentage share in (1) direct war damage, (2) direct war costs during hostilities plus occupation costs and (3) military man years during hostilities. The reasons for acceptance were simplicity, that it included the main factors specified at Yalta, and that it yielded relationships among the several countries which seemed reasonable. Then adjustments were made as the submissions differed greatly in the method of compilation and statistical reliability.

Early in negotiations the decision was made to have two categories of reparation, A and B. The A category was to include all reparation other than the removal and distribution of industrial plants and facilities from Germany and merchant marine ships. These were placed in the B category. In a sense a choice was given. The United States and Canada had little interest in B reparations, much interest in A. In contrast, our Western European allies were much interested in the possibility of securing German industrial equipment. Merchant marine ships were also placed in a special category but for accounting purposes were placed in B.

First, the shares of the US, UK and France had to be determined. This problem had been under consideration before the conference convened. The UK argued for a 30%, 30%, 15% split leaving 25% for all other claimants. The problem was a political one as well as economic, and France was the problem. The French took the position that her reparation acquisitions should be relatively high as a recognition of the severity of her war damage and the reestablishment of her status as a first rank power. The UK took the position that France should be debited on reparation account because of her extensive use of prisoner of war labor for reconstruction. France was a defeated power and her contribution to victory over Germany was relatively minimal. Also, the results of her statistical computations were suspect because war damage was seriously overstated. In negotiations, the percentage for France in Category A ranged from 15% to 21%, the lower figure favored by the UK. The US delegation suggested that the French share should be 16%, and this compromise was accepted. In reference to Category B France was given 22.8%. Apparently there was a trade-off here whereby France was given a higher share in B to get acquiescence to a low share in A.

1 Although Category B reparations included both removals of industrial equipment from Germany and the German Merchant Marine this voluntary reduction in the US share applied only to the equipment, not to the ships.

Agreement was reached that the US and UK shares should be 28% in Category A and 27.8% in B. In the early negotiations there was much pressure by the smaller claimants for larger shares than contemplated by the "big three" powers. This was to be expected but, fortunately, we had an "ace in the hole" to meet their desires and it worked like a charm. The US reduced its share in Category B voluntarily from 27.8% to 11.8% and Canada reduced its share by 1.5%.¹ The total of 17-1/2% in B was prorated to the other claimants, other than the UK which renounced any increase in its share from the US reduction, roughly in accord with the suggested distribution in Category A. This generous action by the US was a reflection of the fact that our losses of production capacity by enemy action had been nil, and that the acquisition of industrial machinery and equipment was especially important for the reconstruction of the economies of our war devastated allies in Europe. In fact, we took only 6% of the reparations in Category B.

The first suggested schedule of shares in reparations was submitted to a plenary session on December 13th. From the 13th to the 20th negotiations continued and some small changes were made, but on the 20th, after a final discussion, agreement was reached and approval was given. This schedule of shares, often called entitlements, is shown in Table I. Renunciation of 16% in Category B by the US was undoubtedly a major factor in getting agreement on distribution of reparations between the eighteen allied nations.

TABLE I
TABLE OF REPARATION SHARES GRANTED¹

	Category A	Category B
Albania	.05	.35
United States of America	28.00	11.80
Australia	.70	.95
Belgium	2.70	4.50
Canada	3.50	1.50
Denmark	.25	.35
Egypt	.05	.20
France	16.00	22.80
United Kingdom	28.00	27.80
Greece	2.70	4.35
India	2.00	2.90
Luxembourg	.15	.40
Norway	1.30	1.90
New Zealand	.40	.60
Netherlands	3.90	5.60
Czechoslovakia	3.00	4.30
Union of South Africa	.70	.10
Yugoslavia	<u>6.60</u>	<u>9.60</u>
TOTAL	100.00	100.00

¹Reparation from Germany, Final Act and Annex of the Paris Conference on Reparation, Department of State Bulletin, Vol. XIV, No. 341, pp. 114-124; also see John B. Howard, The Distribution of Reparation from Germany, Department of State, Publication No. 2584, European Series 12, 1946.

