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Entry 69A 4707

File Germany Propaganda

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File Policy Suggestions
Other Agencies

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Planned EconomyOSS: May 1944:

Planned economy should not be maintained, but in certain branches of economy controls inevitable. Crop control and compulsory deliveries of food-stuff will have to be maintained, but machinery should be democratized by genuine farmers and consumers organizations.

STATE: July 1944:

The execution of a reparation program will require far-reaching and thoroughgoing controls over the economic life of the country, probably similar to the wartime controls.

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File GERMANY: PROPERTY
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File POLICY SUGGESTIONS
OTHER AGENCIES

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Authority NND 978025
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OSS: May 1944: Imports should be strictly related to the "basket of necessities."

STATE, June 1944: Stress should be laid on early resumption of essential foreign trade.

FEA: May 1944: Prohibit all trade and capital transactions immediately on occupation, freeze all pending claims, suspend all export and import duties, fees, quotas, and trade restrictions. Organize complete control in the post-surrender period. United Nations Trade Commission to be set up to assist military government. This Commission should allocate all German export supplies and control all German imports, should act as sole clearing center for all claims upon Germany and should set up scheme of priorities.

Food imports may become necessary to alleviate extreme privation.

BRITISH, May 1944: Wherever consistent with the terms of directive, make use of existing machinery of exchange control. The German authorities will be responsible for operating it. Payment in foreign exchange will be necessary for payments between Germany and neutral countries which are not passed through clearings. Obtain from German authorities full details of all clearing agreements to which Germany is a party. Suspend clearings with countries with which any of the United Nations are still in a state of hostilities. Special directives will be given for clearings with the formerly occupied territories of the United Nations. Clearings with satellite countries which have been suspended not to be restored. Clearings with satellite countries which have not been suspended to be continued. Clearings with neutral countries to be continued where the neutral government consents.

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*Germany - Property
Control*

June 15, 1949

MEMORANDUM FOR THE FILES

Subject: Review of Report on "History, Policies, and Procedures of the Property Control Branch, OMGUS" by S. M. Rose.

The report constitutes a brief history of the development and implementation of the Property Control program in Germany.

Chapter I deals with the background and authority for the program of control. The planning for the occupation of Germany began in 1942 in England when the United States Group Control Council was established. Later, under OMGUS, the Property Control Branch of the Military Government was formed to carry out the plans made before the fall of Germany. Property Control in the U.S. Zone of Germany became effective in the fall of 1944 with the promulgation of Law No. 52 of the Military Government. The basic authority for control lay, however, in JCS Directive 1067/6 which directed the Zone Commander to block all gold, silver, currencies, securities, accounts in financial institutions, credits and valuable papers as well as other assets owned or controlled by the German Government and subdivisions thereof, and other enemy countries or nationals thereof, the Nazi party and its affiliates, other prohibited organizations, absentee owners of non-German nationality, institutions used to cloak Nazi activities, and other specifically designated persons. Property transferred under duress and works of art regardless of ownership were also to be controlled. Other directives and regulations which elaborated on this basic document are quoted and discussed in the report.

The major categories of property for which the Property Control Branch has responsibility are:

- United Nations, Neutral, and other Absentee Owned Properties
- Properties of the German Reich, etc.
- Properties of Nazi Party Organizations
- I. G. Farbenindustrie Properties
- Captured Enemy Material
- Properties Acquired under Duress

Each of these headings is discussed under a separate chapter with particular emphasis on treatment of property of United Nations nationals and property transferred under duress.

Property such as external assets and that allocated for reparations is not handled by the Property Control Branch and its treatment is reviewed in

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part by Mr. Rose in his report on "The German External Assets Program".

The treatment of property of UN neutrals, and other absentee owners is discussed in Chapter II. The objective of the Property Control Branch with respect to this type of property is to ensure that, pending ultimate disposition, it will be safeguarded and maintained with a minimum of depreciation. Property was taken under control on the basis of records kept by the German equivalent of our Alien Property Custodian as well as from reports received directly from the interested nationals. The number of units of property in this category under control reached a peak of more than 14 thousand with an estimated Reichsmark value of 2,194,402,636. These properties were administered by appointed German custodians. The burden of administering the various types of properties was great and in 1946 the local German authorities assumed responsibility for the administration and safeguarding of certain properties subject to policy direction by OMGUS. The property of United Nations and neutrals remained, however, subject to special control measures and supervision by OMGUS. In 1947 de-control measures were put into effect whereby properties in which UN or neutral nationals held at least 51% interest could be released, upon application, to nominees of the owners. In 1948 arrangements which further reduced the work load were made for the export of personal effects and household goods to the absentee owners.

It was also decided that the various Land Reform Laws in the U.S. Zone included within their scope the properties of United Nations or neutral nations.

At the present time the Property Control Branch is scheduled for deactivation on July 1, 1949 and therefore all absentee owners of property should designate agents by that date. In the meantime the property is being administered by the German Property Control Authorities under the supervision of the Branch.

Chapter III deals with property of the German Reich and all political subdivisions. The largest group of this category, including the Reichsbank, Reichsport and Inland Water Way was not taken under control by the Property Control Branch but was administered by other agencies. It was recommended by the Property Disposition Board that custody of Reich properties not being used by the occupation forces be exercised by the Land governments and that title be vested in the Land with the understanding that the property or its proceeds be used for education, welfare, etc. At present the recommendation is that Reich properties located in a Land be transferred to that Land and properties essential to the functioning of a central German government be reserved for transfer to a central German government when formed. A decision has, however, not been made whether to unilaterally follow these recommendations or to await the peace treaty. The interest of the former Reich in the iron and steel industries was disposed of by MG Law No. 75.

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The treatment of property of Nazi party organizations is discussed in Chapter IV. The largest of the Nazi organizations was the German Labor Front which, to demonstrate the magnitude of property controlled, is estimated to have owned 15% of the total German economic wealth. This organization owned insurance companies, manufacturing plants (Volkswagen), and many retail stores.

Note Many of the properties were eventually turned over to certain democratic and charitable organizations and funds collected by Nazi organizations for social insurance were considered as in trust for the social insurance agencies and not as debts of the Nazi organization. Property in this category which is not claimed by successor organizations is to revert to the Laender. The property of I. G. Farbenindustrie was among that seized by the Property Control Branch and is the subject of Chapter V. Control was exercised to the extent possible by control officers and, in view of the extensive holdings, that not under control was blocked. Considerable confusion resulted from the fact that many agencies of OMGUS were interested in various aspects of the Farben properties and it was not until early 1947 that complete authority for custody and administration was transferred to the I. G. Farben Control Office of the Economics Division. It was decided to transfer the properties to various trustees and this program is now almost complete except for certain plants where reparation removals have not been completed.

The property of Nazi party members discussed in Chapter VI constituted from a numerical standpoint the largest group in custody. The policy with respect to this property is to exercise control until the status of the owner is determined. If the owner is cleared by the courts the property is returned and if not the property is confiscated by the court and turned over to the Land government.

On the first of January, 1948, more than 55 thousand units of property were in Property Control custody; however, by the end of 1948 only about 14 thousand remained.

Chapter VII deals with captured enemy material and funds derived from its sale which were taken into custody by Property Control. Property in this category consisted of movable property held by the enemy for direct military use and acquired by seizure of the U.S. Army prior to May 8, 1945. That portion of the property not retained by the U.S. Army was to be transferred to the German economy through an agency established for that purpose. The transfer of all property in this category has been completed.

The final chapter deals with properties transferred under duress during the Nazi regime. These properties are subject to restitution to the original owners or their heirs. The responsibility for internal restitution falls within the scope of the Property Control Branch whereas external

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restitution is controlled by the Restitutions Branch. On the basis of reports required within Germany and information supplied by former owners or their successors property was taken into custody. The administration of such property is under the direct supervision of Military Government and is closely controlled to protect the interests of the rightful owners.

Quadrilateral agreement was attempted in an effort to obtain uniformity in restitution but when such agreement was not reached the U.S. proceeded unilaterally. Law No. 59 governing restitution of this type of property provided for the establishment of Restitution Agencies which attempt to bring about amicable settlement of claims by former owners against present owners. If such a settlement is unobtainable, the case is referred to the courts.

The Jewish Restitution Successor Organization (JRSO) was established and authorized to claim all heirless Jewish properties. This same organization aided in assembling and processing claims for the restitution of property which claims had to be filed by December 31, 1948. As of November 30, 1948, 85,955 petitions had been received and 30 thousand more were expected.

T. P. Nelson

TPN

TPN:es 6/15/49

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Department of International Finance

Germ: Report Property Control Branch
History, Policies, Procedures
OMGUS

(new)

HISTORY, POLICIES, AND PROCEDURES

OF THE

PROPERTY CONTROL BRANCH

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U. S.)

MAY 1945 to DECEMBER 1948

FILE
 OFFICE OF INTERNATIONAL FINANCE
 RETURN TO ROOM 5000

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(396.) Custodians appointed to operate any property shall have no power, without the consent of higher authority, to alter the nature of a business, or to sell, liquidate, incumber or obligate the property or any part of it beyond the ordinary course of business.

(397.) Fees paid to custodians, and allowances made to owners or their dependents, out of such properties may be continued, but may not be reduced or increased without prior approval from the Chief Property Control Officer. When paid they shall stand as a charge against the property and its owner.

(398.) Under no circumstances will persons who have been removed from any office or position because of the Supreme Commander's policy of removal of active Nazis and ardent Nazi sympathizers be employed or used in any other way in connection with the Property Control program of Military Government.

JCS Directive 1067/6

Directive 1067/6 of the Joint Chiefs of Staff constitutes the basic authority for the control of property in Germany. Paragraph 48 thereof directs the Zone Commander as follows:

"You will impound or block all gold, silver, currencies, securities, accounts in financial institutions, credits, valuable papers, and all other assets falling within the following categories:

- (1) Property owned or controlled, directly or indirectly, in whole or in part, by any of the following:
 - (a) The German Reich, or any of the Laender, Gau or provinces, any Kreis, Municipality or other similar subdivision; or any agency or instrumentality of any of them, including all utilities, undertakings, public corporations or monopolies under the control of any of the above;
 - (b) Governments, nationals or residents of other nations, including those of territories occupied by them, at war with any of the United Nations at any time since 1 September 1939;
 - (c) The Nazi Party, its formations, affiliated associations and supervised organizations, its officials, leading members and supporters;
 - (d) All organizations, clubs or other associations prohibited or dissolved by Military Government;
 - (e) Absentee owners of non-German nationality including United Nations and neutral governments and Germans outside of Germany;

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(f) Any institution dedicated to public worship, charity, education, or the arts and sciences which has been used by the Nazi party to further its interests or cloak its activities;

(g) Persons subject to arrest (as defined in the Directive)....and all other persons specified by Military Government by inclusion in lists or otherwise.

(2) Property which has been the subject of transfer under duress or wrongful acts of confiscation, disposition or spoliation, whether pursuant to legislation or by procedure purporting to follow forms of law or otherwise.

(3) Works of art or cultural material of value or importance, regardless of the ownership thereof."

"You will take such action as will ensure that any impounded or blocked assets will be dealt with only as permitted by licenses or other instructions which you may issue. In the case particularly of property blocked under (1)(a) above, you will proceed to adopt licensing measures which, while maintaining such property under surveillance, would permit its use in consonance with this directive. In the case of property blocked under (2) above, you will institute measures for prompt restitution, in conformity with the objectives (of the occupation)....and subject to appropriate safeguards to prevent the cloaking of Nazi and militaristic influence."

The Directive contains other specific provisions with respect to certain types of property. Real and personal property owned or controlled by the Nazi party, or by its formations, affiliates and supervised organizations, and by all persons subject to arrest, as well as all archives, monuments and museums of Nazi inception or devoted to the perpetuation of German militarism, are required to be taken under control pending a decision by the Control Council of Germany or higher authority as to their eventual disposition.

The Directive further requires the Zone Commander to make special efforts to preserve from destruction and take under control (a) records of any nature belonging to or controlled by the German Government, the Nazi party, police organizations, and other specified organizations, (b) historical archives, museum, libraries and works of art, and (c) plants, equipment, patents and all other property and all records of large German industrial companies and trade

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and research associations that have been essential to the German war effort or the German economy.

Directive of July 7, 1945

On July 7, 1945, a Directive was issued giving general instructions for Property Control in the U.S. Zone and enlarging in some instances the definitions of JCS Directive 1067/6. Section XVII of the Directive, entitled "Blocking and Control of Property" (later replaced by Title 17 of Military Government Regulations) defined further the treatment to be accorded to specific categories of property. Its provisions were as follows:

"1. Classes of Property to be Restricted

You will continue to enforce measures previously taken to prevent, except as permitted under licenses or other instructions previously issued or hereinafter issued, any transaction or any dealing in any:

(a) Property owned or controlled directly or indirectly, in whole or in part, by any of the following:

(1) The German Reich, or any of the Laender, Gau or Provinces, or other similar instrumentality thereof, including all utilities, undertakings, public corporations or monopolies under control of any of the above;

(2) Governments, nationals or residents of nations, other than Germany, which have been at war with any of the United Nations at any time since September 1, 1939, and governments, nationals and residents of territories which have been occupied since that date by such nations or by Germany;

(3) The NSDAP, all offices, departments, agencies and organizations forming part of it, attached to, or controlled by it; their officials, and such of their leading members and supporters as may be known to you or be specified by this Headquarters;

(4) All persons while held under detention or any other type of custody by you;

(5) All organizations, clubs or other associations prohibited or dissolved by Military Government;

(6) Absentee owners of non-German nationality, including United Nations and neutral governments, or their nationals, and Germans outside of Germany;

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- (7) Any Kreis, municipality or other similar local subdivision;
- (8) Any institution dedicated to public worship, charity, education, or the arts and sciences which has been used by the Nazi party to further its interests or to cloak its activities.
- (b) Property which has been the subject of transfer under duress, wrongful act of confiscation, dispossession or spoliation, whether pursuant to legislation or by procedures purporting to follow forms of law or otherwise;
- (c) Works of art or cultural material of value or importance, regardless of the ownership thereof.

2. Classes of Property to be Taken under Control

You will also take under control, custody or possession and hold and administer until you are otherwise directed, the following categories of property:

- (a) Properties indicated in Par. 1a(1), when the governmental agency using them has been abolished by Military Government.
- (b) Such properties indicated in Par. 1a(2), as are owned by the Japanese Nation or nationals, and by the former Austrian state and nationals.
- (c) All properties indicated under Par. 1a(3).
- (d) All properties indicated under Par. 1a(4), except furniture, clothing, and other personal effects. Personal effects if known to be looted will also be taken under control.
- (e) All properties indicated under Paras. 1a(6) and 1b."

Other provisions of the Directive of July 7, 1945 prescribed the treatment to be accorded to property of the Nazi Youth Organization, of the DAF, and of abolished police, fire and civil defense agencies. Provisions were also made in respect to public lands, real property normally used for religious purposes seized by the Nazis and diverted from church use, monuments, fine arts and archives, and ^{for} the payment of certain pensions and unemployment relief. Inasmuch as these represent only ^{single} minor facets of the entire Property Control program,

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a detailed exposition thereof is omitted.

Other Important Early Directives

Other important early directives and legislation which outlined Property Control policy or influenced its implementation are summarized below.

A. Directive of August 15, 1945

This directive extended the denazification provisions of the July 7 Directive to influential Nazis and militarists in all fields. Furthermore, the property of all persons designated as hostile to Allied purposes was declared to be subject to seizure of possession, or other control measures by Military Government.

B. Law for Liberation from National Socialism and Militarism

This law, which constitutes the basic denazification legislation, superseded the August 15, 1945 Directive and provided for assumption of denazification responsibility by the Germans in accordance with principles established by Control Council Directive No. 24. The relevance and importance of this law to the Property Control program stems from its provisions for sanctions against offenders. In the case of major offenders, all property except an amount necessary to cover their bare existence is required to be confiscated. Property of offenders is made subject to confiscation in whole or in part as circumstances may warrant. In the case of a lesser offender owning an independent enterprise (other than a small undertaking), his interest in such enterprise is to be blocked and a trustee appointed therefor during the period of his probation. Ultimate disposition of the property so blocked is to be decided at the time of the final classification of the lesser offender. Finally, those determined to be "followers" are to be ordered to pay special single or recurrent contributions.

C. Military Government Law No. 5

This law dissolves the Nazi Party and provides that all funds, property, equipment, accounts and records of any organization mentioned in the law shall be preserved intact and shall be delivered or transferred as required by Military Government.

D. Military Government Law No. 52 - Blocking and Control of Property

This is the basic law in respect to property in the U.S. Zone. The law renders "subject to seizure of possession or title, direction, management, supervision or otherwise being taken into control by Military Government" certain categories of property, including property of German governmental units, property of governments other than the German government which

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Have been at war with any of the United Nations since September 1, 1939, property of the Nazi party and its officials and subordinate organizations, property of persons held under detention by Military Government, property of organizations, groups, etc. prohibited or dissolved by Military Government, property owned by persons outside of Germany, and other persons specified by Military Government in General Order No. 1, which lists forty-five categories of persons whose property is to be blocked.

E. Military Government Law No. 54 - Use of Wehrmacht Property

Under Law No. 54, the head of the Government of each Land is required to take possession of all Wehrmacht property in his Land which is suitable for agricultural purposes or required for accommodation or settlement of Germans or others, and to assure its use for such purposes. Military Government is to assume custody or control or to direct the use of all other Wehrmacht property in the Laender. Income derived from the use of the property by the Laender, over and above approved expenditures, is to be applied as directed by Military Government.

F. Military Government Law No. 77

This law suspends the Labor Courts (Arbeitsgerichte) and certain other labor organizations and provides for the control of their property by Military Government.

G. Military Government Law No. 191

This law establishes controls over publications, radio broadcasting, news services, theaters and music, and other like services, and provides for control of their property.

H. Control Council Proclamation No. 2

This proclamation states in general terms the categories of property that are to be controlled and indicates that such properties will be disposed of in accordance with directions of the Allied Representatives. The proclamation is not self-executing but Control Council or Zonal legislation has been enacted to implement its decisions in respect to some of the properties described.

I. Control Council Law No. 2

This law abolishes the Nazi Party and its organizations and provides for the confiscation of their property. Confiscation, according to the law, is to be carried out by Military Commands, and general directives concerning distribution of the confiscated property are to be given by the Control Council. Disposition of this property therefore requires action by the Control Council. A list of sixty-two affected Nazi organizations is set forth in an appendix to the law.

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This law directs the seizure of all property owned by I. G. Farben-industrie and vests title to such property in the Control Council. Under the law a Farben Control Committee is established with the following responsibilities:

- (1) Making certain plants and assets available for reparations.
- (2) Destroying certain war plants.
- (3) Dispersing ownership in remaining plants.
- (4) Terminating cartel arrangements.
- (5) Controlling research activities.
- (6) Controlling production.

Disposition of Farben property is subject to decision of the Control Committee, on behalf of the Control Council. The apportionment of functional responsibility is discussed in Chapter V of this report entitled "I. G. Farben Properties".

K. Control Council Law No. 10

Article II, Para. 3 of this law provides that any person found guilty of war crimes, crimes against peace or against humanity, may be punished, inter alia, by forfeiture of property and may be required to restitution wrongfully acquired property. The law further provides that any property declared to be forfeited or the restitution of which is ordered shall be delivered to the Control Council for Germany, which shall decide upon its disposal.

Recapitulation

The manifold categories of property which have been made subject to varying degrees of control by the Control Council for Germany or the Office of Military Government will be apparent from the foregoing citations. Actually, the total is much greater, both from the standpoint of the number of classes and the value of properties involved, inasmuch as no reference has been made to categories of controlled property which are completely outside the field of responsibility of the Property Control Branch, the activities of which represent the subject of the present discussion. In order to bring the entire

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German property picture into focus, the following additional major classifications of confiscated or controlled property are mentioned:

<u>Description of Property</u>	<u>Agency of Military Government to which functional responsibility is assigned</u>
German external assets	External Assets Branch
German foreign exchange assets held within Germany	Foreign Exchange and Blocking Control Branch
Property other than German external assets allocated as reparations	Reparations Branch
Looted gold	Foreign Exchange Depository
Property other than looted gold subject to <u>external</u> restitution	Restitution Branch
Certain property of enterprises defined as cartels	Decartelization Branch

Within Military Government "Property Control" has a specialized meaning.

It denotes the establishment and maintenance of control, pending ultimate disposition, in and over specified categories of property of persons and organizations described and defined in Military Government Law No. 52, and the organizations set forth in the Appendix to Control Council Law No. 2. The control exercised in a given case may vary from use, possession, custody, occupancy, protection, maintenance, conservation or supervision.

The following chapters of this report consist of a discussion of the type of control exercised and the policies and procedures followed in respect to each of the major categories of property for which the Property Control Branch has responsibility, these being:

United Nations, Neutral, and other Absentee Owned Properties

Properties of the German Reich, etc.

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Properties of Nazi Party Organizations

I.G. Farbenindustrie Properties

Captured Enemy Material

Properties Acquired under Duress

Due to the necessity of limiting the total subject matter of the report, United Nations owned properties and properties acquired under duress (principally from former Jewish owners), are treated in somewhat more detail than the other categories inasmuch as they are believed to be of greater and more direct interest to citizens and residents of the United States.

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Chapter VIII

DURESS PROPERTIES SUBJECT TO INTERNAL RESTITUTION

Among the most important categories of property over which property control has been exercised since the earliest phases of the program are the so-called "duress" properties. The postponement of the discussion of such properties until the final chapter is due, not to their lack of importance, but rather to the special problems which they have presented.

Prior to the surrender of Germany it was the announced intention of the United States government to take appropriate steps for the safeguarding of properties which had been expropriated from their former owners as a result of Nazi persecution. This policy has frequently been restated and the Directive of United States Objectives and Basic Policies in Germany (MGR-23-2050) is chosen as an outstandingly clear statement thereof. The relevant portion reads as follows:

"It is the policy of your government that persons and organizations deprived of their property as a result of National Socialist persecution should either have their property returned or be compensated therefor and that persons who suffered personal damage or injury through National Socialist persecution should receive indemnification in German currency. With respect to heirless and unclaimed property subject to internal restitution you will designate appropriate successor organizations."

The entire restitution program was separated by the Office of Military Government into two principal parts. The responsibility for external restitution was assigned exclusively to the Restitutions Branch and therefore no discussion thereof is contained in this report. The responsibility for internal restitution and for the restitution of property which, except for the death of

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the former owner, would have been subject to internal restitution, was assigned to the Property Control Branch.

Administration of Property Control over Duress Properties

In execution of the above-stated policy, Military Government has from the beginning directed control of all properties expropriated, confiscated, or purchased under circumstances indicating duress. Such control was imposed on the basis of lists of property compiled in some cases even prior to Germany's surrender, or as properties were disclosed by field investigations or made known through communications from the former owners or their successors in interest. Reports required by Military Government from present owners, German governmental agencies, and financial and credit institutions with respect to properties presumptively expropriated or confiscated under discriminatory measures of National Socialism (persecution actions for racial or political reasons) were examined and were also used as a basis for property control action.

Custodians appointed by Military Government, or by German Property Control Agencies under the direct supervision of Military Government, were charged with the administration of properties under prescribed conditions and requirements intended to assure adequate safeguarding controls, including auditing of records. The control and influence of the nominal owners over the administration of the properties or enterprises were wholly excluded as a matter of principle and policy. All custodians of controlled properties were appointed only on the basis of exemption or clearance under generally applicable denazification regulations.

The consistent policy of Military Government has been to retain properties in the duress category under control and to safeguard them until such time as the merits of claims for restitution could be evaluated and finally determined.

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The only exception to this policy has been in the application of Military Government Title 17-501, which authorizes the release of properties of insignificant value if such properties can be adequately safeguarded by other means, i.e. blocking of transfer of title.

Promulgation of Military Government Law No. 59

Through negotiations on a quadripartite basis, attempts were made to develop a uniform program for the restitution of properties to persons and organizations deprived thereof as a result of National Socialist persecution or, in lieu of restitution of property in kind, for adequate compensation. Quadripartite agreement proved impossible, however, because of certain fundamental differences among the occupying powers. The decision was therefore reached to proceed on a unilateral basis and the Laenderrat, representing the Laender of the U.S. Zone of Occupation, was instructed to draft a proposed restitution law. After approximately one year of work on the part of property specialists a draft of a restitution law was submitted by the Laenderrat for Military Government approval. Certain provisions and reservations contained in this draft were deemed objectionable by Military Government and it was finally decided that no solution was possible except by promulgation of a Military Government law covering the subject.

Military Government Law No. 59, promulgated on November 10, 1947, is based on the Laenderrat draft, with modifications or revisions of the latter's objectionable provisions. As of the same date, the Central Filing Agency provided for in the law was established and subsequently commenced operations at Bad Neuheim in Land Hesse. The necessary implementing legislation establishing Restitution agencies in the Laender of the United States Zone was later passed by all the Laender.

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Military Government Law No. 59 provides for filing of petitions for the restitution of identifiable property at the Central Filing Agency. The final date for filing was established as December 31, 1948.

In order to secure all possible information concerning properties which were transferred under duress, Law No. 59 also provided for the submission of reports by present owners of such properties, or by persons or financial institutions having any information concerning transfers of property under circumstances of duress.

The principle that duress-acquired properties should not escheat to the State because of the failure of heirs or successors in interest to make claim thereto was also recognized by Law No. 59, which provided for the appointment and establishment of successor organizations. This was accomplished by Regulation No. 3 under the Law, enacted on June 23, 1948. On the same date the Jewish Restitution Successor Organization (JRSO), representing a majority of the leading Jewish organizations of the world interested in the establishment of an adequate restitution program, was authorized by Military Government to claim all heirless Jewish properties.

Organization and Administration of Restitution Program under Military Government Law No. 59

Law No. 59 provides for the establishment of Restitution Agencies, which are initially charged with the responsibility of trying to bring about amicable settlements of claims by the former owners against the present owners. If such settlement cannot be attained the claims are then referred to Restitution Chambers, which are part of the German Court system. Appeals from the decisions of the Restitution Chambers may be taken by either party to the Oberlandesgerichte (Appellate Courts), and from the latter to the Board of Review, the decision of which is final.

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Anthony NNO 978025
By SR NAPA Date 1-7-60

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Board of Review, composed of Americans assisted by experts on German law, was established pursuant to Regulation No. 4 to Military Government Law No. 59, enacted on August 2, 1948. Appointment of members of the Board of Review was accomplished on November 6, 1948. As of December 1948 there were twenty Restitution Agencies, thirteen Restitution Courts, and six Oberlandesgerichte Courts in the United States Zone, in addition to the Board of Review.

The Jewish Restitution Successor Organization was established at Nuremberg, with branches located in several cities in the different Laender of the U.S. Zone, under previous authorization granted by Military Government. In October 1948 the JRSO commenced the examination of approximately 80,000 reports affecting properties presumed to have been transferred under circumstances of duress. Information obtained from these reports formed a basis for the preparation of "short-form" petitions in connection with every Jewish property reported to have been transferred between January 30, 1933 and May 8, 1945. These petitions were required to be filed with the Central Filing Agency on or before December 31, 1948, the final date for the filing of petitions under Law No. 59. The processing of these petitions was deferred until after December 31, 1948, in order that it might be determined whether the same properties had been claimed by other persons or organizations.

In November 1948 authorization was issued for a similar examination of the reports on file with the Central Filing Agency by accredited representatives of the Military Missions and Consulates of approximately fourteen foreign nations.

Difficulties which arose affecting the satisfactory perfection of claims were resolved by appropriate measures and directives of Military Government. Among these problems were restrictions on remittances in payment of the expenses

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and services of attorneys, the transmittal of information by air mail, and the granting of access to the information contained in the records of various governmental agencies or offices.

A complete reporting system was devised whereby information as to the status and progress of every claim was expeditiously obtainable. Also monthly reports were required from the Central Filing Agency to provide information as to the over-all progress of the restitution program.

At the close of 1948 there remained some matters which would have to be provided for through legislative enactment or implementation. These, however, were not of a nature to prevent the effective operation of Law No. 59, and it is presumed that by now appropriate remedial action has been taken to facilitate the successful attainment of the objectives of the law.

Numerous requests were received for extension of the final date for the filing of petitions, which was established as December 31, 1948. Serious consideration was given to these requests, especially in view of the later date established by the British and French, but it was decided that any extension would be unwarranted. In addition to the many efforts of Military Government to secure publicity of the law in all countries of the world through the United States diplomatic missions and the foreign missions accredited to Germany, the following considerations were influential in dictating this decision:

- (a) Claimants were allowed thirteen months in which to file petitions;
- (b) Titles to properties which may be involved in claims had been in a state of uncertainty since Germany's surrender and would have remained so until the final deadline for filing claims;

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By SR NAPA Date 1-7-60	

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- (c) Modifications of the law with respect to time for filing may have led to requests from various sources for other changes in the law;
 - (d) It was desired that as many as possible of the burdens and uncertainties imposed by Military Government on the German people and economy be terminated before the Occupation Statute became effective.
- The majority of requests for an extension of the filing date were based upon the argument that essential information was not accessible. This argument was not considered valid and Military Government consistently advised claimants that the provisions of the law were adequate in this respect. Minimum information, which did not need to be under oath, which was required of the claimant in order to bring the claim within the statute of limitations consisted of a description of the property and a statement, as exact as possible under the circumstances, of the time, place and circumstances of the confiscation, and so far as known to the claimant, the names and addresses of all persons having or claiming to have an interest in the property. Any further information that might be required for settlement or adjudication of the claim could be submitted to the Restitution Agencies or Restitution Courts as required.

Modification of Property Control Policy Subsequent to Enactment of Law No. 59

Subsequent to the enactment of Law No. 59 (on November 10, 1947), and after the lapse of a period of time considered sufficient for dissemination of knowledge of its provisions, a further modification of policy was deemed advisable. By directive issued on July 15, 1948 property control action was directed thereafter only in those cases where notice of the filing of petitions with the Central Filing Agency under Law No. 59 had been received. However, an amending directive was issued on August 3, 1948 authorizing the exercise of property control action,

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notwithstanding the fact that no petition had been filed with the Central Filing Agency under Law No. 59, if it appeared that irreparable damage might be done to a claimant's interests if the property were not taken under control. It will be noted that this exception conforms with that which was made in the case of United Nations and neutral properties in the later stages of the Property Control program.

Pending final disposition of claims or petitions under Law No. 59, properties under control are administered in an impartial manner and, insofar as possible, in such a way that neither of the conflicting parties is favored.

The petitions filed under Law No. 59 are being checked against properties under control and those which are not claimed and are not subject to claims by a successor organization are being released from control. It is probable that this program is now substantially completed.

Statistical Information

As of November 30, 1948, the latest date for which complete statistical information was available at the time of the writer's departure from Germany, properties under control in the duress category numbered 31,426. Petitions received by the Central Filing Agency as of the same date numbered 85,955 as follows:

Complete petitions from claimants	11,187
Incomplete petitions from claimants	4,768
"Short-form" petitions from JRSO	70,000
Total	85,955

Additional petitions numbering 30,000 were expected from JRSO by December 31, 1948, which would increase the total to approximately 115,955.

