



REPORT ON GERMANY

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IMMEDIATELY AFTER the war German industry and trade were prostrate. I was in Germany during the summer of 1945 as a member of the United States Strategic Bombing Survey, and I witnessed the tremendous physical damage and economic disorganization that had paralyzed every economic sector except agriculture.

The directives under which the Allied Control Council operated proved unsatisfactory, largely because of Russian non-cooperation, and valuable time was lost putting Germany's energies to work for her own support. Economic conditions were bad. The Occupation Forces were obliged to make large outlays for the reestablishment of minimum economic activity, such as coal production, electric power, and transport, and for subsistence food supply. Even so there was widespread privation. The principal part of the cost of this Government and Relief in Occupied Areas (GARIOA) program fell upon the United States. The influx into Western Germany of some 8,000,000 ethnic German expellees and refugees during

the first postwar years contributed to the difficulty of the situation.

The first important economic milestone was the combination of the initiation of the Marshall Plan in the spring of 1948, and currency reform in June, 1948. Currency reform put the gears of the German economy in mesh, and the Marshall Plan provided a blood transfusion to the entire economy in the form of food and industrial materials.

The result was a remarkable demonstration of economic mechanics. People went to work to supply the tremendous deficit in consumer demands for almost all manufactured products. The rate of industrial production, which had approached zero after the war, has now caught up roughly with the average of Marshall Plan countries. German factories today are humming with activity, and on a current basis the output of goods is contributing creditably to consumer needs, to restoration of industrial plants, and to exports.

It must be remembered, however, that only a dent has been made in the restoration of total war damage, both that suffered by industrial concerns and private individuals through bombing and related war action, and through economic dislocations such as currency reform.

Uses of Marshall Plan Aid

U. S. dollars go to work twice for the recipient nations. First, as dollars, they pay for imports. These imports are not gifts, however, to those who receive the specific commodity—wheat, cotton, or machinery. Some importer must pay for them in his own currency. This process gives rise to what are called “counterpart funds”, the local currency counterpart of the dollar-financed imports. Two opportunities exist, therefore, to direct the best use of monies deriving from U. S. aid: what should be bought with the dollars, and what should be bought with the counterpart funds.

By the time I arrived in Germany, in October, 1949, the general thinking regarding the dollar program had been quite well established. It had been decided to concentrate on food and industrial raw materials. Less than 5% of the dollar funds had been allocated to the purchase of industrial equipment with which to enhance Germany's long-run ability to earn her own living. This program by itself is what might have been expected, since Germany has been for several generations the leading manufacturer of industrial equipment on the European continent. While Marshall Plan aid was supplying great quantities of grist for its industrial mills, German industrial ability was rebuilding the mills.

The German dollar program, however, when compared with the dollar programs of other Marshall Plan countries, more particularly France, raises an important issue: With U. S. aid, industrial plants are being built in these other countries to supply markets formerly supplied chiefly by Germany.

If it was the intent of the Marshall Plan program to change the balance of industrial power in Europe, the program followed has tended in that direction. I am afraid, however, that this was not the overt intent, but that Marshall Plan funds have been used to further the nationalistic ambitions (however modest) of those other countries. For the longer run the issue raised is an important one. Two of the possibilities are that the Germany economy will have a hard time making a comeback, or the newly established concerns will be unable to compete with Germany. Either possibility will reflect discredit on the Marshall Plan.

The German counterpart fund program has been quite a different matter from the dollar program. Counterpart funds have been used almost entirely to provide investment capital for the most needy sectors of the German economy. In collaboration with the German Ministry of Economics, the Marshall Plan Mission to Germany worked out investment programs for these funds as sums became available through dollar aid.

The criteria used in the initial years were these: Will the investment contribute a maximum to the expansion of production of essential goods and services? Will it aid expellees and refugees and reduce unemployment? Will it increase dollar-earning ability or reduce the need for dollar imports? More recently another criterion has been added: Will it increase Germany's contribution to western defense?

The application of these criteria has resulted in the distribution of counterpart funds for investment in the following principal fields: improvement of agricultural productivity, expansion of electric power production, general aid to export industries, housing, and, more recently, coal and steel. The amounts of money involved have been large, but the needs have been even larger. Germany has a long way to go to restore and modernize its industrial installations, and an even longer way to go to rebuild its cities and houses.

Obstacles to reconstruction

The restoration of German industry would have been most difficult if only because of war destruction and disorganization. The task has been made even more difficult because of certain disabilities imposed by the Allies. Those having to do with strictly military matters, such as the prohibition of production of weapons, have presented no problem, but others intended to restrict civilian industries, have penalized recovery. Disarmament of civilian industries—the purpose of which was to reduce the level of German production—has been completed. This was called by Germans the “Morgenthau Plan,” and has been greatly resented.