The Final Act of the Paris Conference on Reparation¹

The Final Act of the Conference was approved by all but one of the

participating delegations by the closing date, December 21st, and by all

soon thereafter. The delegates did not have plenipotentiary powers so

ratification was required and the allied nations did ratify and thereby

the agreement was put in force in January 1946 and released to the press

on January 15th. Agreement and such prompt ratification was more than

could have been expected. Two years later, on February 4th, 1948,

General Marshall, then Secretary of State, sent a letter to Senator

Vandenberg who was concerned about reparation, and enclosed a copy of a

Memorandum on the German Reparation Problem prepared in the Department of State

which said, and I quote, "These 18 countries in effect accepted the principle

of Germany's capacity to pay and agreed among themselves as to their rela-

tive shares in the total volume of German reparation assets which at that

time was unknown. Such a reparation settlement is unprecedented in history;

and in view of the greatly reduced volume of capital equipment being made

available under the revised levels of industry, its continued acceptance is

even more remarkable."² It has been called the most successful of all post

war conferences, but let me remind you that the USSR did not participate.

I am still asking myself the question of why this conference was so

successful. The opportunities for disagreement, dissension and protracted

¹ Ibid, p. 13.

² Status of German Reparation and Dismantling Program, Letter from the Secretary of State to the Chairman of the Senate Foreign Relations Committee and attached Memorandum on the German Reparation Program, Department of State Bulletin, Vol. XVIII, No. 451, p. 240.

negotiations far beyond the 36 days actually used were manifold. At times conflicts of interest did threaten the conference with disunity. At times there was very rough negotiation and, as the usual peacemaker, even the American delegation became irritated and distraught. At one meeting at which our irritation became apparent General Pope, the Canadian delegate who was sitting nearby, passed a note to me entitled, "Seven rules of diplomacy," and then he had written "patience" seven times. That helped. Only once in my memory did the moderator of the conference, Jacques Rueff, take off his hat as moderator and presiding officer, put on his hat as the French delegate, and speak his mind in no uncertain terms. Fortunately, no one took issue with him. Conflicts were always overcome through compromise and a remarkable spirit of cooperation and goodwill somehow was achieved.

But, to be more specific, I would list six factors which contributed significantly to the success of the conference, as follows:

- (1) The USSR was not a participant in the conference.
- (2) The conference had excellent leadership in the delegates of the Inviting Powers; Jacques Rueff of France who also served as Chairman of the Conference, Sir David Waley of the UK, and James W. Angell of the US. Rueff was excellent as presiding officer at conference meetings, and, as the French delegate, somehow persuaded his government to make necessary concessions; Sir David exemplified all the best traditions of the British Foreign Office. Mr. Angell was an excellent choice for this assignment and very effective in negotiation. Both he and Jacques Rueff were good economists and this was primarily an economic conference although there were many political overtones.
- (3) Only three nations called the conference, the US, the UK, and France; also they held most of the reparation assets or were in position to get them for they were the occupying powers and they could and, perhaps did, impose their combined will on the other participating allies.

After the conference ended, our delegation broke up and all but a few people returned to the US. At the suggestion of the Department of State, Mr. Angell and I and a few other members of the delegation went to Berlin. We wanted to discuss procedures for acquiring reparation assets from the zone commanders with General Clay, and implementation of the Potsdam Agreement in reference to exchange of industrial equipment for food and raw materials with the USSR representative on the Allied Commission on Reparation. The USSR people were not cooperative and we never did interview this person. He was always somewhere else. They did arrange a party in the USSR Zone headquarters, come after us in American cars, and ply us with vodka, food, and other delicacies, and then return us to the US zone. Mr. Angell and I had a conference with General Clay but he was uncooperative and not even very courteous. Apparently, he felt that the reparations people from the Department of State and FEA were trying to usurp his

Consultation in Berlin

- interests in reparation.
- distribution process, and thus gave them the opportunity to protect their Agency assured the smaller share holders that they would participate in the
- (6) Finally, the planned establishment of the Inter-Allied Reparation Agency noted.
- yet they were reasonable about Germany's capacity to pay as General Marshall they all wanted German assets quickly for rehabilitation of their economies.
- (5) No participating nation wanted protracted negotiations, rather enhanced its leadership role.
- from 27.8% to 11.8% unilaterally and without pressure from other claimants monetary and other, and reduced its rightful share of Category B reparation
- (4) The fact that the US relinquished all claims to the gold, both

authority. Later we learned that an influential person in the Department had prompted this attitude. So we accomplished very little in Berlin, if anything. We did see the devastation of Berlin which was almost unbelievable.