Reports received at the Central Filing Agency as of November 30, 1948 numbered 87,594, as follows:

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Complete reports from individuals	63,271
Incomplete reports from individuals	7,823
Reports from Banks	15,000
Reports from Agencies	<u>1,500</u>
Total	87,594

Restitution in U.S. Sector of Berlin and in the British and French Zones

As of the end of 1948 Military Government Law No. 59 was not applicable to the U.S. Sector of Berlin. Conferences were then still continuing with the British and French authorities for enactment of legislation for restitution claims applicable to the three Western Sectors of Berlin. The writer is not advised whether any change in this situation has subsequently taken place.

A great deal of time and effort was devoted to an attempt to reach an agreement with the other occupying powers whereby claims for restitution of identifiable property would be dealt with under a uniform policy in the several zones of occupation. These efforts were only partly successful in respect to the British and French and attempts at coordination with the Soviets ^{were} ~~was~~ abandoned.

Restitution in the British Zone is controlled by General Order No. 10, which sets an expiration date of December 31, 1949 for the filing of claims. Only claims in excess of RM 1,000 will be considered under General Order No. 10. All persons having knowledge of property which has changed hands under duress since January 30, 1933 are required to make a declaration thereof.

In the French Zone all claims for restitution must be filed within eighteen months of the enactment of Ordinance No. 120, which became effective on November 10, 1947. The French have established special courts in each Land to try restitution cases. These courts consist of a presiding judge and two other

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members and have exclusive jurisdiction over restitution cases. Claims for real property must be filed with the court in the district in which the property is located, and claims for ~~in~~stitution of personal property in the district where the claimant has his regular place of residence.

Status of Restitution under a General Claims Law

In the United States Zone, the Laenderrat was required by Military Government to prepare and submit for consideration and approval a General Claims Law. As of the end of 1948 the submission of this law was still pending. Also as of the end of 1948, no comparable action had been taken by the British with respect to their zone of occupation. In the French Zone the redress of wrongs resulting in damages or personal injuries, not connected with claims for the restitution of identifiable property, has been charged as a German responsibility.

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Authority NND 978025
By SR NARA Date 1-7-00

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Germany Property Control

DEPARTMENT OF THE ARMY
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INCOMING CLEAR MESSAGE

From: CINCEUR Berlin Germany gd Clay
To: Dept of the Army for CSCAD Wash DC
Info: HQ EUCOM; COMGENUSAFFE for Prop Contr and Ext Assets
Br Prop Div ONGUS
Nr: V-37391 14 December 1948
Subject is extension law 59 filing deadline.

Cable received from Dr Stephen S Wise, President World Jewish Congress, Joseph M Proskauer, President American Jewish Committee, Louis Lipsky, President American Jewish Conference, requesting extension filing deadline. Request following reply be transmitted unless other decisions has been made in Washington:

"Matter of extending law 59 filing deadline as requested your cable has been carefully reviewed here recently, after receipt of various other requests for extension. I feel that adherence to original date necessary, among other reasons, for purpose of assuring early and satisfactory completion restitution under military government supervision, and to avoid possible resistance to program and other difficulties of administration which may be anticipated as a result of further delay.

"Although correct that present deadline was contemplated in 1946 drafts, the matter was again fully examined at the time of final promulgation and decision on present deadline reaffirmed.

"Although I fully appreciate difficulties being experienced by claimants in assembling necessary information, I do not believe other considerations mentioned your cable will adversely affect their ability to file before deadline. Article 58 of the law permits filing of claims even though incomplete, and stipulates that necessary additional information may be supplied on request of central filing agency or

MC IN 66214

(15 Dec 48)

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Authority NNO 978025
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**DEPARTMENT OF THE ARMY
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V-37391

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restitution authorities. Since further implementing regulations may be found necessary in the future and undoubtedly other currency conversion problems will be encountered by claimants, I believe they should take advantage of provisions in Article 58 and then submit information necessary to clarify claims.

Lucius D Clay"

ACTION: CAD

INFO : ID, OUS, PO, OSA

MC IN 66214

(15 Dec 48) DTG: 141744Z dwn/C

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Authority NND 978025
By SR NARA Date 1-7-00

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Entry 69A4707

File Germany: Property
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Germ: Property Control

**DEPARTMENT OF THE ARMY
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PRIORITY

From: CINCEUR, Berlin, Germany sgd Clay
 To: Department of the Army for Chief of Staff; CSCAD
 Info: USAFE for Prop Cont and Ext Ass Br Prop Div CMGUS
 Nr: V 37350

13 December 1948

Reourads V 36664 dated 6 November 1948, V 37069 dated 29 November 1948 and urad WCL 23814 dated 22 November 1948. Subject is Law 59 filing deadline.

1. After full consideration your proposal WCL 23814, conclude that Law 59 claimants should not rely upon letters or inquiries to Military Government as a filing unless the letters have been acknowledged as such by Central Filing Agency, Bad Nauheim, Germany. Reasons are as stated in ourad V 37069.

2. During summer 1948, all known persons who might be claimants of property which was then under property control custody as duress property, were circularized with form letters covering groups of owners.

- A. Within Germany;
- B. Within the United States;
- C. In countries other than Germany and the United States.

Advising of enactment of Law 59 and need for filing according to its provisions. These letters warned that claims or inquiries addressed to offices other than Central Filing Agency would not be considered as claims filed pursuant to Law 59. In addition, all inquiries received since 10 November 1947 by Finance Division (prior to 1 March 1948) or property division have been forwarded to Central Filing Agency, which has replied, either acknowledging the inquiries as claims, or requesting further information subsequent to requests, sufficient to constitute a filing of a petition under Article 58 should be sufficiently protected.

NOTE: V 36664 is MC IN 52451 (7 Nov) CAD
 V 37069 is MC IN 60023 (30 Nov) CAD

ACTION: CAD

INFO: OUS, PO, JAG
MC IN 65602

(14 Dec 48) DTG 131108Z es/6

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File Germany Property
Country

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Germany Property Control

DEPARTMENT OF THE ARMY
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INCOMING CLEAR MESSAGE

From: CINCEUR Berlin Germany sgd Clay
 To: Chief of Staff Dept of Army
 Info: USAFE for Prop Cont & Assets Branch Prop Div ONGUS
 Nr: V-36664

6 November 1948

1. We have been receiving for some time, through various channels, request for the extension of the time for filing claims under Military Government Law number 59. As the deadline approaches, the requests are becoming more frequent. I have, therefore, reviewed the entire situation at this time, with a view to making a final decision now on whether or not there should be an extension of the deadline. This will prevent the last minute uncertainties and needless expenditure of time and effort which always arise when the extension of a deadline is under consideration.

2. I have therefore, decided, after consideration of all the circumstances, that no extension of the filing period should be granted and that, in accordance with the provisions of the law, claims not filed on or before 31 December 1948 will be barred. In reaching this decision, I have considered that: A. In spite of the effort of ONGUS to publicize the law in all the countries of the world; through the US diplomatic Consulates and Missions and the military and diplomatic missions accredited to Germany, each individual claimant may not have been informed of the restitution law; B. Only 11,335 petitions have been filed to date, and during the 2 months remaining, it is expected that a great many more will be received; C. Although the war in Palestine interrupted the mail service for some time, it has now been resumed; D. Certain persons and organizations have complained that they cannot obtain all the information required by regulation 1, prior to 31 December 1948, but in this connection, attention is directed to para 6 of Article 58, which is a protection in those cases in which all of the information is not available; and E. If a claimant does not file a claim or a waiver of a claim, the failure may rebound to the benefit of JRSO, in the case of Jewish property, in some cases at the expense of

MC IN 52451

(7 Nov 48)

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Nr: V-36664

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the true claimant.

3. Realizing all of these, I feel that the following facts make it imperative that the 31 December 1948 deadline be retained:

A Claimants will have had 13 months in which to file;

B Titles to property which may be claimed for restitution have been in a state of uncertainty for $3\frac{1}{2}$ years and will remain so until the final deadline for filing claims;

C Modifications of the law with respect to time for filing may lead to requests from various sources to make other changes in the law;

D The extension of the filing period would attain no valuable uniformity with the French or the British zones, since the French Law is entirely different and the British law is not yet promulgated; and

E It is desired that all possible burdens and uncertainties imposed by Military Government on the German people and economy be terminated before the occupation statute becomes effective.

4. I request that the State Department immediately cable all their Consulates and Embassies, requesting that they ask the government to which they are accredited to give full publicity to their nationals and residents that claims must be filed before the end of the year. A suggested text is as follows: "The Office of Military Government for Germany (US) desires that your government give full publicity at this time to your residents and nationals of the fact that claims for the restitution of identifiable property in the US Zone of occupation of Germany must be filed with the centralanmeldesamt,

MC IN 52451

(7 Nov 48)

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Authority NND 978025
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r: V-36664

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Bad Nauheim, Germany, on or before 31 December 1948, or the claims will be barred. If copies of Military Government Law number 59, which provides for the restitution of property in the US zone of occupation, or regulation number 1 issued thereunder, which provides for the manner of filing claims, are not available within your country, it is suggested that claimants file at this time a statement, which need not be under oath, containing a description of the confiscated property and stating, as exactly as possible, the circumstances, the time, place and circumstances of the confiscation. In addition, so far as is known to the claimant, the petition should contain the names and addresses of all persons having or claiming to have an interest in the property."

5. We are bringing this same information to the attention of military and diplomatic missions accredited to the ACA and the US Military Government in Germany.

ACTION: CAD

INFO: AF, OUS, PO, JAG

MC IN 52451

(7 Nov 48)

DTG: 061311Z jec/R

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By SR NARA Date 1-7-00

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Germany: Property Control

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RESTRICTED TOT

PARAPHRASE NOT REQUIRED. HANDLE AS RESTRICTED CORRESPONDENCE
PER PARAS 51i and 60a (4) AR 380-5

From: OMGUS Berlin Germany sgd Heys
To: CSUSA Wash DC for CSCAD
Info: EUCOM
Nr: CC 3877

15 April 1948

Reference your WX 98857 of 3rd April. Successor organization under law number 59 is subject.

Request clarification as to meaning of phrase "provided that title to real estate (including mortgages) and other assets which are not subject to removal from Germany under license issued by Military Government and which constitute heirless Jewish property be vested in one or more legal entities organized and existing under German law". This raises following questions: What relationship is contemplated between Jewish restitution commission and German legal entities referred to in your cable? Is it contemplated that the German legal entities are to be controlled by the Jewish restitution commission or is it contemplated that they are to be designated as independent successor organizations? If the former, is it contemplated that title to the property referred to shall be transferred by the Jewish restitution commission to the entities organized under German law after the commission has filed a claim and obtained a settlement or judgement or is it contemplated that such legal entities shall file claims on their own behalf?

END

ACTION: CAD

INFO : CAD (STATE), OUS, PO, OAS

CM IN 3298 (16 Apr 48) DTG 151145Z mcs

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ESPIONAGE ACT, U.S.C. 70, 71 AND 72. THE
TRANSMISSION OR DISCLOSURE, IN WHOLE OR IN PART,
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Authority NND 978025
By SR NAPA Date 1-7-60

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PARAPHRASE NOT REQUIRED. HANDLE AS RESTRICTED CORRESPONDENCE
 PER PARAS 51i and 60a (4), AR 380-5

From: CINCEUR Berlin Germany sgd Clay

To: Chief of Staff US Army for CSCAD

Nr: CC 3665

30 March 1948

Reference urads WX 97909, WX 96364 and W 95925 and
 ourad CC 3027 and TELECON 27 February 1948.

Mister Dudley Bonsal representing Foreign Property-Holders Protective Committee conferred recently with representatives of OMGUS regarding form of documentation and certain other provisions required for decontrol of property in Germany. Following is summary of present position of OMGUS after discussions with Bonsal and in light of reference cables and TELECON.

Bonsal presented two proposed forms designated as Form 1 "Application for Release from Custody" and Form 2 "Receipt" which Mister Carroll's committee developed. After full discussion of the problem, it was deemed better to discuss amendment of the present form rather than the proposed forms.

Tentative agreement was reached as follows:

1. A necessity exists for requiring the execution of a release by persons accepting decontrol of their properties in order to avoid the assertion of a large number of claims against the United States and its officials based upon the control of properties during military government operations in Germany.

2. The release form should cover merely the claims

CM IN 6331 (31 Mar 48)

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From: CINCEUR Berlin Germany sgd Clay

Nr: CC 3665

30 March 1948

relating to the placing of property under property control and the management or control of said property, and should not serve to bar assertion of possible claims arising out of transfer of property for reparations.

3. Provision should be made for the stating of exceptions in the release form so that, if said exceptions are deemed well taken, the property may be released without compelling the property owner to waive fair and legitimate claims based upon tortious or criminal acts.

4. With respect to any excepted claim, a period of limitations should be inserted in the agreement forever barring the claim unless presented in a manner provided by law within a definite period of time, one year or less.

The following language is suggested to replace paragraphs four and five of the present release form, as expressing the views generally agreed to at this conference:

1. "I am authorized to, and do, on behalf of my said principal, hereby release and forever discharge the United States of America, its officers, employees and agents, their heirs, executors, administrators, and assigns, individually and in their official capacities, from any and all causes of action, suits, claims, and demands, for or by reason of any cause, act, matter or thing, arising out of or connected in

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TRANSMISSION OR THE REVELATION OF ITS CON-
TENTS IN ANY MANNER TO AN UNAUTHORIZED
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From: CINCEUR Berlin Germany sgd Clay

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any manner with, the protection, custody, control, or management of said property, or any part thereof or interest therein, by Military Government, its officers, employees or agents, except in the following specific respects: (Here leave space to list exceptions with regard thereto see note below) as to which I agree, on behalf of my said principal, that any claim based thereto shall be presented as provided by law within one year from date hereof and otherwise shall be forever barred and foreclosed. Neither the United States of America, its employees or agents, their heirs, executors, administrators or assigns, admits or recognizes any liability whatever in respect to any exception herein above set forth.

2. "I am authorized to, and do, hereby agree and undertake on behalf of my said principal, to indemnify and hold harmless the United States of America, its officers, employees and agents, their heirs, executors, administrators, and assigns, individually and in their official capacities, from liability for any and all causes of action, suits, claims, and demands, asserted by any third party with respect to said property, or any part thereof or interest therein, and to defend at its own expense any action wherever brought, by any third party against the United States of America, its officers, employees or agents, their heirs, executors, administrators, or assigns, with respect to said property."

Note: If exceptions are listed, OMGUS reserves the right to examine the wording of the exceptions before delivery of the property in order that we may require a specific statement of the claims, in the form of a bill of particulars.

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TRANSMISSION OR THE REVELATION OF ITS CON-
TENTS IN ANY MANNER TO AN UNAUTHORIZED
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From: CINCEUR Berlin Germany sgd Clay

Nr: CC 3665

30 March 1948

Exceptions would be made in most cases after any investigation or audit of the records which the owner might desire and a complete investigation of excepted claims can be made while both parties have access to all records and facts. We would refuse to allow exceptions which were blanket in nature which would be subject to interpretation at a later time. We would not for example allow an exception to be made such as "all claims arising out of the bad judgment exercised by the custodian during the period from January to July 1947". Our purpose is to have issues clearly defined before turning over the property to the agent of the owner so that evidence affecting the specific allegations can be obtained by both parties before the delivery of the property and new claims will not arise after all records concerning the transaction involved have been released by the person charged and placed in the hands of the person pressing the claim.

The form of release presently being used releases the United States from claims arising not only from property control custody but also claims arising out of damages suffered through requisition by the Army and delivery as restitutions or reparations. The proposed change in the form of release would not release claims arising from such actions. We are leaving to Department of Army the decision as to whether or not a release of such items should be included; either is agreeable to us.

This proposal represents only a tentative agreement between Bonsal and US, as Bonsal wishes to discuss it with Carroll and we wished to submit it to you. However, all

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UNITED STATES WITHIN THE MEANING OF THE RESTRICTED
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TRANSMISSION OR THE REVELATION OF ITS CON-
TENTS IN ANY MANNER TO AN UNAUTHORIZED
PERSON IS PROHIBITED BY LAW.*

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From: CINCEUR Berlin Germany sgd Clay

Nr: CC 3665

30 March 1948

points contained herein appear acceptable to both parties. We will leave the final agreement to you and are agreeable that you make any changes in the final wording of the release, within the limits of the principles stated herein.

When an amended form is agreed upon, we will issue a press release here. We will be willing to consider, but do not believe we should encourage, applications to amend releases already delivered in connection with decontrol. We could not be able in this case to allow exceptions for claims, where the release of the records has prejudiced the position of the person charged, as pointed out in the note at end of paragraph 4 above.

We also fully discussed the travel situation and the question of owners sending in resident agents. We told Bonsal that they are welcome but that Military Government could not give any help in the way of facilities, except for gasoline. This would mean, of course, that they would have to live on the German economy, two or three to a room in accordance with Wohnungsamt laws, travel on German trains, and import, through their own facilities, food for subsistence. We again reiterated that we would not object to a representative of the owner living in an adjacent country and coming in on repeated journeys utilizing where possible the new joint export import agency hotel facilities. Although he could not be the nominee for the purpose of decontrol, he could supervise, rather closely, the operation of the property at rather frequent intervals. In view of your preference for paragraph A ourad CC 3027 as stated in ourad W 95925, we are

CM IN 6331 (31 Mar 48)

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Authority NWD 978025
By SR NARA Date 1-7-00

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Entry 69A4707

File Germany: PROPERTY
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**DEPARTMENT OF THE ARMY
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RESTRICTED TOT

Page 6

From: CINCEUR Berlin Germany sgd Clay

Nr: CC 3665

30 March 1948

now working on necessary implementation to change our past policy as stated in DH-4 teleconference 27 February 1948. Will notify you soonest when above mentioned necessary implementation is completed.

We will continue to use present form pending further advice from you.

End

Note: 3027 is CM IN 5382 (30 Jan) CAD

ACTION: CAD

INFO : CAD (State), OUS, JAG

CM IN 6331 (31 Mar 48)

DTG 301810Z hhl

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Germany - Property Control

June 10, 1949

MEMORANDUM FOR THE FILES

Subject: Review of Report by S. M. Rose on "The German External Assets Program (1945-1948)"

The attached report on the external assets (Safehaven) program reviews in Part I the objectives of the program, namely to extirpate German control of property outside of Germany. In this connection the history of Germany's foreign financial and industrial empire since prior to World War I to the beginning of World War II is discussed with emphasis on the benefit to Germany in preparing for these wars and the failure of the Allies to take sufficient measures following the first war. The prevalence and methods of cloaking German interests are explained. The blocking action taken by Treasury first with respect to the invaded countries in 1940 and soon thereafter of the Axis and neutral powers is noted as is the promulgation of the Proclaimed List. These actions were the beginnings of the external assets program.

Part II of the report deals primarily with various international conferences and agreements which affect German external assets. The Allied decision that reparations would be commensurate with ability to pay and exacted in kind from foreign exchange assets and by the dismantling and removal of industrial plants is noted. The appropriate sections of the Potsdam agreement which implement this decision are quoted and emphasize the division of Germany's assets between Russia and the other Allies. The implementation within Germany of the Potsdam decision was effected by Control Council Law No. 5 issued by the four powers. This law is reviewed and certain troublesome questions are discussed, such as the compensation of German owners of vested external assets and the problem of exclusive Russian jurisdiction over assets in its zone of Austria. Another problem reviewed is that of German corporations which are not beneficially German owned and the treatment to be accorded the beneficial owners.

The German External Property Commission in which title to external assets is vested under Law No. 5 is discussed and the anomalous position in which the Commission was placed by the fact that only Japan has recognized the extra-territorial effect of Law No. 5 is brought out.

The agreements reached at the Paris Conference on Reparations which established the Inter-Allied Reparation Agency (IARA) are discussed. German external assets were divided into two categories: (1) external assets and (2) industrial equipment (including shipping) within Germany. The percentage share of the member nations to external assets was also decided by this agreement. The decision that a corporation will be treated as an asset in the country in which located rather than the country in which the shares are held was included in the agreement and is discussed in the report.

The Act of Paris also provided the basis for the Accord with Switzerland, Sweden, Spain and Portugal with respect to German assets in these

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Authority NND 978025	Entry 69A4707
By SR NAPA Date 1-7-60	File Germany: Property Colonial
	Box 84

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countries. These agreements and their implementation are discussed as are the agreements contained in the peace treaties with the satellite nations and Italy. A brief discussion of the gold settlements is also contained in the report.

The organization and activities of a group under Colonel Bernstein which moved into Germany as it came under the control of the Allies is described. This group sought first to prevent the loss or destruction of important records during the first chaotic days of occupation. In addition, German officials and employees of certain enterprises were intensely questioned as to the whereabouts of secret documents.

Certain "target" concerns were selected by this group for investigation of hidden external assets and evidence of war crimes and cartel activities. The investigation of I. G. Farben was, of course, one of the most extensive. The work of this group was given a foundation by the promulgation of Law 53 and Berlin Kommandatura Order 46/337 which provided among other things for a declaration of all foreign exchange assets. The Division of Investigation of Cartels and External Assets (DICEA) was established under OIGU and various branches were set up namely:

External Assets Census Branch, with responsibility for the census of German external assets under M.G. Law No. 53, the exploitation of official records of the German government for the purpose of uncovering cloaked assets and the tracing of gold looted by Germany.

Industrial Investigations Branch, with responsibility for carrying on the investigation of target industrial concerns from the standpoint of external assets and decartelization.

Financial Investigations Branch, with responsibility for investigating Germany's major banking institutions and insurance companies.

Individuals' External Assets Branch, with responsibility for investigating concealed foreign holdings of top-ranking Nazis.

Intelligence Branch, with responsibility for servicing specific requests for information on external assets, and for exploiting censorship intercepts.

The activities and results of these various branches are explained in greater detail as are the further reorganizations within Military Government. At present the External Assets Investigations Section is the only unit still in existence. This unit services requests for specific information received from outside sources. These sources are primarily the U.S. missions in the neutral countries and Italy and IARA. The census information identified a considerable amount of assets in the United States as enemy which assets had not previously been identified.

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- 3 -

The report concludes with the observation that the Safehaven work performed in Germany has gone far toward its objectives and provides a basis for continuing action for the elimination of the foreign financial empire^s of Germany but that to prevent a resurgence of German control in this field constant surveillance will be necessary for many years.

T. P. Nelson

TPN:es 6/10/49

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Germany: Property Control

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PARAPHRASE NOT REQUIRED. HANDLE AS CONFIDENTIAL CORRESPONDENCE
PER PARAS 511 and 60a (4) AR 380-5

From: OMGUS Berlin Germany sgd Hays

To: AGWAR

Nr: CC 1510

5 September 1947

Recurso CC 9604

Repeated below is further press release to be issued by OMGUS reference properly decontrol program. Release is forwarded to you in advance so that it may be issued in the United States simultaneously with release in Berlin. Release will be made in Berlin, 1500Z, 9th September 1947. This information will be declassified at that time. To obtain the fullest publicity, we suggest that State make this information available to all embassies and legations so that they may inform the governments to which they are accredited and all interested parties. Press release reads as follows:

Despite the approach of the January 1st, 1948 deadline, at which time Military Government will relinquish responsibility for the operation and management of thousands of properties owned to the extent of 51% or more by citizens and residents of United Nations and neutral countries (except Spain and Portugal), only a few owners have taken steps to resume through designated agents, the operation and management of their properties. Finance division, OMGUS announced today.

A program for "Decontrolling" many of the properties which are presently under the protective custody of Military Government merely because of absentee ownership, was announced in detail on June 25th, 1947. It was stated at that time and reiterated today, that such properties which have not been returned to their owners by the end of this year, will be

CM IN 877 (6 Sep 47)

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Authority AWD 978025
By SIR NARA Date 1-7-80

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page 2

From: OMGUS Berlin Germany sgd Hays

Nr: CC 1510

5 September 1947

turned over for custody and administration to German State property control agencies. Presently appointed custodians will in most cases remain in charge of the properties but Military Government Officers will exercise only general supervision over the German Agencies.

Finance Division officials stated that it was possible that many owners are waiting for the January 1st, 48 deadline before filing application for transfer of the management of their properties, relying on Military Government Property Control Agencies in the interim. These officials pointed out that because of the number of properties under control, it will be impossible to process all applications before the deadline, should there be a great influx of these at the end of the year.

It was emphasized that the mere designation of agents to manage and care for property will not require a Military Government license. However, any transactions in connection with such appointment and those engaged in by the agent which are not authorized by existing general licenses will require special licenses under Military Government Law Nos 52 and 53. Existing general licenses permit all transactions ordinarily incidental to the normal conduct of business activities of business enterprises owned by persons abroad. However, such licenses are not to be construed as authorizing any business enterprises to make capital investment in property or in other business enterprises without special Military Government approval.

CM IN 877

(6 Sep 47)

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Authority NIN 978025

By SR NARA Date 1-7-00

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Entry 69A4707

File Germany: Property
Control

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page 3

From: OMGUS Berlin Germany sgd Hays

Nr: CC 1510

5 September 1947

Owners of properties should make necessary arrangements by direct correspondence with agents chosen by themselves and should not, under present travel restrictions, except to visit Germany for this purpose. While Military Government will not recommend agents, it will not object should owners desire to name the custodians presently managing the property as the result of appointment by Military Government or by Germany Property Control officials with the approval of Military Government. However, agents to whom management of properties can be transferred must be residents of Germany and politically acceptable under denazification laws.

It was also pointed out that properties affected by the program would not include "Duress properties" or those concerning which there is any dispute as to title.

ACTION: CAD

INFO: ISW, ID, P&O, PID

CM IN 877

(6 Sep 47)

DTG 051315Z

JDC

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207455

DECLASSIFIED
 Authority NND 978025
 By SR NARA Date 1-7-00
 RG 56
 Entry 69A4707
 File Germany: Property Control
 Box 84

WAR DEPARTMENT *lynn, Property Control*
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 PER PARAS 511 and 60a (4) AR 380-5

From: OMCUS, Berlin, Germany sgd Keating

To: AGWAR

Info: EUCOM

Nr: CC 9566

17 June 1947

Reference WX 98527. Decontrol program does not apply to property subject to restitution. Decontrol program applies to property the title to which is not in dispute and which was placed under property control solely by reason of absentee ownership as provided in Article 1 Paragraph 1 (F) of Military Government Law number 52 and no other reason for control exists.

Decontrol program does not now include Hungary or any other satellite country. We propose withholding application of decontrol program to those countries at least until ratification and filing of the peace treaties by all interested powers.

Final information on decontrol program for simultaneous release in Washington will be forwarded in next few days.

End

ACTION: CAD

INFO: ASW, CAD (State), P&O

CM IN 2717

(18 Jun 47) DTG 171640Z WS

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207456

DECLASSIFIED

Authority: AMNO 978025By SR NARA Date 1-7-00

RG

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Entry 69A4707File GERMANY: PROPERTY
SOV. IN. 06Box 84

Germany: Property Control

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CONFIDENTIAL TOT

PARAPHRASE NOT REQUIRED. HANDLE AS CONFIDENTIAL CORRESPONDENCE
PER PARAS 511 and 60a (4) AR 380-5

From: OMGUS, Berlin, Germany sgd Keating

To: War Department for WDSCA ES

Info: HQ EUCOM

Nr: CC 8814

15 April 1947

Reurad WX 95468.

Wherever possible as new Hungarian properties are taken under control careful consideration given to appointment of Hungarian displaced persons as custodians. In the case of property already under control many have Hungarian custodians and they will be continued in service so long as they perform their duties in accordance with Military Government regulations. We recommend that any request to replace present German custodians who have performed satisfactorily not be granted at this time, as such a policy would result in numerous complications and much delay and is a privilege not accorded to US, United Nations and neutrals nationals.

Previous charges of great waste and dissipation of assets not substantiated by the facts as determined by thorough investigation of the situation. In fact on 10 January 1947, three members of the Hungarian Claims Commission visited the Property Control Office in Regensburg and offered their apology for having complained, etcetera. This apology only forthcoming after the results of our investigation were made known. Decontrol program may soon become effective. Request at this time whether or not Hungarian properties are to be treated as properties of United Nations and neutrals nationals under decontrol program. (Reurad W 85962 and W 88846). End

ACTION: CAD

INFO : ASW, CAD (State), ID, P&O
CM IN 2802 (16 Apr 47)

DTG 151355Z nec

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207457

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Authority NIND 978025	Entry	69A 4707
By SR NARA Date 1-7-00	File	Germany: Property Control
	Box	84

Germany, Blockade

July 8, 1941

Mr. White

L. Felsenthal

Subject: Germany freezes American accounts in Germany in retaliation of our Freezing Order.

I.

The German Exchange Decrees of June 26 and 28, 1941, constitute a complete freezing of all American-held accounts in Germany. Payments into, and out of, these accounts are prohibited except under license. In view of the previous strict exchange control regulations, not much harm can be done to American interests by the new restrictive measures.

The Germans have given no special reasons for the discrimination against Americans. There are no economic interests of Germany which would require freezing of American properties. The only reason is retaliation against the American Freezing Order.

II.

The important new restrictions to which American individuals and corporations are now subject if they have properties in Germany, are the following:

- (a) They can no longer make free use of their balances on the special "free exchange accounts" without license.
- (b) They can no longer draw on their blocked accounts (special foreigners' accounts for inland use) for living expenses above RM 1,000 (nominally \$400, actually about \$230) a month.
- (c) Transfers of securities, dispositions of all types of properties are prohibited except under license.
- (d) Payments of German debtors, even into Clearing Account, will stop completely, with very few exceptions.

American properties, including the properties of business firms with substantial American interests are blocked. A substantial American

(e.g.)

207458

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Authority NIND 978025	Entry	69AY707
By SR N4PA Date 1-7-60	File	Germany Property non-US
	Box	84

- 2 -

interest is established by a "direct or indirect influence" to the extent of 25 percent exerted by an American citizen or resident of the United States.

Any transfers of American-owned securities, inside of Germany or out of Germany, is prohibited except under license.

The new regulations specifically prohibit the payment into, or out of, so-called "free exchange" accounts if American interests are involved in any form whatever, except when payments are made out of American-owned free accounts to non-American citizens who are residing in Germany. Similarly, it is prohibited to make payments into Clearing Account in favor of Americans.

Payments on patents and trademark rights are permitted (though probably also subject to license) presumably because the Germans hope that in this way they may prompt our Foreign Funds Control to make a similar exemption. Since the amounts payable by Americans to German account for patents are much larger than the amounts payable by Germans to American account, this would be good business.

III.

The effect of the German action in itself does not change the previously existing situation very much. Previously the blocking and unfreezing of foreign-owned blocked mark accounts in Germany depended (a) on the way in which the balance had been acquired, and (b) on the purpose for which payment was intended. The character of the transaction rather than the nationality of the interested participants in the transaction was of importance.

But within the legal framework of the Exchange Law, the discretion of the Devisen Offices is wide enough to permit of considerable discrimination against any national group which is out of favor with the German Government. In that respect the new decrees merely change the legal situation; they do not need affect the actual handling of cases.

LF:msh
7/8/61

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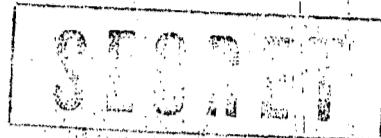
RG 56

Entry 69A4707
File ~~GERMANY: REPARATIONS~~
Box 84Reparations
World War II

August 24, 1944

Mr. Ness

Mr. Nathan



Subject: The Reparation Policy of the United States as laid down in the "Report of Reparation, Restitution, and Property Rights - Germany" which was approved by the Executive Committee on Economic Foreign Policy on August 4, 1944.