Restrictions on industries remaining after dismantlement are embodied in the Prohibited and Limited Agreement. This covers ceilings on production of steel, aluminum, and styrene, limitations on productive capacity of several leading industries—especially steel (including restrictions on the adoption of improved technology)—and controls over several other sectors of German industry such as ball bearings, machine tools, and electronic tubes.

It is not my purpose to dispute Allied policy in Germany with respect to military security. It became clear shortly after my arrival, however, that many of the restrictions on German industry were directly opposed to Marshall Plan objectives, namely, economic recovery and reduction of the burden on the U. S. taxpayers. We, as a party to the restrictions, were going in opposite directions at the same time. Furthermore, I became convinced that many of the restrictions on German industry had been imposed with military security as the excuse, but actually to penalize Germany's competitive position in world markets.

The United States had succeeded in getting a review of the dismantlement program in 1948, in the light of the newly declared Marshall Plan, and late in 1949 a few industrial plants were removed from the dismantlement.

ment list. Extensive dismantlement continued, however, principally in the Ruhr (British Zone), during the first two years of the Marshall Plan. Dismantlement was not completed until March, 1951.

The United States took a lead in securing the relaxation of industrial restrictions imposed by the Prohibited and Limited Industries Agreement. In the summer of 1950, tripartite meetings began in London, aimed at the removal of unnecessary controls on civilian industries. These meetings resulted in small but significant relaxations in September, 1950, with respect to shipbuilding and steel production.

During the succeeding months our hopes ran high for a time that all industrial controls which had no connection with weapon production, would be removed. Tripartite agreement could not be secured, however, and in March, 1951, only a limited list of relaxations was announced. Several important controls remain. Among other things, Germany's steel industry is still subject to controls which prevent modernization and the balancing up of productive capacity for certain products to meet market demand. Occupation-imposed industrial disabilities still impair Germany's industrial productivity and help to keep her from contributing to western defense.

The existence of these disabilities on German industry has made it very difficult to convince industrialists, and also workers and the general public, that U. S. policies in Germany make sense. Opinion is uniformly enthusiastic regarding the generosity and high purpose of the Marshall Plan, but regarding the continuing punitive actions it is said that the United States talks nobly, but lets France and Britain have their ways. Repeatedly I heard the comment that if the restrictions on German industry which have no direct bearing on the production of weapons and related war material were removed, economic conditions would improve and there would be a closer approach to economic self-support.

The morale of industrialists under the conditions that I have described, has not been high. The situation is especially bad in the Ruhr, where five years of wholesale dismantlement have worn out the spirits of most responsible industrial directors, and created an attitude of resignation.

It is hard for us to understand the relationships between the victor and the vanquished under such circumstances. The removal of the best of Germany's steel industry, for example, was obviously an imposed action. Neither the German Government nor property holders appeared to possess any rights. Some interesting points about the propriety of certain of these Occupation acts may be raised later in international courts of law. Many grievances were presented to me by German industrialists; those that bore a relationship to the success of the Marshall Plan I tried to do something about, but my record of accomplishment was poor.

The German Government at both federal and state levels tried hard to secure relief for German industry from these disabilities. Chancellor Admaner petitioned

the High Commission on many occasions to stop specific dismantling actions or to relax industrial restrictions. Almost without exception these requests were refused.

In spite of the various disabilities suffered by German industry, a remarkable degree of recovery has taken place. Marshall Plan food and industrial materials, factories and equipment reconstructed by German technical resources, labor that is both skilled and hard working, and enterprise that exhibited a commendable spirit, have combined to bring a greatly improved status to Western Germany. The record is a good one. Allied Occupation policy might be described as tolerable if it were not for the clear purpose of the Marshall Plan to create even better conditions, and if it were not for the Russian threat.

Political attitudes today

Just as Germany has made an economic recovery assisted by the Marshall Plan, so has she made substantial progress with the adoption of democratic ideas. It is difficult to be sure about such matters, especially since there are so many conceptions of democracy. But the improved standard of living has successfully combatted political unrest, and Communism is a small factor except in a few spots such as the Works Councils of some industrial concerns.

The political atmosphere still contains reminders of the traditional German leaning toward authoritarianism, but it also appears to be well purged of the worst features of Nazi totalitarianism. The position of a government under Occupation conditions is difficult at best. In this light Germany is fortunate to have succeeded as well as she has with the reconstruction and reform of governmental machinery on the federal and state levels, and with the adoption of a basic law, or constitution. The problem was not so difficult on the local government levels.

Except for the Russian threat, the progress being made in Germany along political lines under the Occupation could have been considered satisfactory. But the speed of world events, following the outbreak of war in Korea, has been too fast for the tripartite High Commission machinery. The United States, generally speaking, was ready to keep pace with these events, but not so France and Britain.