Implementation of the Paris Agreement

By the beginning of 1946 the stage had been set for reparation and restitution. Now we turn to what actually happened during the next five years, that is, to what extent the agreement was enforced. It is a long story and only the highlights will be mentioned.

Establishment of the Inter-Allied Reparation Agency (IARA)

The IARA was established in Brussels on February 28, 1946, with Jacques Rueff of France as president and Nigel Sutton, a very able British national, as Secretary General. There were eighteen delegations to the IARA which, together with their staffs, the Secretariat, officers, etc., formed a group of about 200 persons. It had responsibilities much broader than the mere technical implementation of the Paris Agreement. It was also the point of contact between the member governments and the Control Council for Germany in the overall allocation process.

German Merchant Marine Distribution

A Tripartite Merchant Marine Commission had been established at Potsdam. It determined that losses of the allies had been 23,608,000 gross tons and that 1,189,600 gross tons of sea-going ships would be available for reparation. The USSR was to get one-third; the members of the IARA, two-thirds. It had at its disposal 254 ships with gross tonnage of about 750,000. But some of these ships were not seaworthy and, in fact, 686,344 gross tons were distributed to IARA members in proportion to their losses. The UK losses were 46.04% of the total; the US, 17.82%; Norway, 10.14%; other

claimants, the remainder, 26%. Reparation of ships represented not more than 3% of losses. The allocation was approved by the IARA Assembly on May 25th, 1946. Inland water transport ships were initially in the reparation pool but better judgment prevailed and they were left for German use.

Restitution of Monetary Gold

Practically all of the monetary gold was captured by the US armed forces from a salt mine on a tip from some informed source. This gold and other treasure had an estimated value in excess of \$250,000,000. Most of the gold was not clearly identifiable as to source and thus ownership

was not clear, but most of it belonged to France. From a purely legal

standpoint this gold could have been considered as war booty and claimed

by the US, but it did not choose to do so. Reparations Commissioner

Pauley suggested that the gold be held as a lien against US claims against

other allies but Assistant Secretary of State, Will Clayton, termed such

a policy impracticable and inadvisable. The Secretary of State on August 18th

cabled the American Representative that the US had reached a decision that

"Gold and treasure will be restored to the rightful owners on the 'gold pot'

theory, without encumbrance or lien, at the earliest possible date."

A Tripartite Commission for this particular purpose was established

independent of the IARA, with the US, UK, and French delegates holding mem-

bership. It was also charged with finding and repatriating gold which the

Germans had sent to other countries for safekeeping. So there was a sub-

stantial amount of gold available for restitution. In February 1947 a

questionnaire was sent to all IARA members to obtain information on gold

losses and, after thorough analysis of the legitimacy of the claims,

restitution was made to the rightful owners from whom it had been looted by the Germans.¹

Distribution of Non-Monetary Gold

Article 8(A) of the Paris Agreement stated that "A share of reparation consisting of all non-monetary gold taken by the allied armed forces in Germany and, in addition, a sum not exceeding \$25,000,000 shall be allocated for the rehabilitation and resettlement of non-repatriable victims of German action."² These funds were to be made available by IARA. Their use was determined by another international group established for that particular purpose. This group reported its plans for disbursement on July 14, 1946.

Reparation through Seizure of German External Assets

Germany's external assets in the territories of allied governments were seized by them under authority given through national legislation, and the Paris Agreement gave international sanction to such seizures. Each government had the responsibility for informing the IARA of the value of these assets. The Agreement stated that these values should be charged over a five-year accounting period to the reparation accounts of the member governments in which the assets were located. The total value of these assets in 1938 dollars was approximately \$300,000,000.