I. Interest of the United States in German Reparation

The "direct" interest of the United States in reparation is small. The main concern of the U.S. is that the program aid in the attainment of (or interfere as little as possible with) its economic, political, and security objectives and policies. It is essential that a program of restitution and reparation transfers be initiated promptly, both in order to hasten European reconstruction and to avert an undue imposition of European requirements upon the American economy while the war against Japan is still in progress. There must be preliminary agreement as to (1) certain minimum basic principles; (2) an interim reparation organization and the relation of this organization to the machinery of Allied economic control of Germany; and (3) the development in advance of the military collapse of Germany of an ad hoc program for reparation deliveries which will meet the immediate needs of claimant countries.

II. The Specific Recommendations

- (a) **Time-Period.** Reparation period should begin as soon as the United Nations have the power to impose economic controls on Germany. It should be limited to a minimum of about five years from its inception but perhaps may have to be extended to ten. In no event should reparation continue beyond ten years. Should they extend over more than five years, deliveries should taper off toward the end of the extended period. The longer reparation continues, the longer is deferred the full resumption of regular multilateral trade and the desired integration of Germany into the world economy. Long-continued reparation would prejudice the establishment of democratic government in Germany and, indirectly, the maintenance of peace.

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File Germany: REPARATIONS VOL. 1

Box 84

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(b) Amount of Reparation. Particularly in view of the uncertainties concerning the amount of damage to physical plant in Germany, the degree of disorganization or disruption of the country's working force, the nature and extent of economic disarmament, and territorial adjustment, it is not possible to estimate the amount Germany will be able to pay. Barring dismemberment or extreme devastation, she will be able to pay a very substantial amount. But that will in all probability be but a small fraction of the total admissible claims. Reparation deliveries by Germany will be limited both in character and amount by the goods and services the claimant countries are willing and able to take. As between the amount and the time limit on the period of reparation, the time limit should be the governing factor.

This means that instead of beginning with the assessment of a definite amount of reparation and adjusting the time period accordingly, the maximum time limit should be defined from the outset and the greatest possible amount of reparation should be collected during that period. Germany should be permitted to retain such part of her production as may be required to maintain a minimum prescribed standard of living. Effective controls over the economic life of the country will be required.

(c) Form of Reparation Payments. Reparation should be paid through deliveries in kind, with allowance for cash payments only in exceptional cases. Deliveries should consist of the widest possible range of goods needed by the claimant countries for rehabilitation and reconstruction. Existing stocks of goods and capital equipment should be used for deliveries in kind only in the early years of the reparation period. The great bulk of reparation deliveries must come from current production. Extensive rebuilding of German plant and equipment for reparation purposes should be avoided. It would be undesirable to leave Germany at the end of the reparation period with plant and equipment much newer and more modern than that of her European neighbors.

Cash payment can serve a useful purpose in taking care of exceptional cases and in lending flexibility to the reparation program provided the total volume is kept down to a relatively small figure. If the period is extended to ten years, it may be desirable to increase the proportion of cash payment in the latter half of the period. - Any significant accumulation of external indebtedness by

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File Germany: REPARATIONS
Box 84

- 3 -

Germany during the period of reparation transfers is contrary to the objectives of the United States. This precludes commercialization and any other extension of credit to Germany.

- (d) Apportionment of Reparation. The apportionment among claimant states should be the amount of damage to and loss of non-military property caused by or incident to hostilities. Government may dispose of the proceeds of reparation and make such compensation to their injured nationals as they see fit. A precise audit of property loss will be impossible. A supplementary basis for the apportionment should be occupation costs levied by Germany, including clearing balances built up during the period of occupation. - All other claims should be excluded.
- (e) Restitution and Replacement. Germany should have an unlimited obligation to restore all identifiable looted property. The right to restitution is not absolute. The Allied authorities should have the discretionary right to prevent or postpone restitution of vital equipment whenever such equipment is deemed essential to assist the revival of a seriously disorganized country. No replacements through equivalent pieces of property should be allowed except in the cases of gold, works of art, and other cultural treasures.
- (f) Labor Service. In principle it is agreed that under appropriate conditions and to a limited extent labor services can be a proper and useful form of reparation. Further study of this problem is necessary.
- (g) Reparation Commission. The Commission should be an administrative body to supervise and manage the program of reparation and restitution. It would have wide discretionary powers to determine the amounts of reparation, the schedule deliveries in kind, to make adjustments in the schedules of payments, etc. The Commission should consist of representatives of all claimant states, but equal plural votes should be provided for the United States, the United Kingdom and the Soviet Union.

O.N.
ON:sh - 8/24/44

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Authority NND 978025
By SR NAPA Date 1-7-60RG 56
Entry 694707
File GERMANY: REPARATIONS VOL. 1
Box 84

Reparation

INFORMATION FOR THE RECORDS

August 18, 1944

Re: State Department memorandum entitled
 "Policy Statement with respect to German-owned assets outside of Germany" and addressed
 to Mr. Harry White, under date of August 10, 1944.
Conference in Office of Orville A. Schmidt on
Wednesday, August 16, 1944.

Present were: Nease, Schmidt, Bennett, Richards, Sachs and
 Mrs. Bella Shwartz of Foreign Funds Control; Nease, Casady, Fisher,
 Nathan, Ness and Estrow of Monetary Research; and Mr. Alk of Legal.

This conference was called to discuss a memorandum prepared by the State Department in response to a request of Ambassador Winant for a policy directive regarding the control and disposition of German-owned property located outside of Germany. Ambassador Winant requested this policy directive in connection with discussions being conducted by the European Advisory Commission in London. The State Department forwarded its draft to Treasury with a request for comment and suggestions.

In the State Department memorandum under consideration reference is made to the position on the question of disposition of German-owned property located outside of Germany as expressed in the report of the Reparations Committee. A question was raised as to the make-up of this Reparations Committee and as to whether Treasury is bound by the position taken by such Committee.

Mr. Ness stated that the referred to Reparations Committee is the "Executive Committee for Economic Foreign Policy"; that on this Executive Committee are representatives of various government agencies including FIAA, OCS, TARIFF COMMISSION, SEC, STATE AND TREASURY; that Mr. White was designated as Treasury representative but that Mr. Ness attended as alternate; that Mr. Acheson of the State Department is Chairman of this Committee; and that the so called Reparations Report, which was prepared by this Executive Committee cannot be said to represent the official view of the Treasury, inasmuch as its findings have not been cleared with Mr. Morgenthau or Mr. White.

In the State Department memorandum under consideration an extract is quoted from the Reparations Report wherein the question of German property located in neutral countries is stated to be "one for treatment on the political level". A question was raised as to the propriety of labelling the question as one for "treatment on the political level" since financial and economic considerations are vitally tied in with any determination of this question.

Mr. Ness stated in response that the Executive Committee for Economic Foreign Policy explored the problems before it in the light of economic considerations rather than political considerations; that it was

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By SR NARA Date 1-7-00

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Entry 6944707
File Germany: REPARATIONS VOL. 1
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- 2 -

assumed by this Committee that its findings would be subject to political decisions to be made outside the Committee.

In forwarding the subject memorandum to Treasury the State Department referred to Ambassador Vinant's having requested the policy statement in connection with discussions being conducted in London by the European Advisory Commission. A question was raised as to the relationship between the European Advisory Commission in London and the Dumbarton Oaks Conference scheduled to be held in Washington.

Mr. Casaday pointed out that the relationship is not entirely clear; that, however, the European Advisory Commission in London conceives of its function as being advisory rather than operative and its scope of inquiry as being limited to Germany; that the scope of inquiry of the conference at Dumbarton Oaks is expected to be wider than Germany; and to be more political in character.

It was decided at this meeting that Mr. Minskoff, representing the General Counsel's Office, Mr. Casaday representing Monetary Research and Mr. Sachs representing F.R.C., should prepare in place of the policy statement submitted by State for transmittal to Ambassador Vinant a new draft for consideration at a later meeting.

As a guide in getting up such a policy statement the following points were made: (a) that reference to the Reparations Report be omitted; (b) that any statement as to the ultimate disposition to be made of this German property be avoided; that the sub of the problem to be presented to Vinant should be the means of effecting our control over German property outside of Germany and not the matter of its ultimate disposition; (c) that reference be made to the fact that each of the United Nations has its controls over German property located within its own territory; and that systems of control over German property will be set up in those territories of United Nations which remain to be liberated when such liberation has taken place; (d) that German property in the satellite enemy countries will be controlled when such countries are occupied by the United Nations forces; (e) that it is intended upon occupation to have the German Government issue a vesting decree; (f) that the real problem arises in connection with German property located in the neutral countries, inasmuch as control of this property from Germany, once Germany is occupied, could not effectively be maintained; (g) that our present emphasis on the problem of German property in neutral territories should be that of trying to get the neutral countries to set up their own control over, to immobilize, and to prevent concealment of, this property; that the motivation to be given the neutrals for cooperating is to be based on the following; that upon occupation the newly constituted German Government will pledge German assets in Switzerland to pay Swiss creditors, thus leaving to the Swiss the obligation of ferreting out the German assets and thus making such Swiss cooperation worth while. It is anticipated that with such a prospect the Swiss should be fit to set up

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its own decree to immobilize these assets. (b) that consideration be given to the distinction to be drawn between pre-liberation assets and post-liberation assets, so far as availability for reparations claims is concerned; that such distinction might be drawn somewhat as follows: that German property is being controlled; that the matter of disposition is being reserved for future determination; and that we are not in this connection talking about property that may be acquired by Germany under allied control (post-liberation balances).

cc: Nevers, Schmidt, Bennett, Richards, Sachs, and Rella Schwartz - PM
Nevers, Cascady, Fischer, Nathan, Nees and Getraw - Monetary Research
Nevers, ALK and Minskoff - Legal

Jacobs
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Reparations

World War II

August 9, 1944

Mr. White

Mr. Bittermann

Subject: Summary of the Report on Reparations 1918 - 1932

The reparations program may be conveniently divided into three periods: (1) from the Treaty of Versailles to 1924; (2) the Dawes Plan, 1924-1930; (3) the Young Plan and the end of reparations, 1930-1932. Each plan successively involved a reduction in the reparations burden and a removal of part of the military and economic controls over Germany by the Allied countries. Each plan was obtained by a political bargain after an actual or prospective default in payments under the preceding plan. The Allies made concessions, step by step, partly in recognition of the difficulties inherent in the problem and partly as a policy of conciliation. A schedule of payments under the various plans is given in Table A.

Table A

Schedules of Approximate Annual Payments by Germany under Reparations Settlements

(Billions of RM)

Versailles Treaty and Reparation Commission, 1921	8.3
London Conference Schedule, 1921	4.6
Dawes Plan (standard year)	2.5
Young Plan (average for first ten years)	1.9
Lausanne Agreement (including debt service)	.3

1. Reparations under the Versailles Treaty and the London (1921) Schedule

The Treaty made Germany liable for all the damage to persons and property of the Allied nations and their nationals except damage to military equipment and installations, but specified particular categories including pensions to military personnel. The latter item was included to increase Britain's share of the reparations account. The Treaty did not fix the total of reparations but left this to the determination of the Reparation Commission representing the Allied powers. Germany also was to pay the cost of the armies of occupation and certain minor items. The reparations debt was to be represented by bonds on which Germany was to pay 5 percent interest and 1 percent amortization. In 1921 the Reparation Commission fixed the total

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at RM 132 billion plus RM 6 billion for payment on the Belgian bonds required by the Treaty. This figure was set arbitrarily because the Commission refused to evaluate the claims submitted by the Allies. The London Conference of 1921 implemented the decision. It provided for the issue of three sets of bonds at 5 percent interest and 1 percent amortization. The A and B bonds were unconditional but the C bonds were to be issued only when the Reparation Commission determined that the service charges were within Germany's capacity to pay. The London Schedule also specified that the annual payment was to be limited to RM 2 billion plus 26 percent of German exports. Originally it had been expected to negotiate these bonds, but this was impossible under the circumstances.

To secure payment of reparations the left bank of the Rhine was occupied by Allied forces. The Reparation Commission, moreover, was entitled to evaluate all payments made by Germany whether in cash or kind and was to fix a fair value for government property transferred to other powers. Reparations payments were to be made in gold or equivalent foreign exchange and there were no provisions for dealing with difficulties of transfer or Germany's inability to obtain an export surplus except the Commission's power to grant moratoria which, however, could not reduce the total of payments and which also involved accumulation of interest charges. From 1920 to 1923 Germany paid RM 1,818 million in cash, half of which was borrowed abroad. Payments in kind were valued at RM 3.5 billion including the amounts taken under the Reparation Recovery Acts. The balance of the payments aggregating RM 9.6 billion represented the value of ceded property. At the closing of its accounts in 1930 the Reparation Commission credited Germany with RM 9.6 billion, the amount transferred to the Allies in cash or goods. Germany, however, claimed that she had made payments of RM 56.6 billion. This difference was due to the fact that Germany claimed payment for items not admitted by the Commission such as the value of the German fleet and payments to prisoners of war. For the most part, however, the difference was due to the methods of valuation. Germany claimed its figure on the basis of the value of the goods to Germany while the Reparation Commission allowed payment only in terms of what it could realize on the property when it transferred it to the Allies. Unofficial estimates by Keynes, Brentano, and Moulton and McGuire placed the figure at between RM 25 billion and RM 30 billion. As of 1923, according to the Reparation Commission's accounting, Germany still owed RM 132 billion. The total amount paid by Germany was barely sufficient to cover the cost of the armies of occupation.

While the London Schedule was in operation Germany made some payments but at various times called for moratoria. The Commission allowed some of these postponements and also reduced the schedules for deliveries in kind when it concluded that the required amount was excessive. In

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1922 Germany called for a four-year moratorium which was refused by the Allies and the Commission declared Germany in default, whereupon France and Belgium invaded the Ruhr, over British opposition, in the expectation of getting the reparations from this productive industrial area. With the Ruhr invasion reparation payments practically ceased.

2. The Dawes Plan

The primary purpose of the Dawes Plan was to aid in the stabilization of the mark which had depreciated most in the period coinciding with the Ruhr invasion. To aid in the stabilization, the Plan provided for an international loan, a lower reparations schedule and measures for permitting payment by Germany without necessarily depreciating exchanges through large transfers. The Commission also secured the evacuation of the Ruhr. The schedule of annuities increased from RM 1 to RM 2.5 billion in the fifth year. Thereafter this figure was to increase automatically with the improvement in the German economic situation as shown by an index of prosperity. No total sum was fixed for reparations nor was any limit set to the period for which the annuities were payable. The whole plan was admittedly tentative. To assure payment the loan was secured by a mortgage on the German railways which, for this purpose, were taken over by a special corporation. Industry also issued bonds which it was expected could be sold abroad. In addition certain revenues, notably the transport tax, customs receipts and excises on tobacco and spirits, were assigned for reparation payment while in the later years there was to be a direct contribution from the general German budget. The administration of reparation payments was placed in the hands of an Agent General, an American and so not interested in the payment, assisted by foreign commissioners who were to supervise assigned revenues, the railways and industrial bond issues.

The expectation that the bonds could be sold was never realized so that the Dawes payments practically became charges upon earmarked revenues. The Dawes Plan annuities were fully met by Germany up to 1930. Payment was greatly aided by the fact that foreigners invested much larger amounts than the annuities in German short and long-term obligations, as discussed below. The total of payments under the Dawes Plan aggregated RM 7.8 billion (Text, Table IV, p. 20). Of this amount cash reparation payments formed 22 percent or RM 1.7 billion. Under the Reparation Recovery Acts, Great Britain and France obtained RM 1.5 billion. Deliveries in kind aggregated RM 3.6 billion (46 percent) and the balance was made up of payments on the Dawes loan and the costs of the armies of occupation. In the course of the five-year period deliveries in kind changed from coal and chemicals delivered directly to the government to a more diversified list of goods (Text, Table V, p. 22).

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The Dawes Plan payments were made possible by foreign investment in Germany. In 1929, however, foreign loans sharply decreased and it was expected that Germany would have difficulties in making future payments, hence a new expert committee was called to formulate a new plan.

The Dawes Plan had certain significant results. For a period it aided the stabilization of German currency. By permitting payment in Reichsmarks to the Agent General it shifted the burden of transfer from the German government to a neutral Agent who could use his discretion in making payments so as not to disrupt the exchanges. The German government, however, refused to take the steps necessary to make a real payment of reparations possible. It consistently refused to balance its budget despite the increase of revenues accruing in the prosperity period, and it made no serious attempt to secure a net active balance of payments by restricting imports or expanding exports. The whole plan rested upon the availability of foreign funds and when the stream of foreign exchange narrowed, the plan faced a collapse. It did, however, provide a "cooling off" period in which the reparations question could be reconsidered both politically and economically.

3. The Young Plan, the Hague Agreements and the End of Reparations

The Young Plan aimed at reducing the reparations question to a simple matter of debt in fixed amount without political controls to enforce payment. The annuities were scaled down to an average of RM 1.9 billion for the first ten-year period. Annuities were in two parts. The unconditional annuity of RM 612 million was payable to the Bank for International Settlements for transfer. This covered the service on loans and other charges. The conditional annuities which formed the larger part could be postponed by Germany on giving notice to the Bank. Subsequently, Germany was to repay all postponed annuities. The conditional annuities were roughly equivalent to the amounts which the Allies owed on debts to the United States and other countries. Any reduction in debt of the Allies was to contribute to a reduction of reparation payments by Germany (Cf. Text, p. 24). It was expected at the time that the debt question would be reopened and an adjustment made. It was also expected that a large part of the German debt could be commercialized.

The control features of the Dawes Plan were abandoned by the Young Plan. The Agent General and the commissioners were abolished and payments were made instead to the B.I.S. The Plan provided for ending deliveries in kind at the end of a ten-year period. In this period, also, Britain and France were to abandon their Reparation Recovery Acts. Finally, as the price for accepting the Young Plan, which had fewer transfer safeguards than the Dawes Plan, Germany secured the evacuation of the Rhine five years ahead of the Versailles Treaty Schedule.

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Total payments under the Young Plan aggregated RM 3.7 billion. Cash payments were RM 1.5 billion of which RM 1.3 billion was provided from the international loan of 1930. Additional loans aggregating RM 840 million were made later so that practically the entire amount of cash transferred under the Young Plan was provided by international borrowing. Its effect was for investors in the U.S. and neutral countries to supply the cash needed for the reparations creditors. Deliveries in kind were continued for a period, aggregating RM 1 billion.

The Young Plan collapsed after one year of operation. The financial crisis spread from Austria to Germany and eventually to the rest of the world. In June 1931, President Hoover proposed a moratorium on debt payments to the U.S. on condition that the Allies would suspend reparation payments by Germany. Small payments were made after the Hoover moratorium, principally to settle old accounts. In 1932 the Lausanne Conference proposed a new settlement of the reparations question. Germany was to deliver bonds amounting to RM 3 billion which, it was expected, would be sold to private investors. These bonds were to replace all claims on reparation account except for the interest and amortization of the two international loans. The Lausanne Agreements were contingent upon a settlement of the Allied debts to the U.S. These settlements were never made and the Lausanne Agreements actually were never ratified. In 1932 Germany announced that it was impossible to make any further reparations payments.

4. Economics of Reparations Payments

Between 1919 and 1935 Germany made reparations payments amounting to a total of RM 21,282 million. This was equivalent to \$5,067 million (old). The amounts are shown in Table B. This figure represents the total amount paid to the Allied governments. It does not mean the burden

Table B

Reparations Receipts, 1918-35
(Millions of RM)

Versailles Treaty and London Schedule (1918-1922)	9,638
Dawes Plan (1924-1930)	7,949
Young Plan (1930-1935)	3,695
Total	21,282

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imposed on the German economy. About half of the amount paid under the London Schedule represented the value of government properties in ceded territories. Of the balance, only part was paid in cash. Similarly, under the Dawes and Young Plans part of the amounts included as reparations payments were payments of interest and principal on the bond issues and costs of the armies of occupation. The real burden of reparations on the German economy would appear to have been greatest in the period between the Versailles Treaty and 1922. This was the only period in which the amount of reparations payments was not offset by large amounts of foreign loans. For reparations to have constituted a serious burden to the German economy the amount should have been paid from a budgetary surplus, but the German budget was, on the whole, unbalanced throughout this period. (Cf. Text, p. 34). Throughout this period the German public debt increased steadily (Cf. Text, Table IX, p. 36). The reparations payments, therefore, were accounted for by loans floated in Germany and to a smaller extent abroad. To make a transfer Germany should have had a net active balance of payments but for the most part the German balance of payments was passive through the period of greatest reparations payments (Cf. Text, Table X, p. 37).

Reparations payments were made possible by numerous loans floated abroad principally by the states and local governments and private industries. Between 1924 and 1931 the long-term loans abroad amounted to some RM 8.4 billion. This sum does not include direct investments by foreigners in German securities issued in Germany or direct investments in plant and equipment or the purchase of other investments. The exact figure for these items is unknown. A rough approximation is given in Table XIII (p. 41). The exchange to make reparations payments came from long-term investment and the increase in foreign holdings of German bills and other short-term investment in Germany. During the Dawes Plan alone the figure was approximately RM 18.2 billion (Cf. Text, p. 39). The foreign credits of Germany which were practically zero in 1924 rose to RM 25.5 billion in 1930. Consequently investment by foreigners both on long-term and short-term basis not only provided much more than Germany paid in cash reparations, it covered the payments in kind and the excess of imports over exports in the period. Moreover, it enabled Germany to make foreign investments abroad as shown in the table on page 39. With the eventual repudiation of these obligations by Germany through such devices as exchange control, and the Kärvensionskasse, the amount of German debt was drastically reduced. How much of the capital which had been invested in Germany was actually withdrawn before the imposition of exchange controls is difficult to determine. Between 1931 and 1933 the foreign creditors of Germany were able to withdraw about RM 3,250 million. Thereafter the imposition of exchange controls prevented withdrawal. For the most part these withdrawn funds represented short-term obligations or the sale of foreign securities held by Germans using the proceeds to buy up German securities at low

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prices in foreign countries. In any event, most of the foreign investment in Germany could not be withdrawn. Probably in the neighborhood of RM 22 billion was still invested at the outbreak of World War II, even though the nominal value of these holdings was drastically reduced by the measures taken by the German government and the Reichsbank.

There is, therefore, little need to discuss the theoretical questions involved in the transfer problem. While the theory could contemplate many difficulties in the transfer of a huge sum of reparations, theory did not coincide with the facts for the simple reason that the transfer of reparations in any real sense was unimportant. Foreigners, particularly Americans, invested in Germany, Germany paid reparations largely to France and Britain, Britain and France paid on their debts to the U.S. and others. The net result of the reparations question was that the burden of reparations rested upon those investors in America and in neutral countries who imprudently bought German securities.

5. Reparations and International Politics

The successive reductions in the reparations burden were part of political agreements reached by Germany with the Allies. Germany's attitude from the beginning was one of opposition to reparations payments which were regarded as an unjustifiable forced exaction. Moreover, the German complaints of incapacity to pay were frequently taken at their face value, neglecting the important factor of foreign loans. This applied not merely to the politicians of the Allied countries, especially England, but apparently was believed by the bankers as well.

Britain and France pursued opposing policies. The British as a whole favored the economic rehabilitation of Germany and the establishment of a strong government on democratic principles. For this reason they were willing to make concessions to Germany and to avoid burdening the Weimar Republic with an impossible obligation. France, on the other hand, was concerned primarily with security but security was inconsistent with reparations. A strong Germany could pay reparations if it would, but a weak Germany would leave France secure. On the other hand, France was heavily indebted abroad and the payment of German reparations would enable France to reduce her debt. Britain, as a net creditor, was in a different position, with her primary interest involved in the expansion of trade as a means of reducing the unemployment of her labor and capital. In addition, belief in the war guilt of Germany declined more in Britain than in France while the peace movements gained greater force.

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The reparations settlements, therefore, represented a series of compromises of Britain and France on the one hand and Germany on the other. Germany forced reductions in her reparations by refusing to pay, or pleading her inability to pay. France invaded the Ruhr three times over British opposition. The Dawes Plan was accepted by Germany largely to secure the evacuation of the Ruhr. France accepted the Dawes Plan because the Ruhr invasion had produced little in reparations and had antagonized Britain and the U.S. The Young Plan followed the Locarno Treaties which had removed most of the political disabilities of Germany. It was the last step in the process of conciliation to transform the burden of reparations into a debt which could be commercialized under the auspices of an international agency. As the price for the Young Plan obligations, Germany secured the evacuation of the Rhine. The Young Plan coupled the reparations question with debts to the U.S. The Lausanne Conference, by reducing reparations to a very small figure, practically threw the burden of the war on the U.S. as the creditor of the Allied powers. They were unable to pay their debts because of the decline of world trade but they also tried to shift the burden. The unwillingness of the U.S. to cancel the debts resulted in default by the debtor nations and the failure to ratify the Lausanne Agreements. Hence German action in stopping reparations payments in 1932 was unilateral. The investments in Germany were repudiated by various exchange devices so that there is some color given to the view that the entire negotiations on reparations represented a deliberate attempt at evasion and the use of threatened nonpayment as a device for obtaining political concessions. In any case the policy of conciliation pursued by Britain was inconsistent with the maintenance of the reparations debt.


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August 9, 1944

August 12, 1944

Mr. White

Mr. Bittermann

Subject: Reparations from 1918 to 1932

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Reparations 1918 - 1932

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August 12, 1944

Mr. White

Mr. Bittermann

Subject: Reparations from 1918 to 1932.

In this brief discussion of the reparations problem only the most important features will be noticed, particularly those which are of significance for the development of the question in the period after the present war. For convenience in treatment the discussion will be divided into three historical periods: (1) from the Versailles Treaty to the Dawes Plan, (2) the operation of the Dawes Plan, (3) the Young Plan and the end of reparations. The discussion of the general economic and political issues involved in the reparations question will be treated at the conclusion of the historical survey.

I. From Versailles to the Dawes Plan

A. Treaty Provisions

In the Treaty of Versailles Germany accepted responsibility for causing "all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed on them by the aggression of Germany and her allies".^{1/} The following ten classes of damage were specifically enumerated:^{2/} (1) personal injury and death of civilians; (2) damage caused by acts of cruelty and maltreatment of civilians; (3) damage of Germany and her allies to civilians by acts injurious to their health and capacity to work; (4) damage for maltreatment of prisoners of war; (5) pensions and separation allowances of soldiers of the allied countries to be paid at the French scale; (6) cost of assistance by the allies to prisoners of war; (7) allowances by the governments of the allies to families and dependents of soldiers; (8) damage for forced labor; (9) property damage to civilians or governments apart from military property; (10) damage in the form of levies, fines and other exactions imposed upon civilians.

In addition to the general reparations Germany was to pay Belgium the amount borrowed from the Allies before the Armistice. The French government was also to receive the ownership of coal mines in the Saar Basin as compensation for the destruction of mines in northern France. Moreover, all property which had been looted and could be identified was to be restored directly.^{3/}

^{1/} Part VIII, Article 231. For text of the Treaty of. 66 Congress, First Session, (1919) Senate Documents, Volume 7.

^{2/} Annex 1. pp. 259-261.

^{3/} Part VIII, Article 238.

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The Treaty did not fix the total amount of reparations. It provided that a sum of RM 20 billion was to be paid before May 1, 1921. The German government was to give a bond for this amount to the Reparation Commission. The second bond issue of RM 40 billion was to bear interest at the rate of 2.5 percent for five years and thereafter the rate of interest was to be 5 percent with an additional 1 percent for sinking fund. A third issue of 5 percent bearer bonds of RM 40 billion was to be conditional upon the Commission's decision that Germany could meet interest and sinking fund requirements.^{1/}

The reparations obligation was stated in gold but the Treaty anticipated a payment of the largest part of the initial amount through transfer of government properties in territories ceded by Germany, the surrender of German shipping and payment by delivery of coal, domestic animals, machinery and other materials. The Treaty specifically provided for the delivery of some 300,000 domestic animals and approximately 20 million tons of coal per annum. The Allied shipping losses were to be replaced by the transfer of all German vessels with a tonnage of over 1,600, plus, one-half of the tonnage of vessels from 1,000 to 1,600 tons, and one-quarter of all other German vessels. The Reparation Commission could also order Germany to construct at the expense of the Reich new vessels up to 200,000 gross tons per annum. These cessions of property or deliveries in kind were to be offset against the global sum of reparations. Any balance of the original RM 20 billion not paid by these means was to be added to the total of the interest-bearing bonds.

In addition to the general reparations bill, Germany was to pay the cost of the Allied armies of occupation both before and after the Armistice. Occupation costs and the expenses of the Reparation Commission were to be a charge against German revenues prior to the reparations proper and reparations themselves were to constitute a prior claim against all revenues of Germany before payment could be made on internal obligations. The total sum of the reparations bill was to be determined by a Reparation Commission representing the Allied governments.

From the beginning the Treaty provisions were regarded as tentative though approximately RM 100 billion was expected as the maximum payment.

^{1/} Annex II, pp. 268-269.

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Division of Monetary
Research**B. Amount of Reparations**

Before the Versailles Treaty was signed various claims for reparations were advanced in the Allied countries. Prime Minister Hughes of Australia expected a payment of from GM 800 billion to GM 1,000 billion. Keynes estimated that the legitimate claim of the Allies in terms of the Armistice agreements was about \$10.6 billion. The French Finance Minister estimated French claims at about \$75 billion.¹ In 1918, the so-called "khaki election" resulted in a stiffening of British policy with respect to Germany and as a consequence Britain advanced claims for larger amounts of reparations in the course of the Treaty discussion. The specification of the types of admissible claims constituted one of the main problems. If reparations had been limited to physical damage to persons and property the total bill would have been smaller but France would have received a much larger proportion. Britain's entire claim then would have been for losses at sea. By including pensions, which were not within the Armistice terms, the total bill was raised and Britain received a larger proportion of the total.

Soon after the Treaty was signed a series of conferences among the Allied Prime Ministers and experts was held but no satisfactory conclusion was reached. Germany was given an opportunity to make an offer but the proposals submitted were clearly unacceptable. She proposed a payment of RM 31.5 billion conditional upon granting a loan and the restoration of territory along with the repudiation of the war guilt clause. In 1921 France seized certain towns in the Ruhr to compel Germany to reach an agreement.² Germany followed with new proposals which were again not accepted.³

The Reparation Commission had two duties assigned to it under the Treaty. It was to determine the total amount of reparations which could be assessed against Germany in terms of the actual damages and it was to decide how much of these damages Germany could pay in any one period. Since the estimates of damage varied so greatly the Commission required the Allies to submit claims to it. The Allies submitted their claims to the Commission in a variety of gold and paper currencies. If the exchange rates of 1920 are taken as the basis of evaluation the total of these claims aggregated \$53 billion.³

¹/ Keynes, Economic Consequences of the Peace. pp. 134-135, 160-161.

²/ For details of negotiations see Keynes, Revision of the Treaty.
pp. 10-44.