These countries have persevered with steadfastness of purpose in their policy to prevent Germany from being able to support another aggression. They have swerved from this objective scarcely at all because of the Marshall Plan or the Russian threat. They have succeeded very well with the reduction of German strength. Many times it occurred to me, however, that their present success was perpetuating hate and distrust. The preamble to the UNESCO charter makes reference, I believe, to the fact that since wars begin in the minds of men, the way to peace lies there also. If this is true, only the U. S. policy toward Germany has been creating in German minds attitudes favorable to future peace.

This criticism I have made of the attitudes of our Allies in Western Europe should be qualified in one important respect: the Schuman Plan. This is truly a new and bold conception of a means to secure the peace of Europe. Its success is still problematical, but it has reached the initial stage of finalization, and there is promise that the governments of the six member countries will give it their approval. If France has been keeping restrictions on Germany only until the Schuman Plan became a reality, much of the criticism I have leveled at her should be retracted.

Western defense

The most important political problem in Western Europe today is probably the matter of German participation in western defense. Russia's attitude is clearly one of recognizing Germany's key position in this respect, both with reference to industrial production and manpower, and she is using every device to neutralize Germany. France and Britain appear to have continued too long with their purpose to reduce Germany. A fully disarmed and passive Germany has been good politics in both countries. Perhaps they have been genuinely scared by Russia's declaration that she would regard the rearming of Germany as an unfriendly act.

The United States has persisted with its high-minded and bold policies; it has taken a lead in relaxing Occupation controls, in the gradual reestablishment of German sovereignty, and in the challenging of aggression. Britain and France, however, do not want to see Germany rearmed before they are, and they are eager to have first call on defense funds which the United States makes available for the defense of Western Europe. The economic and military weakness of these two countries is probably a factor in their attitudes.

The German attitude has not been encouraging with respect to active participation in western defense. There is no heart for rearmament. There is widespread knowledge of what Russian Communism means, however, (every fifth person in Western Germany is an expellee, refugee or former prisoner of war in Russia) so those who think, understand that they must fight. The less thoughtful are choosing neutralism, in the hope that the Russian tide—if it comes—will sweep over them but not destroy them, and that existence under the Russians will not be as bad as feared.

Officially Western Germany has declared itself for the West, and I have no reason to doubt the sincerity of the declaration. But scarcely any tangible steps have been taken to implement that position. Germany is still under strict prohibitions with respect to both industrial and manpower mobilization. Public opinion has been estranged by certain Occupation actions, such as dismantling and shipment on reparations account of needed industrial equipment, restrictions on civilian industries, and the forced export last winter of extra amounts of Ruhr coal at a time when German homes were cold and

German factories were closing for lack of coal.

The German attitude toward participation in western defense is torn between the clear conviction that she prefers the West, and resentment at restrictions imposed on her which are in contradiction to the normal relationships of partners in a joint defense effort. General Eisenhower pointed to this situation when he said that German military units would be welcome in his army when they would be on an equal basis. The problem he passed to statesmen has not been solved.

The plain fact of the situation today is that little progress has been made in bringing Germany into the western defense picture. It is exceedingly doubtful, furthermore, whether German public opinion will support active participation. The explanation, in my mind, is Allied bungling. U. S. policy months ago was to bring forward German public opinion actively in support of the West, to create a positive attitude toward us similar to that held by Berliners because of the air lift. We have gotten almost nowhere with that policy. There may yet be time to bring Germany into the job of western defense; some small beginnings are being made. There is considerable opinion among informed people in Western Europe that without German manpower and industrial resources, General Eisenhower's efforts will not be much of a worry to Russia,

The immediate crisis

Western Germany has made a remarkable economic recovery, aided in an important way by Marshall Plan funds. She has also made good progress with the establishment of democratic government. With peace and access to world markets there is a strong basis for believing that Germany will be able to support herself well as a friendly member of the community of nations.

The immediate crisis in Western Europe today has to do with defense against Russia. Allied policies toward Germany in this matter have failed to create a constructive basis for her participation. There is much evidence that Germany is still today, as it has been in centuries past, the bulwark against aggression from the East. It is of vital importance, in my opinion, that France, Britain, and the United States find a way to bring Germany cautiously but effectively into the western defense effort.

United States foreign policy in Germany, according to my personal observation, has been high-minded and bold. At times it has perhaps deserved the British criticism of being changeable and unwisely bold. Much of the criticism I have heard of our State Department for its German policy, however, impresses me as unjustified, or, at least, misdirected. I firmly believe that in the large our policies have been right. The trouble has been in failing to get British and French agreement to our policies. The critics of our State Department and of Mr. Acheson, and even of the Marshall Plan program, might well shift their attention to Paris and London and find the reason for the repeated vetoes of our policies.