Liquidation of the German assets in the neutral nations presented much more difficult problems. Most of these assets were in Switzerland, Sweden, Spain and Portugal but in many other nations also. Their value in 1938 dollars was about \$125,000,000. The Paris Agreement provided

¹ Tripartite Commission for the Restitution of Gold, Questionnaire on Gold, February 1947.

² Ibid., p. 13.

unit and that a balanced economy would be achieved as provided in the based on the presumption that Germany would be treated as a single economic allocation. But these expectations were not fulfilled because they were begin; and that the equipment would soon be placed at its disposal for would be announced; that dismantling, packing and shipping would soon plan was announced a complete list of the plants available for reparation for reparation would be about 1,800. The IARA expected that after the to only 75% of that in 1936. At this level the number of plants available made in March, 1946, to leave in Germany industrial capacity equivalent hands of the Zone Commanders and the Control Council. A decision was IARA. The decisions on the number of plants to be dismantled was in the This category of reparations posed the most difficult problems for the

Industrial Equipment Removals

amounts initially expected. ments were made by all of the important neutral nations but not in the the confines of this address. Suffice it to say that, ultimately, pay- A discussion of these negotiations and their results goes far beyond might be needed in settlements of their own claims against Germany. that it would infringe private property rights and that these assets with Allied government demands. The principal arguments presented were Paris Conferences. They brought forward many arguments against compliance as partial reparation in accordance with the decisions of the Potsdam and asset liquidations should be put at the disposal of the negotiating powers The neutrals strongly resisted Allied demands that the proceeds of German difficult but almost interminable for they lasted all during the 1960's. release of or the payment for these assets. The negotiations were not only that the US, UK, and France as a group should conduct negotiations for the

Potsdam Agreement. But the unwillingness of the USSR even to attempt economic unity and the stalemate over reparation from current production almost brought the removals program to a standstill. Two months after negotiations began, in May 1946, General Clay announced that no further action on designations for removal or deliveries from the US Zone would be made until economic unity had been achieved. The British and the French Zone Commanders, without making official declarations, adopted the same position. Obviously, it was a power play to bring the USSR in line but it did not do so. What it actually did was to hold up the removals program for most of 1946 and on into 1947. Equipment from 72 plants was released to the IARA before the Clay pronouncement and in November machine tools from 51 plants were placed at the IARA's disposal. Yet the removals program was dealt a body blow by the Zone Commanders from which it never fully recovered.

Shortly after the Marshall Plan for aid to Western Europe was announced on June 5, 1947 the British and American Zone Commanders announced a revised plan for removals of industrial equipment whereby capacity equal to that of 1936 would be left in Germany. This reduced the number of plants which could be dismantled for reparation from 1,800 to 858. Then our Congress got into the act. In a House Resolution (No. 365) of the Eightieth Congress the secretaries of State and Defense were requested to transmit to the House of Representatives at the earliest practical moment certain information, specified in eleven questions . . . regarding the removal of industrial plants from Germany by way of reparation. A detailed answer was given by the Under Secretary of War, Robert Lovett, dated January 4th, 1948.¹ Senator Vandenberg, the Chairman of the Senate

¹Removal of Industrial Plants from Germany by Reparation, Letter to the Speaker of the House of Representatives from Under Secretary Lovett, February 8, 1948, Department of State Bulletin, Vol. XVIII, No. 499, pp. 185-90.

1 Status of German Reparation and Dismantling Program, Letter from the Secretary of State to the Chairman of the Senate Foreign Relations Committee and attached Memorandum on the German Reparation Program, Department of State Bulletin, Vol. XVIII, No. 451, p. 243.