³/ The claims submitted by the Allies were given in gold in some instances and in various paper currencies. In making this estimate the paper currencies were evaluated in terms of the average exchange rate with the United States in 1920. Gold currencies converted at the pars of the old U.S. dollar. Reparation Commission Report, table facing p. 190. Commission itself did not evaluate the claims. The Federal Reserve Board estimated these claims at \$44.8 billion which >

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Of these claims, \$34 billion represented damages in France, Great Britain, Italy and Belgium, of which \$16.5 billion was claimed as property damage and the balance as personal damages, including pensions. It is impossible to evaluate the accuracy of the claims presented to the Commission. They were not submitted in detail and the Commission itself abandoned the task of even estimating the value of the money claims presented. Keynes insisted that the bill was exaggerated to some three or four times the total amount of actual damage. He points out that the French claim amounted to \$9,840 per house destroyed and almost \$5,000 per house for the destruction of furniture. The land losses appeared as \$370 per acre. Keynes's estimate was that GM 110 billion was the maximum legitimate amount. Since the Conference could reach no agreement and the Commission could not evaluate the claims, it arbitrarily fixed the figure of GM 132 billion by analogy to the legal practice of some continental countries where lump sum damages can be assessed by the court without itemizing individual claims. In addition to this amount, the Treaty had provided that Germany was to pay the amount which Belgium had borrowed from the Allies so that the total was raised to GM 138 billion.^{1/}

The London Conference of 1921 drew up a series of agreements which implemented the decisions of the Reparation Commission. There were to be three sets of bonds, the A bonds of GM 12 billion and the B bonds of GM 38 billion were intended to be negotiable issues. The C issue of GM 82 billion was to be issued by the Commission only when it concluded that Germany could make payment of interest and principal. All the issues were to have a 5 percent interest charge with 1 percent sinking fund. In practice these bonds could not be negotiated since at the same time France was paying 10 percent interest on her loans in New York. The total annual payment in cash and kind was to be the equivalent of GM 2 billion plus 26 percent of German exports. To secure payment German import duties and other taxes were earmarked for reparations purposes. The London settlement cut the reparations bill approximately in half in the expectation that this would be within Germany's capacity to pay. The annual charge on the reparations bill as fixed by the Commission would have been GM 8.3 billion. Under the London Conference schedule the total was GM 4.6 billion assuming annual exports of GM 10 billion, a high estimate, approximately double the actual exports of 1920.^{2/} This was the first scaling down of the German reparations bill.

The enforcement of the reparations clauses of the Treaty was assigned to the Reparation Commission. Deliveries in kind were to be accepted by the creditor governments at a valuation placed upon them by the Commission. The Commission was also to determine the

1/ Keynes, Revision of the Treaty. pp. 110-131. Keynes's methods were later attacked by other writers.

2/ Reparation Commission, Report on the Work of the Commission from 1920 to 1922. (London, 1923) p.35.

3/ Keynes, Ibid. pp. 64-72.

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value of property in ceded territory. It could adopt schedules for commodity deliveries and for cash payments. It had no power of direct enforcement if Germany refused to pay, but the Commission could decide whether Germany was in voluntary default. In case of default the Allied governments could take sanctions of an economic or military sort, which Germany was obligated by the Treaty not to regard as acts of war.

C. Payment of Reparations, 1918 to 1924

Payment on reparations account and the other claims against Germany had started in some small amount even before the Treaty was ratified. The Treaty came in force on January 10, 1920 and the first payment of GM 20 billion was due by May 1, 1921. Some time before this date Germany presented a statement showing that a total of GM 21,170 million had been paid so that there was no further liability on the first installment. Half of this claim consisted of the transfer of merchant and fishing vessels, railway rolling stock and equipment, coal and other payments in kind. The other half claimed was the value of State property in ceded areas, the Saar mines and property abandoned in Allied countries. The Reparation Commission rejected this claim on the ground that the vessels and abandoned property were worth only GM 1 billion. It refused to allow claims of GM 5.5 billion as non-realizable assets. It evaluated the total of all German payments at something less than GM 8 billion and consequently demanded immediate payment of GM 12 billion in gold or foreign exchange.^{1/} The Commission charged that Germany was making no attempt to meet its obligations, especially since the payments in kind were not even adequate to pay the costs of the military occupation, which was a claim separate from, and prior to, payments on reparation account. Britain and France secured part of their installments under the Reparation Recovery Acts of 1921 which imposed separate duties on all goods exported by Germany to those countries. The Commission in the early part of 1921 demanded that the entire metallic reserve of the Reichsbank be deposited in the branches at Cologne or Coblenz, that is, in territory occupied by the Allied armies. While the Commission did not propose to seize this reserve, it wished to be certain that Germany did not use the gold reserve for export before payment of the reparations account. Germany refused to make the transfer but offered to make a payment of GM 1 billion, 15 percent in gold and the balance in short-term Treasury bills. Thereupon the Commission declared her in default on May 3, 1921.

Under the London schedule the annual payment by Germany was to be about RM 4.5 billion. The first cash payment of RM 1 billion was made on August 31, 1921. To make this payment the German banks used their available foreign exchange and borrowed almost half on short-term account in Britain and the Netherlands.^{2/} Cash payments proved extremely difficult. Payment could be made only by a net active balance of payments representing commodity exports, shipping services and other "invisible"

^{1/} Reparation Commission, Report V. (London, 1923) p. 15-17.

^{2/} Carl Bergmann, History of Reparations. (London, 1927) p. 82.

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items or by the export of gold. Under the prevailing conditions this was impossible. Germany had consistently had a passive commodity balance in the two decades preceding the war and had also shipped specie abroad annually during this period. Imports consisting of foodstuffs and industrial raw materials could not easily be reduced without impairing the industrial efficiency of the population or making export impossible. Moreover, Germany's receipts of investment income had been sharply reduced by the seizure of German property abroad. The cession of the merchant fleet had reduced income from shipping services. Consequently foreign exchange could be obtained with difficulty while the metallic reserves of the Reichsbank were only about RM 1 billion, less than one-quarter of the annual payment required.

Deliveries in kind represented the largest amount of reparations actually paid. The terms of the Treaty requiring the surrender of the German merchant fleet were carried out fully by the transfer of 639 vessels with a gross tonnage of 2,620,000 by the end of 1922. Securities, cash, works of art and similar items seized in the invasion were restored to their owners by September 1922 as was also the bulk of the industrial equipment and material taken in France and Belgium. France accepted a lump sum of 20 billion paper marks in commutation of her claims for seized agricultural equipment and livestock. These items of restored property did not constitute reparation payment and the Commission made no attempt to evaluate them.^{1/} Coal deliveries formed the most important part of the deliveries in kind. The Treaty called for a monthly schedule of 3,400,000 tons but this was promptly reduced by the Commission. The monthly schedules were varied from time to time and German deliveries approximated the schedules. In 1921, however, the Commission acquiesced in a decreased payment since the demand for coal had decreased as a result of depression and there was a threat of unemployment in the mining districts of France and Belgium. Some of the reparation coal was reexported.^{2/}

The other payments in kind consisted of chemicals and pharmaceuticals, timber and building materials. The chemical payments were required by the peace treaty. The others were selected by the Commission and the German government. The Commission set the schedules for payment on application of the Allied governments and it determined the credit to be given to Germany for each class of goods supplied. The procedure was cumbersome. Private persons presented requests to their governments for materials and these requests were transmitted to the Commission. The Commission decided upon what amounts could be required and presented the claim to the German government which in turn allocated the orders among producers and paid for them in marks. Specifications were not standardized and there was considerable difficulty in matching requests with

1/ Federal Reserve Bulletin, January 1923. p. 62.

2/ Reparation Commission, Report V. 1923. pp. 219, 68, 204. Bergmann *opcit* p. 298 estimates the amount of these restitution items at GM 500 million exclusive of cash and securities.^{3/}

3/ Keynes, *Revision of the Treaty*, pp. 21-26; Bergmann *opcit*. pp. 25-29.

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available supplies. Valuation of the items caused considerable difficulty between the Commission and the governments. The total amount supplied under this procedure required by the Treaty was relatively small.

To obviate this procedure France and Germany reached an agreement at Wiesbaden which practically set aside the Treaty requirements. Under this plan, which was modified in various ways to meet the objections of the Allies as well as Germany, the transactions were arranged directly between the German producer and the French claimant. A valuation was to be determined by a joint commission organized as a private corporation. Nevertheless, payments still continued to be relatively small. France made small requests for materials and confined them largely to commodities which would not compete with French industry. In 1922 France took only 8 percent of the deliveries in kind, exclusive of coal, ships and dye-stuffs. On the other hand Yugoslavia, whose total claim was small, took more than half of the total deliveries in kind since there was not as much competition from domestic manufacturers. Chemicals and dyestuffs could be transferred in this way more easily, since they were standardized and used industrially and supplied in Germany by a few large producers.^{1/} Germany also supplied considerable amounts of livestock and timber. A proposal was made to supply German labor and materials for the actual reconstruction of the devastated area of France. This proposal, however, met with French opposition since even temporary migration of German workers was frowned upon by French trade unions. A similar project for the construction of French public works was not carried out.

In 1922 and 1923 there were intermittent payments followed by moratoria. Under these agreements cash payments were reduced to GM 720 million for 1922, with corresponding increases in deliveries in kind. Toward the end of the year Germany requested a four year moratorium, which was refused. In 1923 the only payments made were to Belgium in Treasury bills according to an agreement made in 1922. In the attempt to force further payment from Germany, French and Belgian troops invaded the Ruhr for the third time in January 1923, and Germany thereupon refused to make any further payments.

It is impossible to determine the exact amount paid by Germany on reparations account between the Armistice and the end of 1922. The books of the Reparation Commission credited Germany with total payments of GM 7,927 million. Cash payments constituted 22.9 percent; payments in kind 44.9 percent, and the balance was the value of property in areas ceded to Allied powers. The details are given in Table I.

^{1/} Cf. Keynes, Revision of the Treaty, pp. 92-100.
Bergmann, opcit. pp. 85-96.

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Table I

Credits to Germany in Accounts of Reparation
Commission, November 11, 1918 - December 31, 1922 1/

(Millions of gold marks)

Direct payment including Treasury bills	1,703
Other currency payments	115
Ships	736
Coal and coke	950
Railway rolling stock	829
Chemicals and dyestuffs	97
Livestock	159
Other payments in kind	785
Total payments in kind	3,556
Value of State property in ceded territories	2,554
 Total Credits	 <u>7,927</u>

The payments made by Germany, however, included the costs of the armies of occupation and at the Commission's valuation Germany still had an obligation of GM 135 billion at the end of 1922. The Commission conceded that this figure might be reduced by GM 3 billion if allowance were made for properties not yet evaluated at the close of the year.

In the period of the Ruhr occupation, additional credits of GM 894 million were allowed by the Commission thus bringing the total of payments up to GM 8,822 million as of 1925. In 1932 the total was revised in the closing of the books of the Reparation Commission and fixed at GM 9,638 million.^{2/}

The Commission's valuation has been questioned from the beginning. The German government made claims for much larger amounts than the Commission allowed. The Commission stated the total of all payments by Germany before the Dawes Plan at GM 10,426 million, while Germany claimed, for the same period, a payment of GM 56,577 million, of which GM 42,059 million was on reparations account. Brentano had estimated Germany's payments before the Dawes Plan as GM 36 billion. Certain of the German claims properly were disallowed by the Commission, such as the value of naval vessels surrendered to the Allies, pay for prisoners of war, and the value of securities seized abroad. Moreover, the accounts of the Commission were not complete but most of the differences seems to be a matter of valuation policy. Thus the shipping

1/ Source: Reparation Commission IV, Statement of Germany's Obligations December 31, 1922. pp. 20-24.

2/ Statistisches Jahrbuch fur das Deutsche Reich, 1932. p.197*
C. F. P. Morris. Reparations Settlement, 1930. pp. 112-116.

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which the Commission valued at GM 712 million was valued by Germany at GM 4,486 million. Ceded properties which the Commission valued at GM 2,312 million were claimed by the Germans at GM 19,845 million. Coal valued at GM 927 million was estimated by Germany at GM 2,374 million. In only a few instances were the two evaluations approximately equal. The Commission apparently valued most of the payments in kind at the price they could command on the market, which was a forced sale value. Germany claimed the value of shipping and other materials as part of a going concern or book value. There is some reason to believe that the German estimates were "padded". The Commission's valuation shows approximately what the Allies had received, the German claim was for the amount of loss to the German economy. These sums could not be equal.

There are two other estimates of the value of this property. Moulton and McGuire estimated the fair value of the cash and goods to the German economy as GM 26 billion. Keynes independently arrived at the same figure though his valuation of individual items differed. Schacht gave the figure of GM 29 billion.^{1/}

The Allies clearly did not obtain as much as the Germans lost and in the absence of any more satisfactory estimates the figures of Keynes and Moulton and McGuire may be taken as the best available estimates. This cost was equivalent in gold values to about \$6 billion. With the adoption of the Dawes Plan in 1924, a new scale of annuities was established and the terms of the Dawes Plan replaced the original London settlement. With the supposedly definitive solution of the reparations problem in 1930, with the Young Plan and the Hague agreements, the accounts were closed and became of only historical significance.

II. Reparations Under the Dawes Plan

The Dawes Plan of 1924 was intended to deal with the problem of inflation and reparations. In 1923 France and Belgium had invaded the Ruhr and all reparations had ceased. The same year marked the rapid depreciation of German currency accompanied by political unrest, internal disorder, and decrease in production. The mark, which had an original value of 4.2 marks to the dollar, had depreciated to 14 marks to the dollar in 1919. In January 1920 the dollar stood at 64.8 marks, in January 1922 at 191.8, in January 1923 at 17,972. From this point on the depreciation was still more rapid so that by July 1923 the rate stood at 353,412 marks to the dollar, in August 4,620,455 marks to the dollar, and in October 25,260,208,000. The mark was stabilized in November 1923 at the rate of 1 trillion marks to one Rentenmark. The

^{1/} Ibid. pp. 263-264. Cf. Moulton and McGuire, Germany's Capacity to Pay. pp. 63-76, 303-311, 320-352.
Cf. H. G. Moulton and L. Pasvolsky, War Debts and World Prosperity (Washington: Brookings, 1932. pp. 260-263, 479.)
Hjalmar Schacht. End of Reparations. 1931. p. 22.

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Rentenmark was soon transformed into a new Reichsmark at the old gold value of RM 4.2 to the dollar. The causes of the inflation need not be examined here. The Germans have frequently claimed that the necessity of securing exchange for reparations payments was in large part responsible for the decrease in reserves and the collapse of the mark. It must be noticed, however, that the most rapid decline of the mark occurred in 1923, a year after reparations payments had stopped. There is no doubt that reparations payments added some difficulty to the German foreign exchange situation but the inflation itself was partly responsible for the exchange difficulties. Moreover, there was a flight of capital from Germany partly to escape inflation and partly, possibly, to escape levy by the Reparation Commission. During the inflation period the budget continued to be unbalanced and as far as can be determined from the trade statistics, Germany's adverse balance of trade likewise persisted. From 1920 to 1923 German exports were actually less than imports of consumption goods measured in dollar values, so that there is little evidence for a real reparations cost. The effect of inflation, exchange depreciation, budgetary disequilibrium and capital flight were all cumulative with the result that German industry and production were completely disorganized. The inflation had wiped out the German national debt and that of industrial concerns which had profited most from the lag of wages behind prices. The German budget, therefore, was free from the large debt obligations of the budgets in Allied countries even though later there was some partial restoration of values eliminated by the inflation. The Dawes Plan took these factors into consideration.

A. The Dawes Plan

An international committee of experts, headed by General Dawes, appointed by the Reparation Commission submitted its report on April 9, 1924.^{1/} Germany accepted the Plan and the Allied powers agreed to a new set of protocols which replaced the provisions of the Versailles Treaty in August 1924.

The Dawes Plan had two main purposes, the stabilization of the mark and the provision of a new scale of reparations annuities within the limits of Germany's capacity to pay. As part of the stabilization program the Plan provided for a new bank of issue and an international loan to provide immediate reserves in gold and foreign currencies. The new annuity scale provided for an increasing annual payment but the maximum was much less than the amount called for by the London agreements. The Dawes Committee made no direct recommendations on political questions though outside of its deliberations Dawes secured French agreement to the Ruhr evacuation as a condition precedent to the acceptance of the

^{1/} Reparation Commission XIV, The Experts' Plan for Reparation Payments, (London, 1927).

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new reparations scale by Germany. The Committee also did not fix the sum total of reparations, which was regarded as a political question to be dealt with in the future. The Plan was admittedly tentative with the primary purpose of reestablishing the German economy. Under the Plan, all German payments to the Allies were consolidated in a single payment. Restitution costs and the costs of the Allied armies of occupation, while they retained their priority in the distribution of payment among the Allies, were included in the annual annuity payment by Germany. To make certain that payments would be forthcoming according to schedule, the Plan provided for the allocation of specific German revenues to reparations account. The transfer problem was treated by making reparations payable in marks to an Agent General for Reparations. The Agent General had control of transfers and the amount to be transferred could be limited in view of the exchange situation. In the first year of the Plan, 80 percent of the reparations payment was to be expended in Germany. The Plan also provided for a loan to cover the first installment and it anticipated the sale of securities by German industries to provide a large part of the balance in future years. The Agent General was to be assisted by commissioners for the Reichsbank, the railways and the controlled taxes. These officers were given certain powers of supervision over the German economy to prevent evasion of the terms of the Plan.

B. Annuities

Starting with a payment of RM 1 billion in the fiscal year 1924-25, the annual payment was to increase to a standard amount of RM 2.5 billion in the fifth year. This standard sum, however, was to be increased according to an index of prosperity. Five principal sources were provided to pay reparations. An international loan of GM 800 million was to be floated at once. The railways of Germany were to be mortgaged for GM 11 billion and industry for GM 5 billion. Interest and amortization of these bonds were to be paid into the reparations account. In addition, certain taxes were earmarked for reparations payment and any balance was to be met by a general budget contribution. The scale of annuity payments and the sources from which they were to be derived is shown in Table II.

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Table II

Revenue Sources of the Dawes Plan Annuities ^{1/}

(Millions of RM)

Year	Railway Bonds	Industrial Debentures	Transport Tax	Budget	External Loan	Total
1924-5	200	-	-	-	800	1,000
1925-6	595	125	250	250	-	1,220
1926-7	550	250	290	110	-	1,200
1927-8	660	300	290	500	-	1,750
1928-9	660	300	290	1,250	-	2,500

Not only did the Dawes Plan not fix the total amount of the reparations bill, it provided that Germany's payment was to be increased if and when German economic revival indicated additional capacity to pay. This payment was to be based on an index of prosperity composed of six items: (a) the sum of imports and exports, (b) the total budget receipts and expenditure of the Reich and the States of Prussia, Saxony and Bavaria, (c) railway freight traffic, (d) the expenditure by consumers on sugar, tobacco, beer and alcohol, (e) the total annual population, (f) the consumption of coal. Each year this index number was to be computed and applied as a coefficient to the budget contributions for the years from 1929-30 to 1932-34. Thereafter it was to be applied to the total reparations payment.^{2/} In case the index of prosperity for any year was less than 100, that is, if the German economic situation was worse than in 1924-25, the annual payment was to be kept at the standard amount of RM 2.5 billion and the deficit removed before increments were applied to succeeding years. As a special case, in the third and fourth years the payment could be increased or decreased by RM 250 million according to the yield of the controlled revenues.

C. The German External Loan - 1924

The external loan was to net RM 800 million above the cost of flotation. The bonds were to be offered at 7 percent with an annual sinking fund of 1/25th so as to retire the issue in 1949. For sinking fund purposes the trustee was to purchase bonds on the open market if their selling price was less than 105 or to call bonds for redemption by lot at 105. The issue was secured by a general pledge of the credit

^{1/} Reparation Commission, Experts' Plan for Reparation Payments. p. 29.^{2/} Ibid. pp. 73-4.

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of the German government and in addition, with the consent of the Allies and the Reparation Commission, it was to be made a first charge against the revenues payable to the Agent General. Customs receipts, excises and the profits of the spirits monopoly were also to be used to guarantee payment on these bonds before they could provide funds for the budget.^{1/} It was expected that with the stabilization of the currency there would be new confidence in the German situation which would lead to a stabilization of the budget as well as of prices. Stabilization, it was also expected, would induce the return of capital which had taken flight abroad and would stimulate international investment. In fact, a favorable balance of payment was anticipated even though budgetary disequilibrium continued.

B. Railways

The railways of Germany had been owned and operated by the State governments. To mortgage this property, the Plan provided for the establishment of a private corporation to operate the railways with an exclusive concession, though title to the property remained with the Reich.^{2/} The company was to be capitalized at RM 26 billion. The common stock was owned by the Government and preferred stock of RM 2 billion was to be transferable and sold by the company for the benefit of the Government and its own treasury. A bond issue of RM 11 billion was to be turned over to a trustee appointed by the Reparation Commission and it was expected that these bonds could be sold abroad. The bonds carried interest at 5 percent with 1 percent sinking fund after four years, so that the total standard burden was to be RM 660 million annually. For the first year this payment was reduced to RM 200 million and the standard amount was reached in the fourth year. The mortgage was guaranteed by the Reich in addition to the company. Allied and neutral governments were to have minority representation on the board of directors of the company.

E. Transport Tax

The Dawes Plan required the maintenance of the gross receipts tax on railway transportation. This tax was 7 percent of gross receipts from freight traffic and 10 to 16 percent of passenger traffic. In the first year the transport tax was to accrue to the Reich budget. In the second year RM 250 million of the tax was to be paid for reparations and RM 290 million annually thereafter. The company was to pay these revenues directly to the Agent General and only the surplus above requirements was to accrue to the Treasury.^{3/}

^{1/} Ibid. pp. 317-335.^{2/} Ibid. pp. 225-250.^{3/} Ibid. pp. 78, 239.

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F. Industrial Debentures and Bonds

To secure an annual amount of GM 300 million, industry was mortgaged and the interest of the mortgage was to produce this amount. Industrial debentures amounting to GM 5 billion were to be issued by all concerns with a working capital (Betriebsvermögen) of over GM 50,000. Banks, insurance companies, service trades and all exclusively commercial concerns were exempted since they had relatively few fixed assets. Each concern was to issue its own industrial debentures to a Bank for Industrial Obligations. The quota for each firm was 5 percent of its working capital as assessed in the property tax of 1924. A minimum quota of 20 percent was imposed on the iron industry, 17 percent on the machine and electrical industry, 8 percent on the chemical industry and 7 percent on textiles. These industries had particularly benefited by the construction of capital equipment during the inflation. The industrial debentures were to bear a prior lien on property, senior to private-law real estate mortgages.

The trustee was to select RM 500 million of bonds from among those given by the largest concerns whose mortgages aggregated RM 1.5 billion. It was expected that these bonds could be sold by the trustee. No interest was to be paid on the debentures for the first year; 2.5 percent for the second year and 5 percent thereafter. Amortization was to be 1 percent annually after three years.

The Bank for Industrial Obligations was to be organized with its control shared between German and foreign nationals. The primary purpose of this Bank was to make commercial flotation of the industrial debentures feasible. It was to issue industrial bonds aggregating GM 5 billion, of which GM 4.5 billion were to be transferred to the trustee. The first series paid 5 percent interest and after two years, 1 percent sinking fund. The second series paid no interest the first year, 5 percent in the second year and thereafter. The sinking fund came into effect in the third year. These industrial bonds might be issued in foreign currency but the capital value was not to be increased as the result of differences in exchange rates. The Bank was to hold individual debentures not negotiated by the trustee as security for these bonds. The Reich guaranteed interest and principal and exempted the bonds from taxation when in the hands of the trustee or the Bank.

The German government levied a special tax on those industries whose assets could not be mortgaged. Firms with a capital of less than RM 20,000 were exempted. The annual tax was to produce an income to supplement payments on the industrial debentures and was to constitute a guaranty fund for the ordinary issue.

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1/ Ibid. pp. 268-316.

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G. Controlled Revenues

The Plan sought to avoid direct control of the German budget, but it wished to have special guarantees for securities in the hands of foreign holders. It, therefore, proposed the earmarking of customs and excise taxes whose annual revenues were to pay interest on the bonds issued. The Government agreed not to reduce the rate of tax while the Plan was in operation. To assure revenue from the tobacco tax the industry was to be reorganized as a state monopoly which would produce an annual profit of RM 357 million. The customs receipts and other earmarked revenues were expected to yield over RM 2 billion annually. Consequently the earmarked revenues alone were expected to pay the entire reparations bill. The Plan provided for a scale upward and downward of reparations payments in 1926 and 1928, according to the yield of these taxes. The tax receipts were to be paid directly to the controller of the assigned revenues by the collecting agencies of the Reich Government.¹

H. The Budget

It was expected that currency stabilization would make possible balancing the German budget within a short period of time especially if there were economies in the payment of unemployment relief. The Dawes Committee made special recommendations for increases in German taxes which would bring them up to the level of the burden in Allied countries as required by the Treaty. Their most important recommendation was for an increased income tax which would yield revenue with stabilization of the currency. They also proposed a "windfall" tax on the businesses and industries who had benefited from the inflation by the extinction of their debt. Incidentally they favored a reduction of the turnover tax but increased inheritance and motor transport taxes. Finally, they emphasized the importance of a new readjustment of the financial relations between the Reich budget and the budgets of the State and local authorities.²

I. Payment Methods

The German government and its agencies were to pay reparations to the credit of the Agent General in German currency at the Reichsbank. The Agent General was to evaluate these payments in terms of gold. As far as the German government was concerned its obligation ended with a payment in its own currency. The Agent General could use his account at the Reichsbank to make payments for deliveries in kind and to purchase foreign exchange for direct transfers. Transfers were to be

^{1/} Ibid. pp. 58, 137.

^{2/} Ibid. pp. 41-57.

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made by the Agent General at his discretion in consultation with a committee of five banking and exchange experts selected from Allied countries. If he were unable to transfer payments because of the exchange situation he was to invest surpluses above RM 2 billion in Germany, and when the total of cash and investments exceeded RM 5 billion, the amount of reparations was to be reduced.

The Dawes Plan proposed the continuance of payments in kind, partly because of the transfer problem and partly because the economies of France and Belgium had become adjusted to the system. It was expected that payments in kind would stimulate German exports while at the same time preventing the flight of capital by investment of the export surplus in foreign countries. The committee recognized that payments in kind were contrary to good economic policy unless they represented commodities which would normally be exported from Germany, i.e., coal, dyestuffs, chemicals and manufactured goods.

The new provisions, with the consent of the Allies, replaced the clauses of the Versailles Treaty. Following the Wiesbaden and later agreements, payments in kind were to be handled as ordinary commercial transactions. That is, a French importer would arrange for the purchase of German goods with a German manufacturer or exporter at the ordinary prices of the commodities. The goods were transported in the usual way, the only difference was that the German exporter would receive his payment from the Agent General and the French importer would pay the French government. The Agent General simply served as an extraordinary clearing agency. In case of disagreement an arbitral commission composed of members appointed by the Reparations Commission, the German agency charged with reparations payments, and an impartial arbitrator appointed by the President of the Hague Court.

Under their reparations recovery acts Great Britain and France imposed import taxes on German goods. The English importer paid the tax to the government while the Agent General paid a corresponding amount to the German exporter. In the accounting these payments were to be regarded as deliveries in kind.¹

III. The Dawes Plan in Operation

A. Summary

In the first year of the Dawes Plan ending November 1925, the full annuity was paid and the Ruhr was evacuated according to agreement. The interest on the external loan of 1924 was the only cash transferred. The British and French, however, received part payment under the reparations recovery acts. As the result of the Dawes Plan and the stabilization of the currency, Germany moved rapidly to reconstruction.

1/ Ibid. p. 144.

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In the second year of the Plan the budget was balanced despite the large volume of unemployment. In the third year cash payments increased, facilitated to a great extent by the increase in foreign loans to German government and business. In this year, however, the budget was unbalanced and public debt increased rapidly as the result of the expenditure on relief and construction projects. The volume of production and price levels rose so that in 1927 Germany was in full prosperity with only a minimum of unemployment. The Agent General protested about the system of unsound finance and suggested that reparations payments in the future would be impossible and the German economy would be ruined unless the budget were balanced and a favorable balance of payments secured. Despite the Finance Minister's claim that the Dawes payments could not be made, public expenditures continued to increase. Nevertheless, in 1928 payment was made as scheduled. The budgetary and trade deficits continued but the influx of foreign capital made payment possible. In 1929, the first year in which the budget was expected to make a large contribution to reparations, the deficit was increased. Gold flowed out of Germany and foreign investment decreased sharply. Immediate payment of the Dawes annuities was practically impossible in 1929. Under these circumstances Germany and the Allied powers agreed to a revision of the reparations payments in accordance with the plan produced by the Young Committee.

B. The German External Loan of 1924

The loan was floated at 92 to yield 7.7 percent by a banking syndicate composed of Morgan & Company, The Bank of England and various banks in France, Belgium, Sweden, Switzerland and Italy. The American bankers took half, the British 11.6 percent and the balance was divided among the others. A small part was floated in Germany.^{1/} Interest and sinking fund requirements of this loan were made punctually throughout the life of the Dawes Plan. Securities rose on world markets and, in fact, it became difficult to purchase for the sinking fund below the price of 105, so that retirements were determined by lot. By 1930 about 17 percent of the total issue (RM 141 million) was retired. Thereafter the bonds dropped sharply in price, reaching a low of from \$7 to \$27 in 1939. Under these circumstances retirement of principal was easy so that on March 1, 1940 only RM 281 million were still outstanding. Approximately half of the American issue was retired and about one-quarter of the others. Interest payments were fully met up to July 1934. Thereafter the German government refused to transfer and paid in blocked marks. Specific agreements were made with bankers in the creditor nations for unfreezing these marks so that a proportion was paid in cash and the balance in blocked marks. The American share of the loan was paid at 5/7 of the coupon rate between 1934 and 1941. This amounted to repudiation of interest and principal since the blocked marks eventually became irredeemable.

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^{1/} Agent General's Report 1925. p. II

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C. Railway and Industrial Bonds

The Dawes Plan had contemplated commercialization of a large part of the reparations payment by the sale of the railway bonds and industrial bonds and debentures. Actually none of these bonds were ever sold. Many German industrial concerns, however, floated private issues on the market, irrespective of the mortgage specified under public law. The railway company made its annual payments of interest and sinking fund but these payments were held by the Agent General. The service of these industrial bonds was also fully met. Since the bonds had never been sold these payments virtually constituted a tax, as was recognized by the law which imposed a countervailing tax on industrial and commercial firms whose assets had not been mortgaged. Accordingly, the Young Plan recommended the cancellation of the bond issue and the outright substitution of taxes.^{1/}

D. Payments under the Dawes Plan

From 1924 to 1929 the Dawes annuities were fully met. Foreign currency payments increased from 30.3 percent in 1924-25 to 57.8 percent in 1928-29 with an average of 48.2 percent. The annuities paid totalled RM 7,970 million, with additional earnings on interest and exchange transactions of RM 23 million, so that a total of RM 7,993 million was available for distribution to the Allies. Of the total payments between 1924-30, France received 53 percent, Great Britain 22.2 percent, Italy 7.5 percent, Belgium 7.1 percent, and the United States 4.9 percent.^{2/} The amounts paid in foreign currency and in Reichsmarks are given in the appended table:

Table III

Annuities Received and Transfers made under Dawes
Plan - September 1, 1924 to May 17, 1930^{3/}
(Millions of RM)

Annuity Received	Foreign Currency	Transfers Made	Total		
		Percent	Reichsmarks	Percent	
1924-25	1,000	271	622	69.6	893
1925-26	1,220	416	760	64.7	1,176
1926-27	1,500	683	699	50.6	1,382
1927-28	1,750	943	796	45.8	1,739
1928-29	2,500	1,419	1,034	42.2	2,453
1929-30	-	101	204	66.8	306
Total	7,970	3,834	4,115	51.8	7,949

1/ Cf. Agent General's Report, 1930, pp. 91-92.