Foreign Relations Committee, queried Secretary of State Marshall directly, and in a long letter of February 4, 1948 the Secretary assured the Senator and I quote, "The revised level of industry and the dismantling program based on it have no present effect on Germany's ability to produce and to export; nor has the revised level been found an obstacle to planning the maximum feasible contribution by Germany to the European Recovery Program." But this statement did not stem the tide against removals. The Economic Cooperation Act of 1948 (Article 19) said the Administrator will request the Secretary of State to obtain the agreement of those countries concerned that such capital equipment as is scheduled for removal as reparation from the three Western zones of Germany be retained in Germany if such retention will most effectively serve the European Recovery Program. The Administrator of RCA appointed an Advisory Committee under the chairmanship of George Humphrey to study the problem and this Committee recommended that 167 plants on the list for dismantling be deleted and, surprisingly, the UK and especially France, which had much to gain by removals, agreed. So the total list was reduced to 667 plants and part plants including those whose equipment had already been released to the IARA, only 37% of the first estimate. So the intervention of the Congress and the RCA had a substantial effect.

Parenthetically, it is interesting to note that when the decision was made to end dismantling late in 1949 the Western Allies had about 300,000 tons of industrial equipment, initially destined for the USSR, in storage. The Potsdam Agreement provided that the USSR would get 25% of all removals from the Western zones of occupation, 10% free and 15% to be paid for by

reciprocal deliveries of food and raw materials. A small amount of equipment had been delivered but receipts of food and raw materials from the USSR had been only about 10% of an equivalent value. After the Berlin Blockade began in April 1948 no further deliveries were made. By that time it was fully apparent that the USSR would not comply with the provision of the Potsdam Agreement that Germany should be treated as a single economic unit. So the Western Occupying Powers turned this equipment, which had been accumulating for two years or more, over to the IARA for allocation to its members.¹ The total amount of industrial equipment removals was about 1,200,000 tons.

Now let me recapitulate briefly. Reparation through the removal of industrial capacity was the keystone of the reparations program. Its principal objectives were to reduce Germany's war potential and to aid in the economic recovery of the allies. Just why did it fail to reach its potential? The hiatus caused by General Clay's decision to halt removals in an attempt to force USSR compliance with the Potsdam Agreement was the first roadblock. Then dismantling and removals could have been made without too much resistance. But two years later pressures against the program were exerted from many quarters. Removals were attacked in Congress and in the House of Commons. Interested parties in Germany carried on a systematic propaganda campaign against further removals. German officials became non-cooperative and were able to postpone or halt the dismantling of many important plants. And once postponed no later action was usually taken. German owners, managers, and workers were reluctant to obey Zone Commanders' orders. They slowed down the removals programs and time was on their side. Strikes were both frequent and effective on dismantling projects. Actually the Zone Commanders had lost full control of the situation.

¹New York Times, December 4, 1949.

It seems to me that the US and Germany, inadvertently abetted by the USSR, and with British acquiescence if not approval, stifled the removals program. Leaders in the Congress came to believe that the program, the Marshall Plan, and other efforts to aid economic recovery in Western Europe were antithetical although Secretary Marshall said they were not. But I suspect that the principal reason for a weakening of the removals program was the intransigence of the USSR; the irreconcilable differences in policy and action between those of the USSR and the Western Allies. In a very few years, 1945-48, apparently we came to the conclusion that to weaken Germany further was unwise; that industrial capacity, if left in Germany, would do more to enhance European recovery than using it for reparations; and that our principal antagonist in the future was not to be Germany but the USSR. This was a remarkable change in attitude in a few short years brought about by events with which you are all familiar. The IARA handled its task well. In the period 1946-51 seventy-one allocation programs were submitted by the Secretary General to the General Assembly for approval and only four failed to achieve it. These four were submitted to arbitration as provided for in Article 7, Part II of the Paris Agreement, and agreement was reached soon thereafter. But the IARA was hampered continually in its operations by the failure of the Control Council and the Zone Commanders to make industrial equipment available for reparations. It protested vigorously to the Council of Foreign Ministers which was established after the Yalta Conference. The member nations of the IARA were incensed by the continual delays and the fact that the actual removals were reduced to only about 37% of the expected amount. It can be argued that the IARA failed in the sense that the percentage entitlements agreed upon at the Paris Conference were not achieved. Some members had

substantial overdrafts while others were far short.¹ However, this was not the fault of the IARA, for everything was done within its power to expedite deliveries. It was expected that allotments of machinery and equipment would permit adjustments so that each nation would get reparation approximately in accord with the Paris Agreement but the reduction in removals made this impossible.