2/ Ibid. pp. 335-36.

3/ Source: Report of Agent General for Reparation Payments, 1930, p. 335.

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The data as reported by the Agent General included among the payments in foreign currencies the amounts received under the Reparations Recovery Acts of Great Britain and France. While these payments were actually made in sterling and francs their nature was closer to the payments in kind, as the Dawes Plan had specified. Of the total amount received in reparations Britain received 70 percent of its share through its Recovery Act whereas France received only 6 percent by this method. Approximately half of the foreign currency payments were represented by cash transfers. The United States payment included here was to pay for the costs of the army of occupation prior to 1924. On the other hand, France received the bulk of the deliveries in kind, whereas Britain received none. The annual distribution of reparations payment in each form is given in Table IV.

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Table IV

Approximate Distribution of Reparation Payments under the Dawes Plan, 1924-30 ^{1/}
(Millions of RM)

Year	Service of External Loan	British Reparation Recovery	French Reparation Recovery	U.S.A.	Cash Transfers	Total Foreign Currency	Deliv- eries in Kind	Armies of Occupation	Total RM Payments	Total Trans- fers
1924-25	78	155	25	-	-	258	454	52	531	789
1925-26	97	201	41	-	65	416	656	86	760	1,176
1926-27	91	231	60	40	255	683	617	73	699	1,382
1927-28	50	297	53	30	460	943	725	66	796	1,739
1928-29	89	334	67	45	876	1,419	985	42	1,034	2,453
1929-30	6	32	12	1	62	101	207	3	204	306
Total	451	1,250	258	116	1,718	3,820	3,644	322	4,024	7,845

Source: Report of the Agent General for Reparation Payments

^{1/} Data in this table are not strictly comparable with those of the preceding table, since they are classified here according to the time of actual transfer.REF ID: A60978025
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E. Deliveries in Kind

Deliveries in kind constituted almost half of the total amount of reparations payments. The Versailles Treaty had contemplated a system of direct delivery between the governments but the difficulties with this system led to the development of supplementary agreements which practically voided the requirements of the Treaty. Under the Dawes Plan the program set up under the Wiesbaden agreements was extended. A committee of Allied and German representatives with Marcus Wallenberg of Sweden as Chairman presented a new plan adopted in March 1925. Experience had shown that direct transfers would necessarily be limited to a few products and where a larger number were involved the procedure had become extremely complicated. It was, therefore, proposed to reduce direct transfers to a minimum and to increase the amount of deliveries in kind made as ordinary transactions between private persons.

The new Wallenberg regulations^{1/} permitted delivery of all commodities not on restricted lists. The "A" list included goods imported into Germany, foodstuffs manufactured from imported raw materials, manufactures of precious metals, skins and hides, scrap iron and other scrap materials and a large group of agricultural commodities. Goods on this list could not be used to make reparations payments. The "B" list comprised a group of commodities which could be supplied in limited amounts according to specific agreements approved by the transfer committee. Commodities on the "C" list which covered the bulk of German manufactures could be used for payment but the allowances on reparations account could be made only for that part of the value represented by German labor and materials. Foreign materials used in these commodities had to be paid for at cost by direct payments in marks made by the manufacturer. The regulations provided an elaborate schedule showing the amounts which could be used for reparations payments in the case of each commodity.

Deliveries in kind could be made under a program set by the Reparation Commission on application of the creditor governments. As the program developed the tendency was to shift from the few commodities which were supplied through the governments directly to a large number of commodities generally exported by Germany on private account. Even coal deliveries, which originally were the largest single payments to the governments, were handled by a contract between the German coal syndicate and the National Purchasing Missions of France and Belgium. Similarly, dyestuffs were sold under a contract between these Missions and I.G. Farben. In addition to these deliveries, the Commission could approve exceptional contracts for construction work in which materials were supplied directly by Germany for construction projects in France and Belgium.

1/ Reparation Commission, IX, Regulations for Deliveries in Kind.
London, 1929.

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Under the new program the Agent General served simply as a clearing agent for international transactions thus avoiding pressure on the exchanges. The purchaser applied to his government for a draft covering the amount of goods bought. The creditor government drew this draft on the Agent General in Reichsmarks. The purchaser sent the draft to the seller who presented it to the Agent General for payment. In this way the German government paid the Agent General in marks for the amounts covered by the drafts and the Agent General could secure needed foreign exchange by purchase of bills on the open market.

A glance at Table V will show the decrease in proportion in the total payments made in coal and chemicals and the increase in proportion in other types of manufactured goods as the program got under way.

Table V

Deliveries in Kind under Dawes Plan ^{1/}
(Millions of RM)

Year	Coal and Coke ^{2/}	Per-cent	Chemical Fertilizer	Per-cent	Dye Stuffs and Drugs	Per-cent	Total
1924-25	322	70.9	23	5.1	26	5.7	454
1925-26	358	54.6	51	7.8	11	1.7	656
1926-27	276	44.7	61	9.9	13	2.1	617
1927-28	272	37.5	53	7.0	18	2.5	725
1928-29	316	32.1	58	5.9	23	2.3	985
1929-30	37	17.9	11	5.3	—	—	207
Total	1,581	43.4	255	7.0	91	2.5	3,644

1/ Source: Report of Agent General

2/ Includes cost of transport.

In 1925 some 3,600 separate contracts were made for a great variety of products. By 1930 at the end of the Plan only about 7 percent of the deliveries was represented by special agreements. In this way deliveries in kind under the reparations clauses were gradually assimilated to normal trade transactions, while coal deliveries were still the largest single item. They had practically become a commercial agreement between the German coal producers and the French coal users. Various countries took their deliveries in different forms. France and Belgium took the bulk of their reparations in coal, coke, chemicals, woodpulp and machinery. Japan took automobiles; Portugal, rolling stock; Yugoslavia, machinery, rolling stock and miscellaneous manufactures. In 1927-28 a

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number of contracts for the construction of public works in France amounting to some RM 46 million were completed. It may be noted also that payments for the armies of occupation were made largely by the delivery of materials to the armies and partly by direct payments of Reichsmarks. The Dawes Plan, while it liberalized the use of deliveries in kind as a transfer mechanism, nevertheless recognized that they constituted a makeshift arrangement at best, a temporary expedient supplementary to normal international transactions.

F. The Reparation Recovery Acts

The Reparation Recovery Acts were a device adopted by Britain and France in 1921 at the time when Germany was refusing to make additional reparation payments. The British Act of 1921 imposed a special duty of 50 percent on goods imported into England from Germany. Later this rate was reduced to 26 percent. While in 1924 the rate was lowered to 5 percent for a short period, with the adoption of the Dawes Plan the 26 percent rate was resumed. The French rate was similar. Under the Reparation Recovery Acts the governments secured their payments in their own currencies directly without the intervention of the Reparation Commission and regardless of the attitude of the German government. The Acts were inconsistent, however, with the Dawes Plan which provided that the Reparation Recovery Payments were to be assimilated with deliveries in kind and subject to the control of the transfer committee so as to prevent disturbance of the exchange rate. Moreover there was no necessary identity between the amount which a government recovered under these Acts and the amount which it was entitled to receive in reparation payments according to the schedule adopted along with the Dawes Plan.

Prior to 1925 the system required a double invoice. The importer paid part of the price to the exporter and part to his own government. Payments were usually made in pounds sterling. This involved a complicated procedure but at least evasion was practically impossible. Under the new proposal adopted in 1925 the German exporter paid 30 percent of the sterling received to the Reichsbank. The Reichsbank paid in sterling the amounts due to Britain in accordance with the transfers committee schedules. The Agent General, in turn, drew on the Reichsbank for the equivalent payments and paid the German exporter. This program gave the committee power to suspend payments in case of exchange difficulties. Payments could also be held within the limits specified.¹ This plan operated smoothly enough until 1929, when the holdings of sterling became inadequate in view of the financial situation.²

IV. The Young Plan

The Young Committee presented its report in the spring of 1929 after foreign investment in Germany had begun to decline with the tightening of financial markets in the United States and elsewhere. The Plan was

^{1/} Agent General's Report, 1925. p. 21-25.

^{2/} Agent General's Report, 1930. p. 73.

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presented before the stock market crash and before the collapse of the German financial system in 1930. Consequently the Young Plan operated for only a little more than one year when its terms were abandoned under the Hoover moratorium and the Lausanne Agreements.

The Experts' Report^{1/} proposed to fix a definite sum for reparations and a definite term in which the total could be paid off. The annuities were divided into two parts, an unconditional annual payment of RM 660 million plus the interest on the Dawes loan, and a conditional payment of varying amount. All payment could be postponed by Germany for a period of two years by giving 90-day notice, if for any reason it could not raise the revenue or make the transfer of exchange. In this case German currency was to be paid into the Reichsbank for the credit of the Bank for International Settlement. The terms of the Young Plan were modified in detail by the Hague Agreements which implemented it so that the unconditional annuity was reduced to RM 612 million, of which France was to receive RM 500 million.^{2/}

For the year 1930-31 the total annuity was to be RM 1,708 million. The amount was to increase annually, reaching a maximum of RM 2,429 million in the year 1965-66. From 1966 on, the annual payment was to decrease until in 1987, the last year of payment, it was to be RM 898 million. The new scale of annuities replaced the Dawes Plan, the Treaty of Versailles, and the London Agreements. For the first ten years the annuity was only about three-quarters of the amount required by the Dawes Plan.

For the first thirty-seven years of the Plan the annuities totalled RM 79,483 million, of which RM 50,738 million or 63.8 percent were used for the payment of the debts of the Allies to each other and to the United States. For the remaining twenty-one years the annuity was exactly equal to the amount of these so-called "out payments". Discounted at 5.5 percent, the rate of the loan of 1930, the present value of the annuities was RM 33,750 million, equal approximately to \$8,033 million.^{3/} In this way the Young Plan definitely linked reparations payments with the settlement of the debts to the United States, though France and Belgium were to receive amounts on reparations account over and above their debt payments. If the total of the amounts which were to be paid under the Young Plan and the amounts actually paid under the Dawes Plan and the Treaty of Versailles as estimated by the Reparation Commission are added, the total payments of the Reich would have amounted to RM 130,718 million, equivalent to \$31,123 million. In other words, the

1/ Report of the Committee of Experts on Reparations, June 1929 (London 1929). The French text with numbered paragraphs is given in the Bulletin de Statistique of the Ministry of Finance, June 1930. pp. 1276-1327.

2/ Bulletin de Statistique, July 1930. pp. 169-227; August 1930. pp. 431-495.

3/ Myers, The Reparation Settlement of 1930. pp. 54-59.

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Young Plan produced a figure which over a period of eighty-seven years would fix the reparations bill almost at the amount originally set by the Reparation Commission. Allowance, however, should be made for the fact that the Young Plan annuities included payment for the armies of occupation and the interest and amortization of loans which were not reparations proper.

The Young Plan was part of a program of conciliation with Germany in political as well as economic fields. It therefore proposed to eliminate the remains of foreign control of Germany which had been continued under the Dawes Plan. At the Hague the Allies agreed to evacuate the Rhineland five years ahead of the Versailles schedule and in consideration of this Germany was willing to relinquish its power of complete postponement of transfer of reparations payment which it had under the Dawes Plan. The Young Plan, therefore, eliminated the Agent General for reparations. In his place it proposed the establishment of a Bank for International Settlement which would receive payments from Germany in Reichsmarks and would secure the foreign exchange necessary for the transfer. The unconditional annuities, however, were to be paid in foreign exchange. The Bank was established with its stock held by the central banks of the interested nations, which also appointed the directors. It was to be the fiscal agent for the trustee under the Dawes loan and it was the trustee itself under the loan proposed by the Young Committee. It was expected that the Bank would become a permanent institution for international investment and adjustment of current exchange problems during the period of the Young annuities and in the years thereafter. The Bank was empowered to invest its funds, and specifically might invest part of the annuities in Germany.

Since the bonds of the German railways and the industrial debentures had never been sold, the Young Plan proposed the cancellation of these issues and the substitution of a direct tax on the railways of an amount sufficient to produce RM 600 million. This tax was to be prior to all other payments by the railway except wages. The Young Plan proposed similar taxes on industry as a substitute for the bonds. While there were specific revenues assigned as securities for the Dawes loan of 1924 this feature could not be eliminated without violation of the contract, but in all other respects the German economy was to be without foreign interference.

A. Deliveries in Kind

The Young Plan recognized the anomalous position of deliveries in kind, which had in practice become commercial transactions for which payment was made by an extraordinary clearing device. The Committee was not ready to abandon deliveries in kind immediately because of the possible danger in the transfer problem, but it proposed a gradual reduction. The amount, including payments under the Reparation Recovery Acts, was to be limited to RM 750 million in the first year but was to decrease annually until in the tenth year deliveries in kind might not exceed RM 300 million.

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At the end of ten years deliveries in kind were to cease and the reparations payment would have been completely converted into a long-term financial obligation without any peculiar features arising from the war.

B. Other Terms of the Young Plan

The Young Plan proposed a general liquidation of the past. The annuities would replace all claims of the Allies against Germany and the Allies agreed further not to liquidate German property abroad in settlement of their claims. All questions relating to the amount of previous payments were closed. The Committee regarded as the advantages of its plan: first, that the amount of the debt was definitely fixed by settling the date for final payment and the elimination of the index of prosperity; secondly, it was thought that the postponement procedure and the decrease in deliveries in kind would eliminate most of the complications of the transfer problem; thirdly, by giving Germany complete financial autonomy it was believed that the whole question of reparations could be made a matter of a simple financial obligation without political significance. It was thought that a large part of the debt could be commercialized through new loans which would place securities in the hands of private investors and so eliminate governments from the picture. This, it was believed, would make payment more certain since private obligations might take precedence over "political debts". The stigma of defeat would be removed from Germany. Finally, the machinery of administration was greatly simplified and the Committee anticipated a program of economic development with the Bank for International Settlements as an instrument for facilitating international investment and aiding in the stabilization of exchanges, in addition to its original function as the device for liquidating transfers.

V. Operation of the Young Plan

A. The German International Loan of 1930

The first steps in carrying out the Young Plan were the floating of the international loan of 1930 and the establishment of the Bank for International Settlements. The loan was issued in the nominal amount of \$351 million but since it was offered at 90 the net was \$302 million. The coupon rate was 5.5 percent and the actual yield was 6.1 percent. The bonds were to be redeemable by a sinking fund to retire the entire issue in thirty-five years. An exception to this was the French portion of the loan which was purchased by the French government at 90 but sold on the market for 98.25 because it was tax-exempt in France, whereas it was taxable elsewhere.

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The loan was issued in several currencies. France and the United States each took about one-third, Great Britain one-fifth, and the remainder was divided among Italy, Sweden and the Netherlands. Each country's share was issued in its own currency or in pounds sterling and the amount was transferred to the account of the Bank for International Settlements though retained generally in the countries where the loan was floated. The Swedish portion of the loan was taken by Krueger and Toll, the match syndicate. Two-thirds of the loan was expected to be a capitalization of approximately one-tenth of the Young Plan annuities. Later loans, it was expected, would capitalize the remaining obligations. The other one-third of the loan went to the German government for railways, postoffice and telegraph purposes. Simultaneously, however, the German government deposited \$100 million with the Bank for International Settlements so that the loan practically provided Germany with its working balance at the Bank.

The reparations creditors took their share of the loan as reparations payment for the year 1930-31. The tranches of the loan and reparations receipts were not equal. France loaned \$85 million and received \$133 million on reparations account; Italy loaned \$5 million and received \$13 million; Great Britain's share was approximately the same as its reparations.^{1/} Consequently, the net effect of the transaction was that the United States investors and neutral lenders supplied the fund for the payment of the balance of annuities due to France, Italy, Belgium, Yugoslavia, Japan and Portugal.

The Young loan was issued after the financial crisis of 1929. While the large banking syndicate formed was able to dispose of the loan easily in view of the high interest rate paid, the deepening of financial difficulties led to a rapid decline of the loan on world markets. As soon as the bankers' syndicate was dissolved the loan started its downward course. It fluctuated considerably in the course of the year, but at the end of 1931 it reached a low of \$31; by 1938 the price had fallen to \$16.^{2/} Interest on the loan was paid regularly up to June 1934 although the sinking fund was in default a year earlier. After July 1, 1934 the Bank for International Settlements received no further payments on interest or principal as provided by the contract. Germany, however, made special arrangements with private holders for partial payment of interest. American holders received interest at the rate of 4 percent between 1935 and 1941, others received various amounts of cash and blocked marks.

B. Reparations Payments under the Young Plan

The Agent General received payments and made transfers until May 1930 when his balances were transferred to the B.I.S. Germany made payments according to the Young Plan for two years though the amount was less than the annuity for 1931-32. The total payments including service charges on the two international loans are given in Table VI.

^{1/} Bank for International Settlements Report, 1931, p. 9; Commercial and Financial Chronicle, 1930, pp. 7156-7; 1931, 3. Cf. Chronicle, July 5, 1930, p. 98; cf. also, "Germany," in Annual Review of World Trade, 1930, p. 11.

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Table VI

Payments under Young Plan 1929-1935
(Millions of RM) 1/

Year	Service of Loan of 1924	Service of Loan of 1930	Deliveries in Kind 2/	Cash Reparation	Total Payments
1929-30	69	-	308	435	969
1930-31	73	55	464	791	1,384
1931-32	80	66	214	276	944
1932-33	71	64	23	273	273
1933-34	57	45			102
1934-35	13	10			23
	363	244	1,010	1,502	3,695

1/ Source: Bank for International Settlements, Annual Reports

2/ Deliveries in kind in 1933-34 were RM 220,000; in 1934-35, RM 204,000; 1935-36, RM 319,000. These payments were made to complete contracts made at earlier dates.

In the first year the loan covered the amount of reparations payments, in the second year Germany paid RM 944 million, of which the creditors received half in cash and half in kind, but the B.I.S. loaned RM 405 million to the German railways in foreign currencies in accordance with the agreement reached by the Allies at London in August 1931. In the German fiscal year 1932-33 when reparations and debt payments were suspended under the Hoover moratorium, Germany paid in RM 273 million, of which RM 135 million were required for loan service and the balance was reloaned to the railways. Thereafter the only payments made under the Young Plan accounts were for loan services and small amounts required to settle deliveries in kind. The net reparations payment under the Young Plan, therefore, was approximately RM 2,512 million. The German payments were used to build up its balance with the B.I.S. and the settlement of other claims, for example, that of the United States for the cost of its army of occupation.

VI. Reparations and Inter-Allied Debts

From the beginning of the Discussions at Versailles the Allies were anxious to link reparations payments with the payments of their debts to the United States and to the other Allied countries. The inter-Allied debts were complex arrangements in which various countries had borrowed from each other before the U.S. had entered the war and in turn Britain had borrowed from the U.S. to lend to the Allies. The U.S. was the

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creditor of Britain to the extent of \$4 billion and smaller amounts were owed by the other Allies. France had lent to Yugoslavia, Greece, Italy and had in turn borrowed from Britain and the U.S. The total of the original debt to the U.S. before the funding agreements were reached was \$10,350 million. The total of the external war debts of all of the Allied countries was about \$14 billion since Britain owed the U.S. \$4 billion and had loaned \$8 billion to her Allies. The total of these debts, therefore, was approximately equivalent to one-third of the reparations bill as fixed by the Commission and the London Agreement of 1921.

From the beginning the U.S. refused to admit a direct relationship between reparations payments and the Allied debts. The U.S. received no part of reparations and had opposed a general reparation in the Treaty. When, in 1920, Great Britain proposed a general cancellation of war debts, the U.S. took the position that a cancellation of debts as an inducement to the Allies to reduce reparations to the amount of Germany's capacity to pay was tantamount to the U.S. assumption of the reparations burden. The Allied countries began negotiations for re-funding the debts in 1921. The Caillaux Mission proposed to make French debt payments contingent upon reparations receipts. Obviously this was unsatisfactory to the U.S., which had never expected that the full reparations specified by the Treaty would be paid.^{1/} Consequently the United States insisted upon a settlement of each debt by negotiation with the particular country, and Congress authorized settlements scaled to the debtors' capacities to pay. The terms differed in each case. The British settlement was made in 1923, the French in 1926, and practically all the other countries agreed to refunding in the intervening period. The original debts were, for the most part, contracted on open account and were accumulating interest during the period of non-settlement. The usual interest rate had been 5 percent. The debts were scaled down by the device of reducing the interest rate while extending the terms of the loan for a longer period. Thus Britain paid a 3 percent rate on the refunding issue, France 1.6 percent, and the average for all countries was 2.1 percent.^{2/} The refunding arrangements did not reduce the principal sum of the loan nor did they forgive the accumulated interest, so that the total capital sum as refunded amounted to \$11,577 million. At the rate of interest and the terms of the refunding agreements the present value of the loans as of 1926, however, was \$5,888 million, so that the debts were approximately cut in half.^{3/}

1/ Moulton and Pasvolsky, Opcit. p. 65.

2/ Ibid. p. 91

3/ U.S. Treasury Commissioner of Accounts and Deposits, Memorandum Covering the Indebtedness of Foreign Governments to the U.S., 1936. p. 19.

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The Dawes Plan was presented after the British agreement had been reached but before the French settlement. France apparently expected that the original A and B bonds would be used for current restoration work and reduction of the French internal debt, whereas the C bonds were to be used only insofar as they were needed to make payments on the debt owed to Britain and the United States.^{1/} The Dawes Plan, however, scaled the German annuities down to a figure less than 5 percent of the interest on A and B bonds in the standard year, while in the first four years of the Plan the German payments were less. The Dawes Plan annuities were not sufficient to cover the original interest payments of the Allied debts at 5 percent but were ample to cover interest at the reduced debt rates set by the refunding agreements. Thus, the British share of reparations under the full Dawes annuities was \$135 million annually plus an additional amount to be determined by the index of prosperity. The principal and interest payable to the United States started at \$161 million in 1923 and reached a high of \$186 million in 1975. The debt was to be extinguished in 1984, a significant date because the Young Plan reparations were based on this date. France received \$326 million from the standard annuity while its payments to the United States started at \$30 million and reached a high of \$125 million in 1942 and thereafter. The annual payment to Britain was to be \$61 million in 1942. Consequently French reparation receipts under the Dawes Plan would have amounted to several times the amounts of its debt payments, assuming that the Plan actually was carried out. The Dawes Plan was admittedly tentative and by neglecting to set a date for the termination of reparations payments it avoided the issue of settlement of the American debt. Its annuities were sufficient to cover interest payments and part of the principal of the inter-allied debts, leaving France and Belgium additional amounts for actual reparation and restoration.

The Young Plan definitely recognized the interdependence of debt payments and reparations, although even here the American experts, in deference to the attitude of the Treasury, did not sign the separate memorandum covering debt payments. It was estimated that the debt payments on interest and principal under the refunding agreements among the Allies involved a net transfer of RM 965 million rising to RM 1,703 million in the fifty-fifth year of the annuities. For the first thirty-five years of the Plan the unconditional annuities of RM 612 million formed less than half of the amount of the cut payments. France, however, was to receive RM 500 million and so could meet its debt payments. Britain was left with the larger debt and the smaller assurance of collecting from Germany. Had the Young Plan annuities been paid, the Allies would have received somewhat more than the total amount of the unconditional annuities for the restoration of their destroyed property since the conditional annuities would have covered their debt payments. From 1966 to 1988 the Young Plan annuities were exactly equal to the Allied debt payments under the refunding agreements. It was further

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1/ Cf. Poincaré in C. G. Dawes, Journal of Reparations, London, 1939. pp. 43-46.

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provided in the Young Plan that, if in the course of the first thirty-seven years the war debts of the creditors were reduced, two-thirds of the reduction would be applied to reduced reparations payments. Any reduction thereafter would accrue fully to Germany.

A. The Hoover Moratorium and the London Settlement of 1931

The collapse of the Credit-Anstalt in 1931 precipitated a financial crisis in Austria and Germany, in which short-run funds were rapidly withdrawn by foreigners and German nationals sought to place their capital abroad. As is well known, this financial crisis spread to France, Great Britain and eventually the United States. The Hoover moratorium was proposed as a device for stopping the spread of financial difficulties to the rest of the world. Nevertheless, it proved inadequate and within a few months Britain abandoned the gold standard and Germany imposed exchange controls which eventually resulted in substantial repudiation. Other countries in Europe similarly suspended gold payments or imposed exchange restrictions which had the same effect.

On June 20, 1931, President Hoover, in agreement with Congressional leaders, proposed a suspension of all debt payments by the Allies to the United States for the fiscal year 1931-32. While he maintained the traditional position that the United States debt receipts were not contingent upon reparations payments, he proposed that the Allies suspend reparation collection as a condition to the moratorium on their own debts. The announced purpose of his moratorium was to prevent the financial collapse of Germany from interfering with the financial situation in the United States and Allied countries. While the Hoover moratorium was not legal without Congressional action, Congress accepted its terms and provided that the amounts whose payment had been suspended for one year should be repaid in equal annual installments over a ten year period.^{2/} The terms of the Hoover moratorium were not exactly carried out in the agreement of France and the United States on July 6, which provided for the postponement of the French debt payments but also required Germany to deposit its unconditional annuities under the Young Plan with the B.I.S. The B.I.S. was to re-lend this sum immediately to the German railways. Deliveries in kind were to be continued also and the terms were to be settled by an expert committee to be appointed later.^{3/} The terms of the French agreement were generalized for all of the other countries at London in August 11, 1931. The postponable annuities under the Young Plan were to be suspended and would be repaid over a period of ten years thus conforming to the terms of the refunding of American debt claims. In this way Germany was still required to pay the Allied debts through the reparations accounts. The London conference also made other settlements for the claims of Belgium, Yugoslavia and Greece. The German railway gave its bonds to the B.I.S. and was to amortize the issue in a ten year period. Moreover, the company, through its tax, was to pay the unconditional annuities, which would include the

1/ Joint Memorandum of the Young Committee Sections 208-216.

2/ 2/ Joint Memorandum of the Presidents
2/ 2/ 47 Statutes, Dec. 23, 1915, DE. 3-4.

3. For text of House Committee on Ways and Means Hearing on H. J. Res. 102

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service of the loan. The balance was to be re-lent to the railway company. Deliveries in kind were to be continued insofar as they did not involve the budget of the creditor country, i.e., they were to be continued as a species of special clearing arrangement for private contracts entered into before the moratorium.

Another expert committee appointed by the London conference, with A. H. Wiggin as chairman, reported on the German credit situation. It proposed standstill agreements to cover short-term credits and to prevent sudden withdrawals from Germany. It also favored the extension of additional long-term credits to Germany and the refund of short-term credits into long-term obligations.^{1/} This latter part of the proposal was never carried into effect, though the standstill agreements were renewed from time to time. As provided in the Young Plan, a special committee was called to consider the postponement of annuities. The Benes-Ceausescu Committee recommended postponement for the year 1932 and called for a readjustment of the entire debt and reparations situation.^{2/} Chancellor Bruening, on January 9, 1932, announced the impossibility of any further reparations payments by Germany.

B. The Lausanne Conference

In June and July 1932 the Lausanne Conference reached a new agreement with Germany. The Young Plan annuities were to be voided completely and replaced by a new bond issue. Germany was to deliver bonds to a value of RM 3 billion to the B.I.S. These were to be held by the Bank for three years and might be sold thereafter at not less than 90. If after the expiration of five years the bonds were not sold completely, they were to be cancelled. The Bank might at the end of five years sell below 90 if it concluded that Germany's credit was sufficiently restored. If the bonds could be sold above 90, Germany was to receive credit through a reduction of the interest rate. By this Plan it was expected to commercialize the smaller reparations payments thus established. Moreover, if Germany succeeded in raising foreign loans in subsequent years it was to use one-third of the proceeds to redeem the bonds held by the B.I.S. The Dawes and Young Plan loans were to be preserved in their entirety and Germany was to continue to make payments of interest and principal. The bonds of the German railway, however, were to be cancelled outright. Finally, the Conference called upon the League of Nations to assemble a world economic conference to which the United States was to be invited to reach a new settlement of the entire question of monetary and exchange problems and their relation to commercial policy.^{3/}

^{1/} For text of this report Cf. Hearings, Moratorium on Foreign Debts, 1932. pp. 27-43.

^{2/} December 23, 1931. For text cf. Federal Reserve Bulletin, January 1932. pp. 21-43.

^{3/} Federal Reserve Bulletin, 1932. pp. 497-504.

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The Lausanne Agreement was not to be effective until ratified by the Allies. The Allies in turn announced that they would not ratify until they had reached an agreement with their own creditors, that is, with the United States. With this understanding Germany accepted the Lausanne Agreement. Great Britain and the other debtors of the United States asked for postponement in 1932-33 but no subsequent agreement for refunding or cancellation of these debts has been reached with the United States. At the outbreak of World War II the Lausanne Agreement had not been ratified and German reparations stood suspended by its unilateral action in 1932.

VII. The Economics of Reparations Payments

To make a payment of reparations from one country to another, two steps are essential. The amount must be raised in the currency of the paying country or in goods. Secondly, a transfer of currency must be made into the standard of the creditor nation or the goods must be exported to the creditor. Payments in kind are no exception to this principle except insofar as they need not pass through the foreign exchange market or may be shipped despite the presence of tariffs or other restrictions on imports in the creditor nation. For cash reparation the debtor country must secure the payment from taxation over and above the amount required for its other expenditures if a real transfer is to be made. Ultimately the payment must be in goods, and is possible only to the extent that the creditors are willing to receive exports from the debtor. Ordinarily, therefore, payment of reparations would involve a budgetary surplus on the part of the debtor and a favorable balance of trade or at least payments in excess of the amount received in the normal course of business. The principal question concerned with the evaluation of the reparations question after World War I is whether or not Germany made a real payment on reparations account, that is, whether the reparations constituted a burden on the real standard of living of the German people.

A. The German Budget

In the entire period during which reparations payments were made the German budget consistently showed a deficit except for the years 1924-25 and 1925-26 when there were small excesses of receipts over expenditure. These budgetary deficits were anticipated in the German financial plans through most of the period. The actual yield of the revenues during the operation of the Dawes Plan was in excess of the estimate but at the same time actual expenditures generally exceeded estimated expenditures. This is shown in Tables VII and VIII.

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Table VII

Receipts and Expenditures of the German Reich
Government, 1924-35
(Millions of RM)

Fiscal Year	Total Receipts	Total Expenditures ¹	Current Balance	Accumulated Balance ²
1924-25	7,857.2	7,793.8	-63.4	1,143.9
1925-26	8,465.4	8,233.3	-232.1	1,034.0
1926-27	8,449.4	9,302.9	-853.5	509.9
1927-28	9,841.5	10,195.8	-354.3	278.7
1928-29	7,279.1	8,516.9	-1,237.8	-858.6
1929-30	7,509.8	8,186.6	-676.8	-1,171.4
1930-31	7,784.2	8,391.8	-607.6	-1,291.9
1931-32	6,812.4	6,994.9	-182.5	-1,474.4
1932-33	5,821.6	5,964.7	-143.1	-1,617.5
1933-34*	5,932.2	6,189.3	-257.1	-1,782.5
1934-35*	6,766.5	8,232.3	-1,465.8	-2,208.7

Source: League of Nations, Public Finance 1928-35, Geneva 1938. p.3.¹/ Expenditures include subventions. Local and state shares of taxes
are not included in revenue or expenditure.²/ Balance after including proceeds of loans, i.e., a floating debt.

* Provisional.

Table VIII

Reich Consolidated Budget
1926-1929
(Millions of RM)

	1926-27	1927-28	1928-29
Estimated revenue	6,968	8,274	9,513
Actual revenue	7,690	8,961	9,651
Estimated expenditure	7,629	9,130	9,701
Actual expenditure	8,543	9,316	10,888
Estimated deficit	662	856	188
Actual deficit	853	355	1,237

Source: Agent General's Report, 1930. p. 169.

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The reparations payments were not responsible for this deficit. The deficit, except for the years 1926-27 and 1928-29, was greater than the amount of reparation payments in those years. The deficit was primarily due to increases in the cost of administration, the most conspicuous of which was the increased cost of salaries and pensions for government employees. Other items were for unemployment relief and public works construction. The German budget was not easily balanced because of the sharing of centrally collected taxes with the local governments and the states under the so-called Finanzausgleich. In the period where the central government was supposed to make its largest payment of reparations, the amount of taxes shared with the states and communes actually increased even though the percentage of the taxes was reduced by the new financial law.^{1/} The personal and corporation income taxes rose considerably in the period of prosperity following the adoption of the Dawes Plan, and the controlled revenues, which were taxes on consumption, doubled in the same five-year period. In fact, the assigned revenues produced an income sufficient to pay the entire burden of reparation with a considerable surplus left over for the alimentation of the general budget. Except for the first two years of the Dawes Plan the German government made no serious attempt to balance its budget except for the short period in 1931 when Bruening adopted a policy of sharp deflation. Bruening's policy resulted in reduced expenditures but the deflation also brought about reduced revenues so that small budgetary deficits continued.

The Reich financed its deficit in large part by short-term credits. In March 1924 the total debt of the Reich was RM 2,406 million; in 1931 it was RM 12,090 million. Approximately a fourth of the increase was due to the revaluation of the pre-stabilization debt. In 1925 these debts were converted into a "loan liquidation debt" at a fraction of their nominal values and the Reich resumed interest payments. The short-term debt was gradually funded but the floating debt varied from time to time with revenue receipts and fluctuations in expenditures. The German government borrowed most of its funds at home. Under the Dawes Plan it received RM 800 million and the Young Loan yielded RM 1,268 million. In addition, in 1931 two loans to the Reichsbank provided by Lee Higginson and banking associates and by the central banks aggregated \$200 million or RM 840 million. The total cash payments on reparations amounted to RM 5,038 million. Direct loans to the German government amounted to RM 2.9 billion and the balance of the exchange used was provided indirectly from loans to local governments or private industry.

^{1/} Agent General's Report, 1930, pp. 89-110.

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Table II

Public Debt of the Reich Government
(Millions of RM)

Fiscal Year Ending March 31	Funded Debt	Floating Debt	Total Domestic	Foreign Debt	Total Debt
1924	1,779.3	626.8	2,406.1	-	2,406.1*
1925	1,434.7	415.2	1,849.9	937.8	2,787.7
1926	6,724.4	170.8	6,895.2	946.6	7,841.8
1927	6,957.0	183.5	7,140.5	932.4	8,072.9
1928	6,771.9	175.0	6,946.9	883.9	7,830.8
1929	7,135.5	935.5	8,071.0	900.7	8,971.7
1930	7,622.4	1,689.0	9,311.4	1,063.7	10,375.1
1931	7,619.0	1,165.1	8,784.1	3,305.5	12,089.6
1932	7,728.7	1,193.4	8,922.1	3,215.2	12,137.3
1933	7,779.8	1,514.4	9,294.2	3,037.2	12,331.4
1934	8,415.7	1,931.4	10,347.1	2,059.9	12,407.1
1935	8,315.1	2,404.4	10,719.5	1,805.7	12,525.2
1936	9,829.7	2,896.8	12,728.5	1,710.7	14,439.2

* Exclusive of reparation debts.

1/ July 1925 the pre-stabilization debt converted to "loan liquidation debt" at fraction of original amount.

B. Transfer of Reparations and International Loans

For a real transfer of reparations payments an active trade balance would have been necessary, or at least it would have been necessary for Germany to have had a surplus on current account arising from either an excess of exports or of invisible items. The reparations after World War I were not real transfers because throughout the period the amount of foreign loans given to Germany exceeded the amount of reparations. From the standpoint of transfer it is not important that these loans were largely given to the local governments, states and private corporations, since they provided the foreign exchange which was needed for reparations purposes. Transfer might have been merely postponed by these loans, but the subsequent practical repudiation of the loans through blocked exchange and other devices involved ultimately a repudiation of reparations payments.

The German commodity trade balance was passive for all the years of the operation of the Dawes Plan except 1926. From 1929 to 1932 Germany had a net favorable balance as the result of a decline in imports. In the 1930's with the sharp contraction of world trade German foreign trade was reduced to approximately half of its preceding level and in the course of this change, along with the changes in trade policy and finances,

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Germany was able to produce an active balance. The reasons for Germany's adverse trade balance are well known. The German economy imports food-stuffs and many of the raw materials for its manufacturing industries. It could not easily reduce imports without drastic lowering of the standard of living or reducing its capacity to export. The German trade balance as a matter of fact had been generally passive since 1900, so that the situation after World War I was not particularly different from what it had been previously. What aggravated the situation somewhat was the fact that in the postwar period Germany had a debit balance on account of invisible items. The annual payments abroad for services, shipping, insurance, etc., were increased by the loss of German shipping. Germany was a creditor nation before the war and Germany was a net debtor after the war so that its annual payment of interest and dividends abroad always exceeded its annual receipts from these sources. The relevant data are given in Table X.

Table X

Germany's Balance of Payments, 1924-37
(Millions of RM)

Year	Imports	Exports	Commodity Balance ¹	Interest and Dividends Net Balance ² /	Services Net Balance	Net Capital Movement ² /
1924	9,664	7,824	- 1,848	+ 159	- 12	+ 1,954
1925	11,930	9,608	- 2,362	- 6	- 636	+ 3,523
1926	9,871	10,728	+ 817	- 173	- 742	+ 739
1927	14,916	11,126	- 2,890	- 345	- 1,018	+ 4,352
1928	13,868	12,644	- 1,250	- 563	- 1,323	+ 4,058
1929	13,624	13,655	+ 31	- 800	- 1,630	+ 2,023
1930	10,550	12,186	+ 1,644	- 1,000	- 1,173	+ 542
1931	6,886	9,744	+ 2,858	- 1,200	- 543	- 2,266
1932	4,792	5,829	+ 1,054	- 900	+ 98	- 434
1933	4,919	4,986	+ 661	- 700	+ 156	- 550
1934	4,554	4,256	- 298	(- 625)	+ 329	(+ 347)
1935	4,233	4,347	+ 114	(- 550)	+ 336	(+ 205)
1936	4,310	4,848	+ 538	-	-	-
1937	5,468	5,911	+ 443	-	-	-

Source: League of Nations, Balance of Payments

1/ This balance is the revised figure given by the League in 1938. Data in preceding columns are as originally given and were subsequently revised.

2/ Amounts in parentheses represent interest, dividends and payment on principal reinvested in Germany.

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The deficit of German trade was made up by the large movement of capital into Germany from 1924 to 1930. The Dawes loan was sufficient to stabilize German currency temporarily and to induce a movement of private capital as a consequence. The Reich government itself borrowed relatively little abroad. In the period under review the Reich government took only two long-term loans, the Dawes loan and the Young loan. At the same time local governments borrowed heavily for local improvements, and construction of public works, much of which probably was unnecessary. Schacht has pointed out that loans were used for such purposes as the construction of municipal swimming pools, stadia, hotels and other works which yielded little if any economic income.^{1/} To what extent the purposes of local borrowing were wasteful cannot be determined. It is possible that the wasteful character of this borrowing was exaggerated. At the same time industry, particularly the heavy industries, borrowed abroad. Between 1924 and 1931 the total of long-term loans to Germany was probably in the neighborhood of RM 8 billion. The movement of German long-term loans is given in Table XI. Industry borrowed 58.5 percent and states and local governments 41.5 percent of the net amount during the operation of the Dawes Plan.

Table XI

Foreign Long-Term Loan Issues of Germany, 1924-31^{2/}
Par Value
(Millions of RM)

Country of Issue	1924	1925	1926	1927	1928	1929	1930	1931
U.S.A.	443	923	1,083	890	1,017	166	270	8
U.K.	193	122	142	153	136	56	-	-
Netherlands	41	142	190	262	202	65	132	7
Switzerland	48	68	66	52	58	58	59	16
Sweden	24	10	43	52	12	3	210	315
Other	106	-	31	2	41	-	506	-
Total Par	843	1,265	1,555	1,412	1,465	349	1,177	346
Net Proceeds	841	1,096	1,400	1,285	1,341	321	1,058	322

1/ Schacht, The End of Reparations. p.33.

2/ League of Nations, Balances of Payments, 1931-2. p. 101. The original data presented excluded the Dawes loan of 1924. The appropriate correction is given in the present table. The original table included the Young loan of 1930 under "Other". The data as given for 1930 are obviously wrong, since the Young loan alone amounted to RM 1,268 million. The League data are apparently based on the balance of payments as given in the Statistisches Jahrbuch. Since most of the Young loan was not transferred but served merely to make the year's reparation payments,

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In addition to the long-term borrowing there was annually a considerable flow of short-term capital to Germany, generally in excess of the amount borrowed on long-term bonds. This was in the form of deposits in the German banks, holding of bills of exchange and short-term investment in securities already issued. An estimate of the amount of long and short-term investment in Germany as prepared by the Wiggin Committee is given in Table III.

Table XIII

Estimated Capital Movements in Germany: International
Capital Position, 1926-30
(Billions of RM)

Position at end of year	1926	1927	1928	1929	1930
Foreign investment in Germany					
Short-term	4.1	6.6	9.0	11.7	10.3
Long-term	4.1	5.4	7.0	7.3	9.2
Total (including other items)	11.7	16.5	21.5	25.0	25.5
German investment abroad					
Short-term	3.6	3.9	4.5	5.5	5.3
Long-term	4.5	4.5	4.5	4.5	4.4
Total	8.1	8.4	9.0	10.0	9.7
Net investment by foreigners	3.6	8.1	12.5	15.0	15.8

Source: Economist, Supplement August 22, 1931, p. 5 (Wiggin Committee Report)

High interest rates attracted capital from the United States and other creditor nations where large volumes of funds were seeking investment. Aside from the Dawes, Young, and central bank loans, the creditor governments and their central banks did not directly influence the movement. In fact, the United States Department of State tried to discourage the large volume of German loans floated in the United States, though it did not prevent their flotation. The yield on long-term German securities of a given class was higher than that of corresponding American issues. American investments reached unprecedented figures, and loans abroad also went to other European countries, Canada and South America. The short-term interest rates in Germany also stood above corresponding rates in the

it did not directly enter into the balance of payments. It is practically impossible to make the appropriate correction in the absence of more detailed information about breakdown of the "Other" item. The respective shares of the total loan were: U.S.A., RM 361 million; U.K., RM 207 million; Netherlands, RM 105 million; Switzerland, RM 63 million; Sweden, RM 106 million; France, RM 356 million. France did not participate in other loans to Germany to a great extent.

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creditor countries. The Reichsbank rate was consistently maintained above the Bank of England's and the New York Federal Reserve rate. In 1925 the Reichsbank rate was 10 percent and in the course of the next five years it fluctuated between 6 and 7.5 percent. Other interest rates corresponded. Hence short-term deposits and foreign holdings of German bills increased. The exchange situation thus proved favorable for the transfer of reparations abroad by Germany.

The Wiggin Committee estimated that the German net receipts of foreign exchange between 1924 and 1930 were about RM 18.2 billion. This amount plus RM 3 billion net gain on invisible items financed the payment of RM 10.3 billion of reparations, RM 2.5 billion to pay interest on debt, RM 2.8 billion to increase the reserves of the Reichsbank and RM 6.3 billion of import surpluses. In this exchange situation the Reichsbank was able to increase its gold holdings to RM 2.6 billion. The Wiggin Committee estimates are probably not complete. Another estimate of long-term investments made by the German statistical office shows somewhat higher figures than the Wiggin Committee. In any case, in 1930 the German foreign debt stood at approximately RM 26.8 billion. Of the German long-term debt, Americans held approximately half; the British, Dutch and Swiss held approximately 40 percent; the balance was scattered. French holdings of German long-term debt were relatively small, some RM 490 million. The American share of the short-term debt was somewhat smaller and the proportion of Britain and neighboring countries was relatively larger.^{1/}

After 1930 German receipts on long-term investment account were relatively small. The difficulties which led to the suspension of reparations payments and the course of world depression reduced the total value of foreign investment generally and particularly in Germany. The Wiggin Committee had recommended the conversion of short-term into long-term credits, a procedure not adopted in practice. Moreover, the standstill agreements of 1930 were renewed from time to time with the result that foreign short-term credits could not easily be withdrawn. The only important loans after 1930 were for central bank credits given by the central banks of Allied countries and the Lee Higginson loan provided by private banking sources. The standstill agreements checked the rapid withdrawal of short-term credit but the original standstill was only partial. In 1933 Germany introduced a new device for dealing with long-term credits. This was the so-called Konversionskasse. Payment of interest and amortization to the Konversionskasse discharged the debtor from liability under German law, though, in some cases his liability under foreign law still remained. The assets of the Konversionskasse practically became part of the current accounts of the Reichsbank. The net effect of this device therefore was to give foreign creditors a claim on the Reichsbank which they could not realize except by selling scrip at a greatly depreciated price. The reduction of the German foreign debt after 1930 is shown in Table XIII.

^{1/} Cf. League of Nations, Balances of Payments, 1931-32. p. 162.

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Table XIII
German Foreign Debt, 1930-1939
(Billions of RM)

Date	Long-term	Loans Standstill Credits	Total Short-term	Total Loans	Other Investments (Estimated)
Midyear 1930	10.8	-	16.0	26.8	-
July 31, 1931	10.7	6.3	13.1	23.8	5.9
Nov. 30, 1931	10.7	5.4	10.6	21.3	5.3
Feb. 29, 1932	10.5	5.0	10.1	20.6	5.3
Feb. 28, 1933	10.3	4.1	8.7	19.0	4.2
Feb. 28, 1934	7.2	2.6	6.7	13.9	4.2
1935	6.4	2.1	6.7	13.1	
1936	6.1	1.7	6.3	12.4	
1937	5.4	1.2	5.4	10.8	
1938	5.0	0.9	5.0	10.0	
1939	4.6	0.8	4.9	9.5	3.0

Source: League of Nations, Balances of Payments, 1938. p.58.

After the standstill agreement, German securities dropped more sharply in value abroad, as noted previously in the case of the Dawes and Young loans. This applied to industrial issues as well. Consequently, German nationals could sell their holdings of foreign securities abroad and use the proceeds to buy depreciated German securities in foreign markets and in this way greatly reduce the German debt as well as German needs for foreign exchange on current account. A third factor in the decline of the German debt was the gain on the depreciation of foreign currencies since the Reichsmark was maintained nominally at its own parity after the devaluation of the pound and the dollar, though in practice the use of multiple currencies involved a similar depreciation of the Reichsmark.¹ The net result was that the German debt which had been RM 26.8 billion in 1930 was reduced to a nominal value of RM 9.5 billion in 1939. Moreover, foreign receipts on investment account could not be withdrawn. They were compulsorily reinvested in Germany as shown by the items in parentheses in Table X above. With the outbreak of World War II these debts have presumably become permanently uncollectible.

1/ For a discussion of the repudiation of the German debt Cf. Howard Ellis, "Exchange Control in Germany", Quarterly Journal of Economics, Vol. 54 II; and C.R.S. Harris, Germany's Foreign Indebtedness, especially Chapters 4 to 7.

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VIII. Reparations and International Politics

A purely economic treatment of the reparations question would be quite inadequate in view of the important political factors involved in each of the successive attempts at settlement. Step by step the control features established by the Versailles Treaty were eliminated as part of the bargains made on the reparations question. This political policy was in part based on recognition of economic factors which made the payment of reparations difficult and which contributed to world economic instability. In the 1920's it was recognized that the payment of reparations would require an export surplus on the part of Germany and that this export surplus was difficult in view of the peculiarities of German trade and the decline of world trade generally with the growth of protectionism, and other restrictions upon trade. It was also recognized that the original reparations bill had been arbitrarily set and that probably the burden imposed was excessive in view of Germany's capacity to pay. Moreover, the German complaints about the difficulties of payment were accepted at their face value in foreign countries, apparently without much recognition at the time that the real burden of reparations on the German economy was relatively light, as shown above.

Among the purely political factors in the situation was the gradual recognition of the unhistorical character of the war guilt clause.^{1/} From the beginning the United States had taken the position that there should be no indemnities. Political changes in Britain had brought labor to the fore and the British labor party leaned more and more in the direction of conciliation with Germany as later did the conservatives. By a succession of steps Germany was gradually admitted to an equal footing with other nations and the political disabilities were removed. In any event, by the Locarno Treaty Germany was restored to equal status. In the interwar period strong sentiment for peace developed in all nations as represented by the Briand-Kellogg Pact and it was recognized that peace was endangered by prolongation of wartime conditions and sanctions derived from the Treaty of Versailles. The reparations settlements were included as part of these political steps toward conciliation. But each step represented a compromise between British and French attitudes on the one hand and German attitudes on the other.

It is a moot question whether or not Germany's nonpayment of reparations in any real sense represented a deliberate program of evasion. Vansittart has regarded it as a deliberate swindle in which the Allies and their bankers were the dupes of a policy of nonpayment and borrowing to cover the appearances of payment.^{2/} It is clear that Germany never was reconciled to reparations payments. They were made

^{1/} For example, the studies of Fuster, Fay and the revelations of the Poincaré, Izvolsky understandings.

^{2/} Vansittart, Lessons of My Life, Chapter IX.

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under protest and largely in view of the sanctions imposed by the Allies. It is also clear that some of the Germans fully understood that the reparations program when coupled with international borrowing had imposed little real burden.¹ But it is difficult to say that this policy was deliberate on Germany's part since the successive steps were taken by different governments of varying political complexion who at least appeared to accept the arrangements after the first London conference voluntarily and in good faith. The charge which has been made by Hitler that the Socialists accepted the Treaty of Versailles, the war guilt clause and the reparations clauses voluntarily is contrary to fact. The German delegates protested and accepted the Treaty merely because peace was necessary. From the beginning Germany's representatives consistently claimed that the burden was excessive, even where they formally admitted that some payment was justifiable.² They properly complained about the inefficiency of administration under the Reparations Commission and this added to the feeling of dissatisfaction with the whole arrangement. The German delegates at the various conferences also linked reparations with political settlements, thus in 1920 and again in 1930 it was proposed that Germany should receive back her colonies and other territory, thereby increasing her capacity to pay. By 1930 there was considerable opposition to a continuance of the reparation system, though the referendum instigated by the Hugenberg and Hitler parties, apparently aroused little interest. Only a fraction of the votes cast ballots and only a minority opposed acceptance of the Young Plan, but the price of the Young Plan was the evacuation of the Rhineland five years before the time called for by the Versailles treaty. Whether the small vote against the Young Plan can be taken as indicative of the lack of interest or acceptance of it as a matter of expediency is obviously an unanswerable question. In 1931 opposition was more pronounced. Schacht, for instance, in a speech at Stockholm in 1931 said "Germany must go into bankruptcy. We must simply tell our creditors to go to hell. Germany would then recover just as most people do who go into bankruptcy." When asked what he would do if he were dictator, he said, "I would not pay another penny for reparations after 8 o'clock tomorrow morning."³

France and Britain pursued opposing policies with respect to Germany in the interwar period.⁴ This was not merely in the matter of reparations but also on other clauses of the Versailles Treaty and the general problem of the readmission of Germany to equal status. It happened that the political groups most favorable to Germany rarely were in power in France and Britain simultaneously. Likewise, the groups in Germany which favored rapprochement were not in power at the time when French

¹/ E.G., Schacht, The End of Reparations.²/ E.G., Bergmann.³/ Financial Chronicle, March 7, 1931. p. 1712.⁴/ For detailed analysis Cf. W. M. Jordan, Great Britain, France and the German Problem, London, 1943.

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policy would have been most favorable with the exception of the short period of collaboration of Briand and Stresemann leading to the Locarno Pact and the Young Plan settlement. France was concerned primarily with security. French security, it was thought, depended mostly on military superiority over Germany and defensive protection. Where necessary, sanctions would be taken to enforce policy. In her military interests France wished to keep Germany economically weak. There was an opposing factor in France in that an economically weak Germany could not pay reparations as easily as if Germany were prosperous. France had a large public debt and a large part of this debt was owed abroad. Securing of reparations in foreign exchange would make debt payment easy and relieve the burden on the perennially unbalanced French budget. Hence France favored a policy of commercialization of the debt, but throughout the period there was a conflict between the security interest and the reparation interest. Moreover, France was not involved as heavily in German economic and financial affairs as Britain. The French owned relatively small portions of the German debt. France depended less on German trade and suffered less from unemployment than Britain.

The British attitude to Germany was generally one of restoration and rehabilitation. In part this political policy was affected by British interests. Germany was one of Britain's best customers. Britain depended largely on her export trade. Unemployment was heavy and unless Britain could secure world markets she could not solve her unemployment problem. Hence the restoration of Germany would not only provide Britain with a market but the financial stability of Germany would be a factor in assisting British trade with other parts of the world. In recent years there have been charges, of course, that Britain was heavily interested directly in the ownership of German industry. British need for security against Germany was less than France's, while British sentiment with its long liberal tradition was opposed for the most part to the continuance of war conditions. Hence in its treatment of the reparations problem British policy was directed toward economic rehabilitation of Germany, which would benefit British trade and employment. Labor and industry both agreed on the policy.

The history of reparations from 1920 to 1931 is the record of a series of compromises in which Britain frequently sided with Germany against France. Before the Dawes Plan Germany compelled a settlement by refusing to pay additional reparations. The inflation was the direct occasion for the Dawes settlement but, as pointed out above, the inflation was due to other factors and reparations played only a relatively unimportant part. The disorganization of the German economy, however, was a good excuse for demanding a settlement. When France invaded the Ruhr to compel payment of reparations she occupied the area which could have produced a large part of the deliveries in kind but the passive resistance of Germany made the measure abortive. The Ruhr occupation was undertaken despite British opposition though, after it was an accepted fact, Britain confined herself to feeble protests. The Dawes

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Plan itself was not satisfactory to Germany in that it placed no total to reparations but it was combined with a political agreement for the evacuation of the Ruhr. This was made possible in France by the replacement of Poincare by Herriot. Germany accepted the admittedly tentative features of the Dawes Plan because of the special treatment of the transfer problem and because she expected that a later arrangement would be more favorable, particularly after other political settlements were made. By accepting the Plan she not only rid herself of the Ruhr occupation but was able to secure the relaxation of direct control by the Allied commission and the substitution of an American supervisor of reparations payments. In the period of prosperity that followed the Plan, Germany, however, made no serious attempt to adopt internal or external economic policies which might have made reparations possible in the absence of foreign loans. Parker Gilbert, in his report, called the attention of the German government to this failure repeatedly. The fact that Germany did nothing to change its policy is some of the strongest evidence in favor of the belief that evasion was deliberate.

The Allies also paid a political price for German acceptance of the Young Plan which in some respects was less favorable than the Dawes Plan. Germany was required to make the transfers on part of the annuities without the protection of payment in German currency as under the previous plan. This was expected to make commercialization of the debt possible. France was willing to accept this for the relief it gave to the French budget. The evacuation of the Rhine, which was a part of the Hague Agreements implementing the Young Plan, was a political consequence which France was unwilling to take without British pressure. With the conclusion of these agreements practically all forms of political control over Germany disappeared. Her territory was restored completely to the limits set by the Treaty and the external control agencies were removed. It was supposed to place Germany on a footing of equality with the other nations, carrying out the spirit of the Locarno Agreements.

The world economic crisis led to the Hoover moratorium. While American debt policy was largely responsible for the Lausanne Agreement which practically threw the problem of reparations into the hands of the American government, the American government and the debtors reached no agreement on the settlement of the war debts. Consequently the Lausanne Agreements were never ratified and the reparation problem ended by unilateral default.


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Reparations

Enclosure No. 6 to letter No. 35, dated July 24, 1944, from
Mr. W. H. Taylor, London.

Confidential memorandum re German reparations, July 19, 1944

SECRET

Memorandum

In the course of a discussion which I had today with Mr. Beam of the Embassy (who is assisting Ambassador Winant on EAC matters), I asked him whether there was anything approaching agreement between the U.S., U.K., and U.S.S.R. on the reparations question. Mr. Beam replied that he was expecting a paper from the State Department clarifying its views on this subject. He remarked, however, that in his opinion there was now little difference of opinion between the U.S. and the U.K.; that both countries would insist on "restitution" but would ask little by way of reparations; that the important thing was to get Germany working again - working for itself and for the United Nations. Mr. Beam stated that there is no evidence of present Russian thinking on this subject, but he thought they would be realistic and see the picture very much as we did.

L. C. Aarons
U.S. Treasury Representative

London,
July 19, 1944.

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Reparations - World
War II

3

April 13, 1944

Mr. White,
Mr. Bittermann

Subject: Soviet Claims to Reparations

The Soviets clearly intend to make reparations claims as part of the settlement of World War II, not only against Germany but against the other Axis allies. A press report of April 4 from Stockholm indicates that the Russians have asked for \$600 million in reparations from Finland as part of the peace proposals. These payments would be made by deliveries in kind over a five-year period. This demand gives added point to the discussion of the reparations question by Professor Eugene Varga ^{1/} in his lecture to the Academy of Sciences on August 31, 1943.^{2/} and in the Soviet Journal War and the Working Class, October 15, 1943.^{3/} Ignoring rhetoric, Varga's statement may be regarded as a good indication of the attitude of the ruling powers in the U.S.S.R. His discussion attempts to evaluate the amount of damage and makes proposals for payment methods.

Varga's estimate of 200 billion gold rubles for property damage is based on the estimates used for World War I. The reparations claims for property damage amounted to 14 billion gold rubles, but in deference to Keynes's criticism of the exaggerated amount of these claims, Varga arbitrarily cuts the figure in half. Since the area devastated in the present war has been some 30 to 40 times as large as the area covered in World War I, he estimates property damage at about 300 billion gold rubles. Obviously this is an arbitrary method of evaluation for, as shown in the preceding memorandum, the original claims of the allies were so vague and unsatisfactory that the Reparation Commission refused to evaluate them. Moreover, multiplication by the area method is unsatisfactory since the wealth per square mile of France and Belgium undoubtedly was much greater than the wealth in Russia in the area invaded by Germany. Varga adds an additional 100-200 billion rubles for shipping losses, aerial damage, the requisition of war materials, private plunder, and occupation expenses levied by the Germans, which they themselves have estimated at RM 16 billion annually.

- ^{1/} Varga is a Hungarian economist formerly of Budapest, a former member of the Social Democratic Party who has lived in Russia since 1920. He is Director of the Institute of World Economics and Politics and member of the Soviet Academy of Sciences. He was a member of the staff of the Comintern. He has published some half-dozen works in Russian and French. One of them has been translated into English.
- ^{2/} Summarized by OSS, Rpt., No. 1570, "Russian Foreign Economic Relations and Her Interest in International Monetary Stabilization", Dec. 13, 1943.
- ^{3/} Translation "Compensation of Damage by Hitlerite Germany and Her Accomplices", Interdepartmental Committee.

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Varga estimates an additional amount of from 500 to 700 billion rubles for personal damages. He arrives at this figure by taking the analogy of the World War I reparation claims. In the estimates submitted to the Reparation Commission personal damages formed 40 percent of the total. By applying this percentage, he arrives at a total reparation claim of from 800 to 1,000 billion gold rubles. This would be equivalent to \$160 to \$200 billion.¹

It is obvious that this method of estimation is virtually useless. The claims for personal damages and pensions in World War I were fixed arbitrarily, as shown previously, so as to justify giving Britain a larger amount of the reparations and so enable Britain to make part of her debt payments. The figure was only remotely related to the actual pension payments or to the amounts of personal damages paid by the allied governments to their citizens. Varga's figures, therefore, are no more reliable than the figures which were discussed during the Versailles Conference and before the adoption of the Reparation Commission's report in 1921 and the London Schedule.

Varga briefly analyzes the German payment of reparations after World War I and concludes, correctly, that the burden on the German economy was very slight. Most of the reparations payments were covered by loans to German corporations and governments from foreign sources and the repudiation of these loans subsequently practically eliminated the burden. Moreover, he is aware, apparently from a study of the Reparation Commission reports, that a large part of German reparations was constituted merely by the transfer of public property in territory ceded to the allies.

Varga proposes two methods of payment, the seizure of property and payments derived from future German income. German foreign investments abroad amount to about RM 5 billion. This sum could be taken by Britain and the U.S. as payment for their shipping and air raid losses. Germany in addition has mobile wealth consisting of ships, rolling stock and machinery which could be taken as deliveries in kind, but Varga realizes that to deprive Germany of much of its capital equipment would impair her ability to pay future reparations. Consequently he places chief emphasis upon deliveries in kind and the use of German labor to repair destroyed property in the invaded countries.

Varga claims that justice and expediency demand that the bulk of the reparation payments go to the invaded countries. Reparations payments should not be in direct proportion to the damage "but in accordance with the magnitude of damage sustained in relation to their entire national wealth", that is, that the U.S.S.R., Norway and Poland would receive in reparations a relatively larger proportion of their actual

¹/ The gold ruble is equivalent to .18 grams of fine gold with a value of 19.76 cents (OSS Report No. 1570).

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damages than the United Kingdom and the U.S. This will enable them to reconstruct their economic life, particularly since he proposes to have Germany contribute rolling stock, building materials and chemicals, especially fertilizers. He has one other suggestion which has aroused considerable attention in other countries, that is, that a large body of German labor could be used to do the actual work of reconstruction. Various figures have been quoted as indicating how much forced labor Varga would demand. His papers, however, do not give a specific estimate. He merely suggests that to make complete reparations it would be necessary for Germany to supply 10 million laborers for a period of ten years.

The measure of reparations payments in Varga's mind, following the Treaty of Versailles, is that the German population should have its standard of living lowered to a point below that of any of the victims of her aggression. He points out that German war expenditures have, between 1933 and 1938, averaged RM 15 billion per annum. His argument is that, if Germany could produce this much for war purposes, she could produce as much for reparations. Moreover, he suggests the confiscation of all property of persons who have been responsible for German policy and all who have taken part in plundering. This would make an initial payment while the balance of the reparations would be collected over a period of years by the levy of taxes in Germany to pay for the deliveries in kind.