In the last meeting of the IARA Assembly it considered a proposal that countries with overdrawn accounts should reimburse the Agency to the extent of their overdrafts and that payments should be made to those countries with underdrawn entitlements. After long debate these proposals were not accepted. To my knowledge nothing has ever been done to achieve a balance between entitlements and actual receipts on reparation accounts. Perhaps an imbalance was inevitable when political considerations upset reparation plans for the acquisition and distribution of reparation assets.

The dismantling and removals program was officially terminated in late 1949. In the June 1951 Report of the Assembly of the Inter-Allied Reparation Agency to Its Member Governments it was stated that "Apart from the securities and currencies issued in the territories of member governments and found in Germany, the assets which the IARA still expects to be received are shown in Schedule I, and consist entirely of the remaining proceeds of the liquidation of German assets in certain neutral and ex-enemy countries. The sources of these assets and their estimated amounts are based on such information, official and unofficial, as IARA has been able to obtain."²

¹See Table II that follows on page 26.

²Part Five, X. Assets Which Are Still Expected to Be Received by IARA, p. 30.

TABLE II

ENTITLEMENTS AND RECEIPTS OF REPARATION¹

Percentage received of entitlement in combined pool of Cat. A and Cat. B	Total entitlements	Total receipts	%
	\$ (1938) 1000	\$ (1938) 1000	
Canada	14.837	3.493	23.54
New Zealand	2.579	1.165	45.19
United Kingdom	151.039	101.285	67.06
Greece	17.982	12.845	71.43
Czechoslovakia	18.897	13.898	73.55
India and Pakistan	12.643	10.456	82.70
United States	106.895	88.753	83.02
Yugoslavia	41.797	34.741	83.12
France	100.376	84.016	83.70
Australia	4.301	3.746	87.09
Belgium	18.270	17.155	93.90
Luxembourg	1.313	1.447	110.24
Albania	.899	1.059	117.83
Norway	8.246	14.197	172.17
Netherlands	24.565	43.370	176.55
Union of South Africa	2.552	7.777	304.70
Egypt	.572	2.994	523.32
Denmark	1.573	22.678	1,441.54
Carried forward	529.336	465.075	

¹ Inter-Allied Reparation Agency, Report of the Assembly of the Inter-Allied Reparation Agency to Its Member Governments, June 1951, p. 29.

So the work of the IARA was largely completed within a five-year span, 1946-51. The last Assembly meeting on November 19, 1959, in conformity with Part II of the Paris Agreement, terminated the existence of the Agency; a liquidator was appointed who made his final report in September of 1961.

Final Comments

It is difficult adequately to appraise the reparation and restitution program as planned at Yalta, Moscow, Potsdam, in Paris at the Reparation Conference, and as administered by the Inter-Allied Reparation Agency in Brussels for the allied governments other than the USSR. Surely the allies were benefitted greatly by the prompt acquisition and distribution of the German merchant marine ships in early 1946; by the restitution of the monetary gold; by the distribution of captured supplies and other materials susceptible to civilian use; by the appropriation for the aid of non-repatriable victims of German action; by the acquisition of German investments, both in the hands of the neutrals and in the allied nations; and even by the much less than expected acquisition and distribution of machinery and equipment through the dismantling and removals program.

Our policies on reparation and restitution formulated during the last years of the war and in large part agreed to by our Western allies still seem sound and defensible. The concept of a single reparation pool was thwarted by the USSR but embraced by our other allies. Also reparation demands were based upon Germany's capacity to pay and thus were realistic in marked contrast to those imposed upon Germany after World War I. It is significant that reparation was largely completed in a few years even though negotiations with the neutral nations lasted through the 1950-59 decade.

Ann Arbor, Michigan
September 10, 1979

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