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Box 84

P. Anastasios Gavril

Gavril II

January 31, 1944

Mr. White

S. Gold

Subject: U.S.S.R. Views on Reparations as Reported in the Soviet Press.**A. Scope of Reparations**

War damage caused by Germany and her satellites to Allied nations, is estimated at roughly 800-1,000 milliard rubles, or \$200 billion dollars. This amount is intended to cover damages incurred through military activity, requisition of national assets, expenses of Axis occupation now being paid by the occupied countries, and forced labor. Approximately one-half of the total value of reparations is assessed against material damage.

B. Allocation of Reparations

1. As regards the distribution of reparations among the Allies, it is significant to note that the press has stated that "the lion's share of this total falls to the Soviet Union."
2. The principle that reparations should be distributed among countries not in proportion to absolute damage, but on the basis of greatest relative damage as a percentage of total national wealth is put forward. Thus, Poland, Greece, and the Soviet Union are cited as countries with prior rights to the pool of reparations, with the U.S. and U.K. as only secondary claimants.
3. Material damage should get priority of reparations coverage.

C. Sources of Reparations

1. Since Axis assets abroad and total national Axis wealth will be insufficient to meet the total reparations bill, annual national income is regarded as the major source of reparations. It is suggested that the U.S. and U.K. who will not desire physical reparations, could receive partial reparations in the form of transfers of foreign capital investments by the Axis, while other countries would accept movable property such as locomotives, machines, cattles, seed, metals, etc. In connection with the disposal of Axis national wealth it is sharply stated that "without question it would be unjust if the people whose armies have wrought such unheard of havoc should live better after the war than the people who were the victims."

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2. Italy, Roumania, Hungary and Finland are listed as liable for reparations payments along with Germany.

D. Character and Means of Reparations Payments.

1. The experience of the first World War is cited to prove reparation payments are economically feasible. Germany's failure to pay reparations is ascribed to unwillingness not economic inability, on the grounds that, reparations constituted only about 1 to 4 percent of national income during 1924-1929. For this same period, at least 10 percent of German national income was devoted to new capital investments. Moreover, between 1933 and 1939, Germany expended 90 milliard marks on armaments, or an average of 15 milliard marks per year. This annual total is viewed as available for reparations payments.
2. The experience of the first World War is also cited as emphasizing the desirability of effecting reparations payments in kind "which in point of fact are the only possible ones." The advantages of rapid restitution of damage through payments in kind, to the Soviet economy are stressed, although it is recognized that other economies would find absorption of physical reparations difficult.
3. The utilization of Axis manpower for reconstruction work is offered as a desirable and practical means of deriving reparations.

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Box 84

Deindustrialization
JL

18 June 1945

Mr. Goss

German Committee

Subject: Reports of Industrial Revival in Germany.

The attached clipping from the New York Times raises again the question of German deindustrialization. The newspaper describes the first steps toward restoration of German industry in the area occupied by the U.S. 15th Army, which is the all-important Rhineland, the Saar, and part of the Ruhr. In 108 cases permits have been given to restart industrial production. In 100 other instances U.S. administrators are now surveying the situation in order to decide whether or not to grant licenses for reopening.

Among the factories which are already operating is the Ford plant at Cologne which was undamaged and which has so far produced 500 trucks for the U.S. Army. Among the plants whose reopening is being considered are plants producing trucks, batteries, and small machine parts.

This information is highly disturbing in view of the deindustrialization provisions in IPCC/1 and of our basic objectives. Paragraph 32 of IPCC/1 explicitly prohibits production of radio and electrical equipment and of automotive vehicles "except for the purposes stated in paragraphs 4 and 5 of this directive." It is true that the War Department can argue that paragraphs 4 and 5 when construed with paragraph 32 permit the resumption of production of the items in question on the ground that they are necessary for the purposes of the occupying forces. As you know, this loophole was left in IPCC/1. The attached article indicates the manner in which the Military Government will attempt to enlarge this exception. What they really intend to do is to permit production generally in Germany below a level which they consider a "war making level." This will mean that the sky is the limit unless we can force them to defend their action. It seems to us that the tact which we should now take is to require the Army to justify upon the basis of facts the production which is being permitted in Germany as clearly necessary for our military purposes. It seems highly doubtful that they can justify the action being taken on such a basis. For example, it seems rather surprising that the U.S. Army is so short of trucks that it actually needs to have the Cologne Ford plant produce 500 trucks. It seems to us that this matter should be reported in the Clayton Committee immediately. Otherwise, the door is going to be open so completely that we will never be able to stop rehabilitation of German industry. It also seems to us that forcing the Army to support with facts its claim of military necessity is the only available course open to us.

GW:JEP:fls
18 June 1945

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Combined Chiefs of Staff
Combined Civil Affairs
Committee Col E J Laux 2947

16 June 1945

Supreme Headquarters, Allied Expeditionary Forces,
Main School, Frankfurt, Germany

Commanding General, U.S. Zone Section, London, England

British Joint Staff Mission, Washington, D.C.

Number: EAKX 17918

This is MSG 379.

Subject is removal of art treasures from areas now occupied by allied troops.

To the fullest extent practicable before withdrawing from areas now occupied you should seek to effect removal into United States and United Kingdom zones of occupation of art treasures believed to have been looted by Nazis from liberated countries within ETO and WFO as well as such treasures as NSA and ASAC experts feel should be removed because of originating from United States or United Kingdom zones. Attention is called to the fact that a large collection of art objects is understood to be cached at Mainz. These articles should be retained by you as a trustee pending ultimate disposal.

End.

cc: 6/19/45 Generals. Glasser-Gold, Schmidt (3), Bronx (3),
Nathan, Ginter, Seven, H. Hubbard

Scott
Anderson, Lancione, Brooks

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Reps

May 28, 1945

43.

MEMORANDUM

Re: French-German Potash Mines in Spain

In a report from our Embassy in Madrid (Ref. No. 57 (VII.2)) the following problem was raised in an exchange of correspondence between Monsieur Jean Hughes, Commercial Counsellor of the Provisional French Government and Mr. K. S. Weston, Financial Attaché to the British Embassy.

La Fodina S.A., a Proclaimed List potash mining firm in Spain, is owned 50% by French interest and 70% by German interest, both interests being held in the name of Dutch banks. (This kind of association was a rule between the German and French leaders of the International Trust of Potassae which used to group all the producers of the various countries until the war.)

Both interests had agreed from the beginning to finance the business by means of advanced funds from each group in proportion to their capital interest. This rule was followed until 1943 when a difference of opinion arose at which time the French minority group discontinued advancing funds by reserving all rights which were not affected by the conflict. Thus, the German group financed the mining operations alone. However, since January 1943 the German group stopped all financing of Fodina. In view of this situation the French group is asking approval to finance the operations of Fodina so that their investment may be protected. If Fodina stops operation and dismisses her staff she is punishable under Spanish law relating to mines and will have her mine claims forfeited.

However, the more significant fact is that the French group considers that it has a claim on all German or foreign assets of the German group, Deutsche Kalai Syndikat, in compensation for the occupation of the Mines de Potasse d'Alsace and for the damages suffered by these mines owing to the war. Apart from its personal share in the capital and credits of Fodina, the French group claims a mortgage on the German assets in Fodina. Thus, since the forfeiture of the mine claims would affect the French claim, they are particularly interested in seeing that its operation continues.

The American Embassy in Madrid has requested this government's views with respect to whether the financing of Fodina by the French interests should be approved.

This raises several general problems beyond the matter under reference which should be considered:

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1. Are there any steps which should be taken in connection with the French-German owned property in order to insure the complete dissolution of such joint-ownership?
2. Should neutral governments be encouraged to vest or otherwise take over German firms or German interests in such firms, or should they merely freeze them until an Allied Central Council decree is issued?
3. Is the reparation policy of the Treasury with respect to German firms in neutral countries settled? In this connection do we have any objection to an effect such as the French propose?

With respect to this particular matter under reference, it is my view that we should approve the financing of Rodina's operations by the French group but that it should be made clear to the French that our approval in no way represents an agreement on our part that the French have any mortgage or other claim on the German interest in Rodina; further, that the question of their claim against the German interest is a matter which is to be decided only by the Reparations Commission.

Comments as to agreement or disagreement with the proposed action would be appreciated since a reply to the Embassy's request must be made shortly.

M. D. Locker

cc: Nevers, Aerone, Friedmann, Moskovitz, Scott, Glazzer and Mrs. Schwartz

MLocker:sk 5/25/45

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DIVISION OF ECONOMIC SECURITY CONTROLS

A distinction should be drawn between April 23, 1945 and
states of a person who can prove that he was not a member

MEMORANDUM accused, innocent, or a member of a resistance group.
Other questions will, of course, occur and will be
handled by Mrs. David Leviton of the investigation.

Foreign Economic Administration

(b) In the industrial countries.

FROM: S. J. Rubin

This exploration is fidionally connected with the work on
Germany. It would involve an analysis of the status of the
In accordance with our conversation of April 23, in the
am compilling herein a tentative and rather hasty list of
topics which have certain legal implications and which
would be of interest to the reparation group. You will
recognize that this list has been rather hastily compiled,
so that it is far from all-inclusive, that other topics
will develop out of any examination of the topics listed
below, and that no attempt is made herein to summarize even
generally the full implication of the topics. Such explana-
tory remarks are merely to illustrate the sort of thing
which I am thinking of and which I am designating by a
particular topic heading.

presented from, among German assets, to pay off the war debts
1. German Property Abroad. (a) German property abroad
In this connection, it will be necessary to recognize that
expenses (a) In the United States, it will be assumed that the
likely to be large and that the creation of a large credit
the I assume that German property in the United States will
be used for reparation purposes or for the claims of American
creditors in one way or another. I believe this basic assump-
tion is justified and may be taken as fixed United States
policy, subject, of course, to the possibility that Congress
may decide otherwise at some future date. Starting from this
assumption, however, it would be of extreme value to have a
legal memorandum which would outline (a) the history of treat-
ment of enemy property in the United States, at least since
World War II; (b) an analysis of legislation which has been
proposed in the last few years, particularly the Gerhardt
and the Glass bills which were introduced in the last term
of Congress; and (c) some recommendations with respect to
legislation, particularly on such problems as whether claims
of American creditors should be paid out of those assets,
whether such claims should be limited to claims arising out
of the assets in question or whether general claims of a pre-
war, trade nature should be paid, whether some distinction
should be made between resident German aliens and Germans
abroad with respect to their property in the United States
(I assume that such a distinction would be made), whether

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a distinction should be drawn between property in the United States of a German who can prove that he was either a member of a prosecuted minority or a member of a resistance group, etc. Other questions will, of course, occur and will be brought up in the course of the investigation.

(b) In the neutral countries.

This exploration is closely connected with the work on Safehaven. It would involve an analysis of the status of the German neutral clearings, an analysis of legislation in the neutral countries under which some claim might be made to German assets, and an analysis of principles of international law under which the Allied powers might seek to lay their hands upon German property in these countries. There will be many ramifications of this problem, even apart from the fundamental political difficulty of obtaining neutral consent to turning over assets within their territories which are asserted to belong to German nationals to the successor control commission or German Government, should there be the latter. Among these problems will be the general question of whether the neutrals should be permitted to, or can be prevented from, using German assets to pay off neutral claims against either the German Government or German individuals. In this connection, it will be necessary to consider politico-economic matters such as the warning given the Swiss approximately two years ago that the extension of a large credit to the Germans was unwarranted, and the effect of this warning on the possible claim of the Swiss that they should be entitled to use German assets to compensate them for debts owing by the Germans arising out of this large credit. In addition, there will be special problems, both generally and country by country, arising out of the unwillingness of the Swiss to give up any information on foreign assets or to recognize foreign decrees vesting the interests of foreign nationals within Swiss territory. (As to this, the policy of the United States with respect to both the Russian decrees issued after the last war and the decrees of the Dutch and other governments in exile issued during this war may be compared and the problem of legislation such as that which exists in Spain which prohibits foreign ownership of more than 25% in a corporation which is not registered as a foreign corporation--a provision which has been widely evaded by all foreign companies operating in Spain, but which might be invoked by the Spanish should the Allies attempt to demonstrate that a particular corporation is 100% German rather than 20%.)

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(c) In other United Nations.

1. The problems here will be mostly on the political level but some legal investigation might be profitable as to the possibility of using German property in those United Nations which do not have substantial claims against Germany so that the proceeds of such property could be paid into the general reparation pool. Perhaps more practicable would be the investigation of the possibility of using German assets in such countries for the purchase of supplies in those countries for relief or other purposes, perhaps on behalf of the occupied countries. It obviously would be difficult to persuade any one of the Latin American countries, for example, to allow a large amount of foreign capital bodily to be withdrawn from that country; but it might be possible to use the German capital in question for purchases of some supplies, particularly if those supplies were materials which did not ordinarily, at least in the quantities which would be involved, provide normal sources of foreign exchange for the country in question.

2. Use of United States property in Germany for reparation purposes.

It is my understanding that some work on this topic has been done in Treasury, although I have not seen the memorandum in question. It seems essential to do some work on the question of utilization of United States property in Germany for reparation payments, particularly by way of transfer of capital equipment to other of the reparation claiming countries. The obvious example is the possible transfer of the Opal Motor Works to (say) Belgium. Whether the United States is bound to protest such a transfer, whether United States property within enemy territory assumes the risk of such an occurrence, whether the United States or the owners of the plant in question are entitled to reparation claims based upon the value of the transferred plant, etc., are questions which require a good deal of elaboration. The possible transfer of plants to other countries but with the United States interests retaining a claim to or an interest in such plants is also a matter which should be explored. For example, it might be possible to transfer a plant which was owned 50% by Germans and 50% by Americans to a country like France with the Americans retaining their 50% ownership interest, and the French receiving, by way of reparation, the German interest in the plant. In the same connection, some investigation should be made to the extent to which a deindustrialization policy can be based upon the transfer of United States owned plants and equipment, and the further question of possible claims.

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3. Itemization of possible reparation claims on behalf of the United States.

It seems quite clear that the United States cannot claim for "the total cost of the war" as some persons have suggested. On the other hand, the United States probably can claim for such items as ship losses, damage to United States property abroad and the like. It would be extremely valuable to have, first, an itemization of the various types of claims which the United States might legitimately make (drafted from view of listing the largest possible items on which the United States could make a claim), and second, some breakdown of the possible amounts which might be claimed under each of the listed categories with some indication of the manner in which these amounts would be built up. For example, ship losses might have been compensated to a certain extent by insurance and reinsurance contracts so that the ultimate loss might actually be as much a British loss (through reinsurance contracts) as an American loss.

4. Booty.

There has been some indication that the contents of entire towns are being considered as "war booty" when the occupants in those towns have resisted. The relation of such booty to the reparation question, and the definition of what actually constitutes booty under international law is a topic which needs some careful investigation. It is my private guess that defining booty narrowly would not be particularly desirable, but that a large amount of what may be confiscated as booty should, in the ultimate settlement, be credited against the reparation claim of the acquiring power.

5. Treatment of persecuted minorities.

This is probably not strictly a reparation question. However, it is possible that in connection with the reparation settlement, some effort will be made to work out a method of placing upon Germany a portion of the burden of resettling persecuted religious and racial minorities. The resettlement problem will probably occur principally in connection with the racial minorities, since religious and political minorities who have been prosecuted might be expected to return to Germany and to take up their property in that country. The entire

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question of the claims of dispossessed persons who have, since the time of the act of dispossession, become citizens of the United States, or such persons who, although not citizens of any United Nation, are and have been since the war outside of Germany, should be investigated and made a subject of some study.

6. Treatment of German private property in ceded territory.

An investigation of the legal status of such property should be made. I assume that a policy similar to that expressed in the Versailles Treaty will be followed, of making such property subject to reparation claims. Particularly will this be so if a policy is followed of moving German nationals out of territory which may be transferred from Germany to other powers.

7. Restitution and Replacement.

A good deal of work has already been done in this particular field, and although further work is obviously necessary, I should feel it desirable to devote a separate memorandum to this topic.

(d) The Dispossessed.

The question of the treatment of the dispossessed is one which requires careful consideration. It is a question which may be raised in connection with the territories which may be ceded to France and Poland respectively. In view of the present political situation in Germany, however, it would be well to take this up at an early opportunity while public opinion and the press are still favorable toward the dispossessed. It is also important to bear in mind the results of the legislation which has been introduced in the Reichstag which, unfortunately, the Communists are trying to kill. While this was undoubtedly the intention of the Communists, it is also recognized that the proposed legislation, particularly as it is proposed to affect the property of Germans, might be used as a pretext for further anti-German measures. It would be well to keep this in mind in the event of a return to power of the Communists.

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April 19, 1945.

taken by this group was fantastic; that they wanted to get into Germany and start preparing their concern how long they could get materials to begin rebuilding their plants, and that's what I talked today with George Luthringer, one of the State Department representatives on Lubin's staff, concerning various problems with respect to reparations.

1. In that, one way or the other, we had to get foreign aid. During the conversation, Luthringer expressed grave concern over the developments evidenced in the meeting held in Clayton's office on Monday, April 16th. With respect to this meeting he made the following comments:

Luthringer said that he could now understand why we had included a paragraph in our proposed agreements. He and Despres, as well as the political boys, were disturbed at the obvious attempt which the War Department was making to gain control of this field and to sabotage the decisions that were taken at Yalta with respect to reparations. Apparently Clayton had not understood the real issues involved and an effort would be made to change Clayton's views with respect to the matter prior to the next meeting of the Clayton-White-McCloy Committee. He expressed agreement with my statement that the effect of the position taken by War would be to render ineffectual the work of the Reparations Commission in Moscow and thereby cause the greatest possible source of ill-will among the Allies. He said that if the other countries of Europe get the impression that we are trying to build up Germany as a "makeweight" against them we are in trouble.

Luthringer said that certain individuals in the War Department, such as Gramie Howard of General Motors, were bringing terrific pressure to protect their own interests. He mentioned specifically that Gramie Howard had a personal interest in the Opel works in Germany.

3. Luthringer also mentioned that a delegation of New York financiers of business interests, including representatives of the Foreign Trade Council, had come to the State Department yesterday and had later gone over to talk with Lubin concerning the policy of this Government with respect to reparations. He said that the position

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taken by this group was fantastic; that they wanted to know how soon they could get into Germany and start operating their concerns; how soon they could get materials to begin rebuilding their plants; and their whole interest in reparations appeared to be the extent to which this Government was going to protect them for losses suffered. He said they even went so far as to say that, one way or the other, we should get foreign exchange, if necessary from some of our Allies, as part of the reparations settlement in order that they could be reimbursed for losses suffered during the war.

Luthringer said that he could now understand why we had included a paragraph in our suggested amendments to reparations instructions to the effect that property could be moved out of Germany irrespective of the fact that a United Nations national had an interest in such property. Luthringer expressed sympathy with this point of view but also said that many of the State Department boys who had been traditionally trained in the concept of the protection of American interests abroad were greatly troubled by this position. Luthringer also said that it would be a very difficult public relations problem for State.

We then discussed the factors involved which might enable State to meet the objections which could be raised to the removal of property in which American nationals have an interest. These factors include: (a) the fact that practically all property in which American nationals abroad had an interest was held by them through a German corporation and not owned directly; (b) that most American companies wrote off their interest in German companies as a loss on their income tax returns; and (c) the possibility that the German government could be required to reimburse the American companies in marks, which would not be regarded as income by the Treasury until such marks were realized upon.

JED 4/19/45

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April 16, 1945

MEMORANDUM FOR THE FILES

(1) There was a meeting today in Clayton's office on reparations. Those attending the meeting included: State - Clayton, Depres and Luthringer; War - General Hilldring and Robert Lovett; Navy - Downing; FEA - Burns and Fowler; Treasury - DuBois and Glasser.

(2) Although no definite decisions were taken at this meeting (there will be another meeting in a few days), on the whole the meeting was very unsatisfactory.

(3) The War Department, with Clayton's support, is attempting to prevent the Reparations Commission in Moscow from making any basic decisions with respect to Germany. The War Department, arguing partially on the basis of the March 23 Directive approved by the President, takes the position that the Control Council in Germany is supreme. Thus in the memorandum which the War Department submitted they state:

"The Reparations Commission clearly should not plan for the removal of facilities, equipment or goods unless the Control Council determines that they are not needed for the support and protection of the occupying forces or to prevent disease and unrest endangering the occupying forces."

What their position amounts to in effect is that nothing can be moved out of Germany unless there is unanimous decision by all four commanders sitting on the Control Council.

This is obviously an effort on the part of State and War to prevent any really effective reparations program.

(4) State and War objected strenuously to Treasury's program designed to permit reparations removals to start as soon as possible. Lovett of War referred to the Treasury program as another version of a program to make a "pastoral" country out of Germany. During the meeting, Clayton expressed himself as favoring the following:

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(a) It is in the interest of the United States to have a reparations policy which would make reparations removals "difficult".

(b) It is in the interest of the United States to leave the machinery, plants and equipment in Germany to insure that Germany will be able to export so that she can pay for her necessary imports. Specifically, Clayton mentioned that Germany will have to import cotton in order to make clothes to keep her people from freezing and she should be permitted to have enough exports so as to pay for these cotton imports.

(c) He said that he did not see how we could let anything go out of Germany until we completed surveys to determine what there was in Germany and what could be removed from Germany without destroying the German economy and the basis for the continuation for the German economic system.

(5) In conclusion it may be said that if the basic position taken by State and War on this problem at today's meeting prevails the Reparations Commission in Moscow cannot help but be a complete failure. Clayton's attitude on this whole problem had obviously changed tremendously. Even Depres of State told Glasser and DuBois after the meeting that he was greatly troubled by the trend of events.

Josiah E. DuBois, Jr.

Harold Glasser.

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MEMORANDUM FOR THE SECRETARY'S FILES

April 9, 1945

Conference on the Treatment of Germany

Secretary Morgenthau's Office

March 23, 1945

9:00 A.M.

Present: For the Treasury Department - Secretary Morgenthau
 Mr. White
 Mr. Cee
 For the State Department - Mr. Clayton
 Mr. Matthews
 For the War Department - Mr. McCloy
 General Hilldring

At the Secretary's request, the discussion started a few minutes before the arrival of the Secretary and Mr. McCloy. Mr. Clayton stated that he was in favor of having the group send the document which he had shown to the Treasury the day before (attachment A) to the President for his approval. Mr. White distributed copies of a proposed one-page document, prepared in the Treasury (attachment B). General Hilldring announced that he knew that Mr. McCloy had a document, copies of which would be available as soon as Mr. McCloy came (attachment C).

Treasury Document

Mr. Clayton asked whether the policy recommended by the Treasury in 2 A was inconsistent since the sentence stated that "supervision and veto power" were to be maintained but that we "should avoid assuming responsibility for the functioning of the internal German economy . . ." Mr. White said he did not think that there was any inconsistency, but that the language merely showed that the type of supervision which was to be exercised was not one which would make us responsible for every detail of the economic functioning of Germany. Mr. Clayton declared that he thought that we had to assume that responsibility. Mr. White stated that he thought that the President definitely did not want us to assume that responsibility.

Mr. Clayton further objected to the language of the Treasury document which stated that economic activities should be administered and operated on a decentralized basis. Mr. Cee pointed out that this was "subject to the decisions by the Control Council" which could accept any functions or parts of functions, if it found it necessary to conduct these functions centrally. Mr. Matthews said that the State Department agreed with 2 B of the Treasury document about the distribution of decentralizing the political structure.

The President's Discussion

Mr. McCloy said that the War Department draft had been worked out on the basis of what the President told the representatives of the State

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and War Departments in his discussion with them the previous afternoon. He said that he had checked his own recollection of what the President had said with Lt. Col. John Poettiger, who had been present at the conference, and that Mr. Poettiger agreed with the following summary of the President's views:

1. There should be provision for central administration for some of the national public services.
2. The State Department's draft directive of March 10 should be rewritten.
3. Aside from reparations, German industries and the German economy should be left intact for German use. The President definitely did not want to "eliminate" German heavy industries.
4. Attempts should be made to decentralize the political structure. There should be as much decentralization as possible in the sphere of economic activity.

Mr. McCloy asked Mr. Clayton whether this was a correct interpretation of what the President had said and Mr. Clayton stated that it was. It was agreed by the group that they would review Mr. McCloy's memorandum in order to see how well it carried out the points which the President wished stressed.

In subsequent discussion the following remarks were attributed to the President at the session of the preceding day—mainly by Mr. McCloy.

Quisling Secretary McCloy has the following general remarks to the effect that Quisling, the Nazi leader, gave all remarks to the Germans before and after the military defeat.

The President was quoted as having said that he had made a mistake at Quisling and that he blamed this on Churchill. The President had told the group that they could tell by reading the memorandum that Churchill had drafted it, for it used the word "pastoral" which the President said he would never have thought of using in this connection.

Economic Controls

The President was said to have been very dubious about the need for these controls in occupied Germany. The kind of controls he would be inclined to use would be committees of say three Germans to a committee who would be told that they had to do thus and thus or see that thus and thus was done. If these things were not carried out they should be shot. The President was said to have used rationing as a good example of a control which he thought the Allies should not impose on Germany or try to run. He thought this should be up to the Germans.

Minimum Standard of Living

The President thought that we should not be responsible for maintaining a minimum standard of living in Germany. He thought that of course we should feed the German people to prevent them from starving and he

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Reparations

After discussion of the point raised by Mr. Coe, it was agreed to add a sentence providing that recurrent reparations should not be their form or amount require the rehabilitation of German heavy industry and should not foster the dependence of other countries upon Germany.

Mr. Clayton made the point that a first charge on all exports which were necessary for reparations or otherwise should be a sum sufficient to pay for imports. The thought was that the proceeds of exports should be diverted to pay for imports in order to prevent a situation arising where certain countries finance the imports and certain other countries got all the exports as reparations. Mr. Coe argued that this language might be construed as sanctioning a considerable volume of imports which were alleged to be necessary in order to pay for reparations. However, the consensus was that it would not be so construed.

External Assets

Mr. White and Mr. Coe wished to have language inserted stating that all of Germany's external assets were to be seized and held for reparations, restitutions and other war claims. Mr. Clayton at first argued against this as confiscation but later agreed that provided it was clear that the external assets were to be held for legitimate claims of the United Nations there was no objection. Mr. McCloy felt that the subject was not important enough to be inserted in this directive. Mr. White and Mr. Coe also urged that language providing that all future acquisitions of foreign exchange assets during the control period should be reserved for reparations and restitution. The language of this proposal was thought to be technically unacceptable or too restricted to be inserted in this document. Secretary Morgenthau, Mr. Clayton and Mr. McCloy stated that they were agreed in principle about taking away Germany's external assets using them for reparations and restitution, and not allowing her to accumulate any during the control period. It was thought that the best place to carry out this intent would be in a later financial directive.

German Responsibility

The paragraph on this matter, which placed the responsibility for the administration and efficiency of economic controls on the German people, was accepted practically as written.

Penalization and the War Criminals

These paragraphs were accepted with only one change which was other than textual. The War Department draft had stated that "all other undesirable persons" would be removed from public office, etc. This was changed to "all other persons hostile to allied purposes" after Mr. Clayton and Secretary Morgenthau had raised points about this.

Nar Potential

Secretary Morgenthau desired a much stronger paragraph than the one drafted by the War Department. Mr. White and Mr. Coe suggested certain

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April 7, 1945

MEMORANDUM OF MEETING ON REPARATIONS

1. There was a meeting today in Clayton's office at State at 3:30 p.m. to discuss the instructions to be given the United States representative on the Reparations Commission. Those attending the meeting included:

State -	Clayton, Mathews, Mason, Dupre and Luthringer.
War -	Generals Hilldring and Draper.
Navy -	Francis Downey.
FEA -	James Perkins.
Treasury -	White, Glasser and DuBois.
White House -	Isadore Lubin.

2. Clayton opened the meeting by asking whether anybody had a document to present. Lubin said that he had a document which he had been working on with the State Department, specifically mentioning the names of Mason and Dupre. He said there seemed to be general agreement between him and State on this document with such exceptions as he would indicate.

3. Clayton then suggested that the memorandum should first be read through in its entirety and that we should then read the memorandum paragraph by paragraph for comments and suggestions. White, at this point, said that he thought it might be a good idea if, instead of trying to reach an agreement at this meeting on this document, which many of those present had not yet seen, the representatives of the various agencies should take the document with them and go over it in their respective agencies. Another meeting could then be arranged to consider the document. Clayton said that he thought it would be useful if we could comment on the document at this meeting and have another meeting to finally consider the document. It was generally agreed that this procedure would be followed with the understanding that no agency was making any final commitment at this time.

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4. Lubin presented his document, which is attached, and read the document through, pointing out those provisions with which there was disagreement between himself and State. These provisions relate to the considerations governing the period of time and the amount of recurring reparations. Lubin said that he favored a long period of time with small annual amounts whereas State favored a short period of time with larger amounts.

5. Clayton then proceeded to read the document through paragraph by paragraph and comments were made on each paragraph. The following is a brief summary of the major points of discussion.

6. There was considerable discussion concerning the meaning of the following sentence in paragraph 7:

"The peoples in the devastated countries of Europe shall be given priority over the Germans in the determination of the standard of living, notwithstanding the effect of such priority on the standard of living in Germany."

It was finally agreed that in the place of this sentence we would substitute the principle which had been agreed upon in the statement of United States policy on Germany approved by the President on March 23, namely that no action should be taken to support basic living standards in Germany on a higher level than that existing in any one of the neighboring United Nations.

7. Treasury objected to the following sentence in paragraph 7:

"Specific emphasis should be given to the controls imposed on the populations of these zones so as to insure, so far as possible, that the burden of bearing the cost of reparations through taxes and other devices shall be distributed among the various groups in the population in accordance with their ability to pay."

After considerable discussion it was finally agreed that this sentence should be left out of the Reparations document although Clayton made it clear that State felt that it would be necessary to institute some form of rationing. He argued that if we were going to keep the living standard of the German people at a low level and not higher than that of any of the neighboring countries, it was necessary for us to see to it that part of the German

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population were not eating well while at the same time another part of the German population was practically starving. The issue was reserved for consideration in connection with the economic directive.

8. There was considerable discussion of paragraph 12 of the document presented by Lubin, which provided that this Government favors as long a reparations period as possible with annual recurrent payments as small as possible. Treasury supported this position strongly while State, particularly Mason and Dupre, opposed this position. Mason made the specific point that it was undesirable to have reparations extend over a long period of time inasmuch as it would be necessary to keep occupation troops in Germany in order to collect such reparations; that we did not want to keep United States troops in Germany for 25 or 30 years; and that it would be politically undesirable to withdraw United States troops from Germany while Russian troops still remained in Germany. Treasury pointed out why it was desirable to have reparations in as small annual amounts as possible inasmuch as by so doing we would avoid the dependence of the recipients of reparations on Germany and would avoid rebuilding the German economy. Treasury also pointed out that if reparations were collected in small amounts annually this would not require maintenance of troops in Germany to collect such reparations; and that in connection with the question of the maintenance of troops in Germany there were other considerations far more important than reparations which would determine the length of time during which such troops were kept in Germany. Clayton finally suggested that no definite statement be made as to the length of time or relative amounts of recurring reparations and that we merely announce a statement of principle to the effect that recurring reparations should be fixed so as to avoid the dependence of the recipients on the German economy and so as to avoid the building up of the German economy.

9. With respect to paragraph 15, which provided that to the maximum extent possible reparations should be taken from the national wealth of Germany existing at the time of collapse and which specifically included "shares of industrial, transport, shipping, and other enterprises in Germany", Treasury suggested the elimination of this quoted portion of such paragraph. Treasury pointed out that this would permit the United Nations to take ownership of German factories instead of removing such factories from Germany and stressed the danger of such a procedure. There was general agreement that this quoted provision should be deleted,

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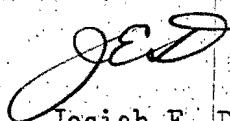
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despite the fact that, as was pointed out, such a provision had been contained in the Reparations Protocol.

10. It was agreed that Lubin would redraw the document in the light of the comments made at the meeting and would circulate the document to the various agencies for consideration at the next meeting. The next meeting was arranged for Tuesday, April 10, at 3:30 p.m. in Clayton's office.



Josiah E. DuBois, Jr.

Attachment.

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3/27/45- 17

ConfidentialMEMORANDUM RE CONVERSATIONS WITH LUBIN

1. On Tuesday, March 27, I saw Lubin about five o'clock in his office to give him some material on reparations. At that time he advised me that, with a few changes, the reparations document which we had been working on had been sent to the President but that he had not as yet heard from the President with respect to it. He said that he was sending the President a note that afternoon urging that he act on it. He said that before sending the document to the President he had discussed it with both Oscar Cox and Bernard Baruch, both of whom had been in fundamental agreement with the document. Lubin told me of the few changes which had been made, all of which were of a minor character. Lubin had added to the memorandum to the President a statement to the effect that if this reparations program were carried through, Germany would be left with industries of a certain type, which he proceeded to list. These included such things as mining of coal, iron ore, potash, etc., ceramics, porcelain, optical instruments, textiles, printing and publishing, construction industries, leather, rubber products, furniture, food processing, clothing, fur industry, public utilities, transportation, etc. At this point he told me that he had originally included in the list the watch industry which Baruch told him to take out as he felt Germany should not be able to make watches.

Lubin said that he had sent the memorandum to the President without discussing it with the State Department and, if he obtained the approval of the President, he then planned to discuss it with the State Department.

2. I saw Lubin again on Wednesday, March 28, at five o'clock. This time he advised me as follows. The President had sent the reparations memorandum to Stettinius. Clayton called Lubin over that afternoon and advised Lubin that the document which Lubin had forwarded to the President was the "toughest" document he had ever seen; that it was tougher than any document that had come out of the Treasury. Lubin replied that this was the way he felt and it represented his own ideas on a reparations program for Germany. Clayton then handed to Lubin a document which had been prepared in the State Department, which Lubin showed to me. This document contained a number of general statements in the negative, such as, the reparations program

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should not interfere with the program for destroying German war potential; the reparations program should not be designed to develop German heavy industries; the reparations program should not be designed to make it impossible for the German people to feed themselves and require the Allies to support the German people; the reparations program should not be such as to require the United States to make credits available to Germany in order to pay reparations; occupation costs should be distinguished from reparations and occupation costs should have priority, etc. The State document also recommended the setting up of an advisory body to consult with the military authorities in order to determine what equipment and materials could be moved out of Germany in the initial period without interfering with the purposes of occupation. The State document also required the Reparations Commission to keep the European Advisory Commission in London advised as to its activities and made the decisions of the Reparations Commission dependent upon the decisions of the European Advisory Commission on the economic disarmament of Germany.

Lubin said that he was going to battle the matter out with State and that unless he got 95 percent of what he wanted he didn't plan to take the assignment. I mentioned to Lubin the fact that a departmental committee had been set up composed of Clayton, White and McCloy, and suggested to Lubin the possibility of requesting that the reparations questions should come before this committee. Lubin said that he would insist that any reparations document should be cleared with this committee and not with State alone.

J. Dubois

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File: Reparations

COPY

Enclosure No. 1 to Despatch No. 1434
dated March 26, 1945, from American
Embassy at Paris, France, on the
subject of French Attitude Towards
Reparations.

Confidential

March 20, 1945

MR. Labouisse: 1, 1945
MR. Ambassador:

At a small luncheon which I gave today to enable Dr. Phelps
of the Rosenman mission to meet Monsieur Antonine, Secretary
General of the Ministry of Reconstruction, and Monsieur Pherse,
assistant to Reconstruction Minister Dautry, the French officials
have an interesting account of the plans of their Ministry to
finance part of French reconstruction costs through reparations
in kind and in labor.

They made the following major points:

1. It is hoped to utilize 1,000,000 - 2,000,000 German
laborers in the task of French reconstruction.
2. The three large postwar import needs will be petroleum,
cotton and coal. Coal imports in the past have been a large item
in France's adverse balance of trade. It is anticipated that
annual import needs postwar will be 30,000,000 tons and the
Reconstruction Ministry is looking to Germany to supply this need.
The Saar coal supply is not adequate. The thing that is needed
is control of Ruhr sources of supply to be used in conjunction
with Lorraine iron ore.
3. France does not want reparation payments in the form of
manufactured goods. As was the case after the last war, such
payments would operate to strengthen German industry over the
long-term.
4. France will attempt to obtain restitution of looted goods,
notably rolling stock. If the Allied conquest is accomplished
quickly, as in the breakthrough in France, the chances are good
of getting back a substantial part of the French railroad equip-
ment sequestered by Germany.

Ivan B. White

not be willing to enforce them is most dangerous.

(5) It is not too far inaccurate, in our opinion, to describe
the British experts' work as a comprehensive endeavor to discover
the best compromise possible between what the people will consent to
enforce twenty years following the war and what the people will
demand immediately after the war.

WINANT

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PARAPHRASE OF OUTGOING TELEGRAM

PACIFIC TIME, WESTERN TIME

FROM: Secretary of State, Washington
 TO: AMEMBASSY, London
 DATED: March 5, 1945
 NUMBER:

SECRET

The Department does not have the understanding that decision was reached at the Crimea Conference to include restitution as well as reparation in the agenda of the Moscow Conference compensation.

It is the Department's opinion that this subject should continue to be dealt with by the EAC if its agenda is such as to allow it to immediately consider this problem, as the question of restitution may call for immediate attention when more territory of Germany is captured and as there may not be a meeting of the Moscow Conference for quite a while.

It is the firm belief of the Department (1) that the concept of replacement should be restricted to works of art and similar objects, as pointed out in Department's 418 dated January 18, (2) that there should be a close connection between any restitution agency and reparation body that may be created, (3) that restitution should be limited to property which can be identified. We suggest that you propose at the first opportunity that this question be handled by the EAC and that you urge that it be considered soon provided you think that the representatives of the other three nations will most likely accept these principles.

See your telegram No. 1783 of February 21, 1 p.m. and 2107 dated March 1, 7 p.m.

not be willing to enforce them.

(5) It is not too far inaccurate, in our opinion, to describe the British experts' work as a comprehensive endeavor to discover the best compromise possible between what the people will consent to enforce twenty years following the war and what the people will demand immediately after the war.

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PARAPHRASE OF EXCERPTS OF INCOMING TELEGRAM

FROM : London

It is requested by all the Foreign Office and FIPS officials to the Vice-Secretary to State, Washington, boundaries will be submitted without compromise, or to the British, French, and American governments. Proposals dated December 16, 1944, 7 p.m., Germany are briefly and in full as well as in the agreed states in the subparagraphs above. They number of 10,721 words are continuing arrangements of political and territorial which are required.

SECRET

Penrose found that, in the opinion of some of the advisory section officials of the German Department of the Foreign Office, Massigli's general approach, despite its vagueness, may temporarily be treated quite favorably, partly for ulterior motives. Suggestions for what is termed here the "Pastoralization of Germany" as published in America aroused serious fears and some consider the approach by the French as having an offsetting effect of great value. Whatever the defects of the French approach may be in other regards, its basis is the supposition that peacetime manufacturing should utilize the advantages of the location and great resources of Germany.

It is the opinion of these officials, however, that when the Massigli plan has served its purpose in helping to "kill off" extreme schemes for de-industrialization there will be a general tendency to criticize the plan in detail as not practicable as presently or similarly drawn up. The officials themselves do not consider the plan sound. They and other experts believe that the plan is, at bottom, one for partition. The plan, as Massigli conceived it, commences in the military period and is combined into or is superimposed on the plan of military occupation of zones. It may be the hope of the French that by the time an indigenous central German Government is established, the state of operation of the plan may have progressed sufficiently and political conditions may be propitious for proposing that the German Government should have no jurisdiction over the territory in question.

In discussing partition in some detail, one of the officials expressed his belief that the effect of splitting Germany into separate states would differ greatly from intention or anticipation even if areas are discovered which more closely resemble "regions" in the economic or political sense than the area that the Massigli plan covers. Unless measures were taken to accomplish such close interdependence economically between neighboring nations and separate German states that the latter felt that their bonds with neighboring countries were more advantageous than with one another, there would be a tendency toward reunion. There was little doubt that the separate states of Germany should have more success in impressing their characteristics on non-German states, because of German operating and organizing efficiency, than the non-German states would have in influencing the German states. This would scarcely cause an increase in world security.

the Ruhr under international control and two permanent special areas in the West - of control mainly French.

II.

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The UK officials are most anxious for early technical talks within the framework of EAC, on reparation and economic security against Germany. In this they have the approval of Ministers. They would like the preliminary talks to take place on an agenda of subjects. They

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THE STATE OF PREPARATION FOR REPARATION TALKS

It is assumed by all the Foreign Office and EIPS officials with whom we have talked that new political boundaries would be short-lived without corresponding economic boundaries. Proposals by Sumner Welles for partition of Germany are criticized on this as well as on the ground stated in the paragraph above. They consider a Zollverein as certainly serving as a prelude to political union or reunion.

Positions in favor of reparation have been taken by the Labor Party and the TUC in UK. There was a debate on the question of labor services at the TUC conference. Insistence that damage committed by Germany should be repaired by her, which would probably involve use of German labor, has been agreed to be a just demand by both the British and the Russian delegates on the Anglo-Russian Trade Union Committee. The following is a recommendation added by the delegates of UK: a period should be set after which such labor would stop; conditions, hours, and wages should be established to make certain there would be no slave labor; and the establishment of an inter-allied organ to assign such labor between different claimant countries. The TU Congress rejected a suggested amendment which would have resulted in placing the TUC on record against reparation and gave approval to the Anglo-Soviet committee's report.

The French are leaning toward the creation of two permanent areas of control under international control, one in the Ruhr and one in the Rhineland. The British are leaning toward WINANT's plan of reparation by a Zollverein.

the Ruhr under international control and the Rhineland under a form of control mainly French.

II.

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The UK officials are most anxious for early technical talks within the framework of EAC, on reparation and economic security against Germany. In this they have the approval of Ministers. They would like the preliminary talks to take place on an agenda of subjects. They

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PARAPHRASE OF INCOMING TELEGRAM

FROM : London

TO : Secretary of State, Washington

DATED : November 23, 1944, 10 p.m.

NUMBER: 10,368

~~SECRET~~

The EAC has been sent the British proposal to create at an early period a Restitution Commission with reference in particular to Germany and probably to Austria. Penrose forecast this in Telegram No. 9843 of November 11 in paragraph 3. The following are its proposed terms of reference.

"(One). The Restitution Commission should receive, consider and pass on claims made by the United Nations Governments, presented either on their own behalf or for their nationals, for the restitution of identifiable property, (except inland transportation units and ships), existing at the time of the invasion of the territories from which property has been looted, in cases where such property has been recovered:

"(Two). The Restitution Commission should make recommendations to the Allied Control authorities, on the basis of their determination of such claims, with respect to the release of the property under reference, where such property is already in their possession:

"(Three). The Restitution Commission should call to the attention of the Allied Control authorities claims to property which, although it has not yet been recovered, is believed to be easily recoverable, or to be of such significance that special efforts should be made to recover it. It is understood that the Allied Control authorities would have discretion to determine whether inquiries should be followed up in any particular case and also to advise the Restitution Commission, in the light of their experience, the policies which the Commission should follow in handling claims to property which has not yet been recovered."

the Ruhr under international control and the Rhineland under a form of control mainly French.

II.

207553

The UK officials are most anxious for early technical talks within the frame work of EAC, on reparation and economic security against Germany. In this they have the approval of Ministers. They would like the preliminary talks to take place on an agenda.

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Secret

E.A.C. (45)3

9th January 1945

EUROPEAN ADVISORY COMMISSION

RESTITUTION

Memorandum by the French Delegation

Equity demands that Germany, after her defeat, should be called upon to make good, as far as possible, the damage done on the territory of all Allied countries by military operations, and the spoliation which she has carried out while in temporary occupation of certain allied countries.

The occupied territories have been exploited according to a plan so systematic and so extensive that it presents, by virtue of its duration and the combination of force and trickery employed, a new departure in history which calls for special study.

The United Nations, in their declaration of 5 January 1945 have, moreover, proclaimed their determination to put a stop to the methods of dispossession which Germany has employed in the countries she occupied, and have also declared invalid any transfers or dealings of any description whatsoever, by which such looting has been effected. This declaration applies "not only to transfers or dealings which have taken the form of open looting or plunder" but also "to transactions apparently legal in form, even when they purport to be voluntarily effected".

As soon as she has surrendered, therefore, Germany must be forced to make good the losses caused by her deliberate policy of looting. Such must be the first economic sanction for her war of aggression.

Of course, while making Germany contribute towards the economic restoration of the countries which have been despoiled, the United Nations will to a certain degree maintain the productive capacity of Germany, and this may clash with certain measures of economic disarmament found to be necessary. But the same criticism can be applied to other proposals which reveal an anxiety to keep up a certain standard of living in Germany. It will be necessary to formulate a general economic policy for Germany which will hold the scales even, for the benefit of the Allies, between economic activities maintained for reparation purposes and those which must for security reasons be eliminated, without pre-judging the economic

(5) It is not too far inaccurate, in our opinion, to describe the British experts' work as a comprehensive endeavor to discover the best compromise possible between what the people will consent to enforce twenty years following the war and what the people will demand immediately after the war.

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economic status of certain parts of German territory which may be made subject to a special regime. It should be recognized

Thus, Germany's obligations in regard to compensation for what she has looted in occupied territory must be fitted into the general framework of the economic policy to be imposed on Germany.

I. The simplest remedy would obviously be the restitution by Germany to the looted countries of the actual property of which she has deprived them, or failing these, of identical property. Wherever this method can be applied, it will constitute the best possible form of compensation. Thus, in the special case of works of art or cultural objects, gold or precious metals, Germany would be bound to provide either identical or equivalent items.

This first method will not be sufficient, however to compensate for the bulk of the looting done by Germany, because, on the one hand, very many items will not be retrieved or will be unidentifiable in Germany, and on the other hand identical or equivalent items will not be available in sufficient quantity.

To be restricted to this method would be tantamount to asking the looted countries to forego a large proportion of their legitimate claims.

II. The French delegation, therefore, invites the European Advisory Commission to consider a system under which Germany's resources would be earmarked on a priority basis for making restitution and deliveries to the States which have suffered from her systematic policy of looting.

Many of the articles found in Germany will prove to consist of components stolen in occupied countries and there incorporated into the article at some stage or other of its manufacture; in other cases the Allied property will be unrecognisable. The looting which she carried out during long years of occupation has enabled Germany to incorporate in her own economy property seized in the occupied countries; if the German economic structure is to be regarded as a single unit and its products divided proportionally among the Allies without taking account, as the French delegation suggests, of the looting done in the occupied countries, the result would be that, as it could not be identified, Allied property extorted by Germany would be shared out amongst the other Allies. Taking German property as a whole, before any question of general compensation can arise, a preliminary operation - the restitution of looted property - will be required. This right of priority must, of course, be limited, but the same reasons which make it justifiable automatically limit it to the assets existing in Germany at the time of her surrender. To this extent

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WINANT

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extent the French delegation consider that the priority demanded for the invaded countries, which have been deliberately exposed to hardship by Germany, should be accepted. In certain cases the Allied authorities in Germany may possibly consider it necessary to relax the general principles which will be laid down by the European Advisory Commission in order to satisfy certain indispensable needs of the German people (transport, food, for example); but such generosity is only conceivable if the peoples of the occupied countries are granted higher priority; as between two cases of hardship, that of the victim must take priority over that of the thief.

III. If the property found in Germany is not sufficient to permit of the looted countries receiving "restitutio in integrum", it will be necessary to transfer part of Germany's assets. This might be effected on the following lines, always subject, of course, to the immediate requirements of the forces of occupation:

1. Transfer would apply to every kind of property in Germany, e.g. factories, equipment, means of transport, material, patents, manufacturing processes, and would be supplemented by any supplies of labour, specialist or other, which are thought necessary.
2. Transfer would be prompt. The only limiting consideration would be the necessity of meeting the requirements of the Allied occupation forces.
3. The Germans owning the property transferred would be compensated in Reichsmarks put at the disposal of the Governments benefiting by the deliveries.
4. The claim on Germany, retained by the countries which have suffered from looting, in respect of the portion of their demands not met by transfers is to be settled simultaneously with the problem of reparation for war damages as a whole.

IV. The application of the above principles assumes a rational limitation of the notion of "loot". Countries which have suffered from German exactions would only claim preferential treatment in strict proportion to the gravity of the German aggression from which they have suffered and the disastrous character of the economic straits to which they have been reduced. Looting in this sense should be regarded as comprising:

- a) the seizure, confiscation or requisition by the Germans of property, rights and interest of any kind whatsoever which

are

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(5) It is not too far inaccurate, in our opinion, to describe the British experts' work as a comprehensive endeavor to discover the best compromise possible between what the people will consent to enforce twenty years following the war and what the people will demand immediately after the war.

WINANT

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are not retrieved in the liberated territories;

b) the "purchase" by the Germans of property, rights and interests of any kind whatsoever, irrespective of the fictitious method of payment adopted by them (handing over of national currency extorted from the occupied State, entry in an unbalanced clearing account, etc.).

This definition includes property rights and interests owned abroad by the United Nations or their nationals, which have been seized by the Germans in any form whatsoever. This property must be restored in the manner defined above.

An Inter-Allied Office should be set up to ensure compliance with the rules laid down above. It might be made responsible for safeguarding looted property, receiving all applications from Allied countries, deciding what action to take on them and putting into effect all the measures necessary to that end. The question of the relation between this Inter-Allied Office and the section "Reparation, Deliveries and Restitution", referred to in Article 6(a) of the Draft Agreement of 14th November 1944. (E.A.C. (44) 11th Meeting) is one that remains to be settled.

Pending the receipt from each of the Governments of the countries which have been systematically exposed to German exactions, of an exhaustive statement of their losses, the French Government consider that an agreement should be arrived at as soon as possible on the actual principle underlying restitution.

LANCASTER HOUSE

LONDON, S.W.1.

3 January 1945

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(5) It is not too far inaccurate, in our opinion, to describe the British experts' work as a comprehensive endeavor to discover the best compromise possible between what the people will consent to enforce twenty years following the war and what the people will demand immediately after the war.

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March 19, 1945

11 am

Present:

Mr. Coe
Mr. Glasser
Mr. Du Bois

(Mr. Coe presented his draft of suggestion for Mr. Lubin to give to the President as instructions for Lubin to go to Moscow.)

Mr. Coe: We didn't want this Reparations Commission to be a stalling device. We did not want the Lubin group to meet and stall and get buried in statistics and start wondering whether the French were properly treated and meanwhile nothing would be moving from Germany.

(Mr. Du Bois presented his draft of suggestion for Mr. Lubin to give to the President as instructions for Lubin to go to Moscow.)

Mr. Du Bois: I wrote up a little different one. I wonder if you agree with Point III.

Secretary Morgenthau: I agree to III. What else?

Mr. Du Bois: Point C. It is a little more specific. The idea is the Russians have asked delivery of goods in the future. Instead of taking manufactured goods, if they are going to decide on some reparations in the future, let it be in the form of raw materials. Then you are not building up German industry in order to build up reparations.

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Secretary Morgenthau: Incidentally, I asked the State Department for a correct copy of the London Economist article which appeared in Saturday night's Star on reparations and they said it would come in. I asked for the full text, this morning, out of Stettinius' office. Make a note (to Mr. Coe) it may come to you.

You started to tell me about personnel.

Mr. Coe: State is giving him Luthringer, a senior economist, and I gather he has already agreed. He's a good civil servant, flexible in his views.

Secretary Morgenthau: Is he better than that fellow, Dupres?

Mr. Du Bois: From our point of view, George is not that sort of fellow.

Mr. Coe: James Riddleberger is on the political side. He is head of the German Division or Central European Division in the Office of European Affairs.

Secretary Morgenthau: (To Miss Chauncey. Make a note and tell Mrs. Klotz that when I go to see the President, I want to take that name.)

Mr. Coe: He is talking about another man, Abramovitch, whom Joe thinks doubtfully of. Lubin seemed to take Du Bois' going as a certainty.

Mr. Du Bois: Did you get the impression it was pretty definitely settled?

Mr. Jr: I just take it for granted.

Mr. Coe: He mentioned a National income man - Wallace Salant, and two or three OSS men. Leontief I definitely objected to. He's a White Russian and has given various agencies a good deal of trouble. Nothing much to be said for him.

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He mentioned one engineer, a Colonel Goodfellow, who knows something about intelligence in Germany. Also OSS. A man named Eldredger, now in Paris, a former State Department man. Then he wanted to know what we thought about a big business man. We offered, through the manifold talks of Treasury on Bretton Woods, offered to recommend some good names there. He said he thought of Swope.

HM, Jr: Terrible! You know our experience with Swope? When we wanted to kick the Germans out of General Aniline Dye, he wouldn't do it. If he's going to get a big business man, get one from the South, because they, on the German situation, are much, much better.

Mr. Glasser: Someone who does not have property in Germany.

(At this point the Secretary dictated Senator George's views on Germany, which is transcribed separately.)

Mr. Coe: Then, on Henderson, Lubin repeated that he was still going to try to get Henderson to fly up there for a week or so while he was there, from Chungking, and told us his ideas on Henderson and they were he wanted someone like Henderson back here to make sure his telegrams had an answer, issues got around. He didn't think DuPres or anyone else in the State Department could go high enough to get action for him so he wanted Leon in.

We asked him to confirm our impression that Henderson was terribly set on these economic controls and he gave a pretty good exposition of Henderson's views: that is, in order to get reparations out you do have to have a well functioning, stable German economy; that, therefore, you need financial and economic controls which will enable you to take a surplus product and move it somewhere else; therefore, you have to be against inflation and have to be prepared to assume widespread control of the

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German economic situation, otherwise its production will sink so low that there will be no chance of getting anything out of it. That's his, also State's point of view.

HM, Jr: I think I will have to talk to him about Henderson myself and simply say if he wants Treasury backing on this thing and wants us to look after his interests here we are prepared to do it, but if he expects us to do it and work with him, we can't work with Henderson. I will tell him that in just so many words.

Mr. Dubois: The difficulty is Lubin talks awfully good policy when it comes to questions of what he's actually going to do and these personnel suggestions of his certainly are not consistent with the way he talks.

Mr. Coe: I think that's the gist of it.

HM, Jr: What I had better get -- I hope to see the President tomorrow, and I am going to show him this latest draft and I think we ought to have supporting documents. I will see you fellows again at 3:15, and if White is available, have him in.

Mr. Du Bois: On the short document on reparations, do you want us to give that to Lubin?

HM, Jr: I am leaving at one o'clock tomorrow. It would be good if I had some excuse to see him and say, Look, Lub, this is the thing. You are making a mistake about henderson.

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Authority NWD 978025
By SR NAPA Date 1-7-45

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File Germany Reparations Vol. 1

Box 84

Germany: Reparations

MAR 19 1945

Dear Mr. Dunlap:

Your letter of February 20, 1945 to Senator Vandenberg, requesting information as to the total amount paid in reparations by Germany since the last war and the total amount borrowed by Germany and by German firms and individuals in the same period, has been referred to the Treasury Department for reply.

It is assumed that your request for "the total amount borrowed by Germany and by German firms and individuals" refers to foreign borrowing only. This, of course, is the significant item in making comparisons between borrowing and reparations.

Available figures of German borrowings and reparations payments since the last war are drawn from numerous different sources and in their details, at least, are not always entirely accurate or comparable. The general magnitudes of the totals, however, although they involve some elements of estimation, are reasonably well established and accepted.

Total German reparations payments from 1919 to 1935, in accordance with the progressively diminishing scales prescribed under the Versailles Treaty (1919-21), the London Reparations Conference Schedule (1921-22), the Dawes Plan (1924-30), and the Young Plan (1930-35), amounted to approximately 12.7 billion Reichsmarks. This is the equivalent of about 3 billion contemporary (pre-1934) dollars. In addition, Germany surrendered property, commodities, and titles to property, amounting to 8.6 billion Reichsmarks (or about 2 billion dollars).

Total long-term foreign borrowing by Germany and by German local Government units and private firms and individuals during the same period amounted to approximately RM 11 billion. To this should be added the amounts received by Germany and German nationals in the form of short-term foreign credits. The net receipts from this source are difficult to compute but have been estimated at approximately RM 17 billion for the period.

According to these figures, total foreign borrowing by Germany since the last war amounts to some RM 28 billion which is considerably in excess of the usual estimates of total German reparations payments.

Very truly yours,

(Signed) D. W. Bell

Under Secretary of the Treasury

Mr. George A. Dunlap,
245 Monterey Avenue,
Highland Park 3, Michigan.
HFB
WJ
O.N.

3/19 - Signed by D.W.B. dated 3/19/45
cc to OM and LMC
mailed by RL

FILED 1945

WPA

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By SR N4PA Date 1-7-60

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Box 84

COPY

WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
Washington

15 March 1945

MEMORANDUM FOR COLONEL STIMSON:

With respect to the preparation of the paper concerning the treatment of Germany, there is attached hereto a copy of the Protocol covering reparations for Germany, as well as a Draft Directive for the treatment of Germany, which were given to me by the State Department yesterday and which I understand is to be handed to you at 2:45 p.m. today with an order from the President to do what is necessary to carry it into effect.

Until yesterday we had not seen this paper and were not consulted in its preparation. It contains matters which I think importantly affect the administration of Germany which fundamentally, at least initially, the Army will have to perform, and I feel that every effort should be made to modify it in some respects so that the jurisdiction of the Army Commanders can be clarified.

The paper has the effect of scrapping JCS 1067 which up to the present was the existing U.S. policy. The main items of difference are the following:

1. By its emphasis upon central administration and central control it reverses the policy in 1067 which emphasized decentralization. It connotes, as I read the paper, administration throughout Germany by means of central German administrative agencies with authority in the Zone Commanders only to "scrutinize" the operation. This conflicts with the conception we have heretofore had that III policy should be agreed upon at the Control Council level, but administration to be conducted throughout the respective areas, except to the extent that some central agencies might have to be administered centrally.

2. It connotes a very close control of Germany covering wages, prices, rationing, etc., etc., in contra-distinction to the effort made in JCS 1067 to place the burden of such controls on the Germans rather than on ourselves. This is setting one economic theory off against the other. Either may be right. Personally, I would much prefer to try to shift the burden to the Germans rather than assume it ourselves but it may not be practical. I suppose the Army cannot object if this is the national policy, although our burdens will be made greater.

3. This document provides for reparations in accordance with the Yalta decisions, whereas JCS 1067 had no background of reparations policy.

As a matter of military administration, I feel we must object to the emphasis of central administration which is stated here. It is contrary to all the instincts and training of the Army generally as well as the pattern of all its planning for the administration of Germany. It would be intolerable to have the Zone Commanders merely limited to scrutiny and supervision in their zones without giving them the authority to administer in their zones. Unless this theory of central administration is negative, the Zone Commanders would not be in a position to alter the administration in their zones by removals, etc. This, as I say, is the military objection to the paper.

I think there is also a fundamental objection from the point of view of the treatment of Germany. I believe that perpetuation of the rather over-developed centralization of German authority in Berlin should be broken down and I feel we should start from the bottom and build up democratic processes rather than continue to rule from the top, but this latter consideration is one which I suppose is one of individual opinion and one that, from a military point of view, we could not assert.

Enc. # 9 to Letter 317 from Taylor

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I believe that with the insertion of one or two paragraphs in this paper we could clarify the thing so far as the military situation is concerned, but I believe it necessary that we should have the right to do so from the point of view of our job before we accept it as a document which we are to carry out.

Mr. Stettinius erroneously (innocently) represented to the President that the War Department had approved this paper, which is not the fact. I think that we ought to be empowered to make modifications to it in conjunction with the State Department, or else present our views to the President.

I gave the paper to Goldy Derr last night and he sent me the attached memorandum which, as you see, follows very much the line that I have stated above.

Finally, I think it is fantastic that we were not consulted as being the responsible executors of any policy before it comes to us in the form of Presidential Decree.

J. J. McC.

Incl.

Cy. Protocol
Draft Directive
Memo to ASW from GH Derr

The Secretary of War
Pentagon Building
Room 4E850

Mr. McC. suggested making changes wherein I will emphasize continuing major responsibility of the military to defend the country and to maintain the border with Mexico. He also suggested that the Secretary of War be given authority to make recommendations to the Secretary of Defense regarding the conduct of the war against Cuba. This is something that I would support. I would support the Secretary of Defense having the authority to make recommendations to the Secretary of War in order to keep him informed. I support the idea of giving the Secretary of Defense the authority to make recommendations to the Secretary of War in order to keep him informed.

This document requires no organization or further action. It is in the hands of the appropriate office and does not need to be signed off by anyone.

In case of an emergency situation, I feel that one of the best things would be to have a memorandum of understanding which is in effect. By an memorandum of understanding and agreement of the Army General Staff and the Defense of War, I am asking for the following authority of the Secretary of Defense. If such an proclamation is issued, the Secretary of Defense should be given authority to issue orders to the military to defend the country and to maintain the border with Mexico. In addition, if the Secretary of Defense has the authority to make recommendations to the Secretary of War, he should have the authority to make recommendations to the Secretary of Defense to defend the country and to maintain the border with Mexico.

I think that this is a very important adjustment to the paper, and I think that it is a good idea to have a memorandum of understanding. I would like to have a memorandum of understanding between the Secretary of Defense and the Secretary of War. This is something that I think is important, and I think that it is a good idea to have a memorandum of understanding between the Secretary of Defense and the Secretary of War. This is something that I think is important, and I think that it is a good idea to have a memorandum of understanding between the Secretary of Defense and the Secretary of War.

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McC - 7/10/80 dictated 3/17 from [unclear]

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By S.R. NARA Date 1-7-00

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File ~~Parliamentary Reparations~~
VOL. 1

Box 84

File: Reparations

TREASURY DEPARTMENT
WASHINGTON 25

AIR MAIL

London, November 26, 1944.

~~CONFIDENTIAL~~

No. 166

Dear Mr. White:

1/ Through the courtesy of Iver Olsen I am sending to you a copy of the "Report of the Interdepartmental Committee on Reparation and Economic Security", otherwise known as the Malkin Committee Report. A few days ago, in a discussion with Eddie Playfair of the British Treasury, Playfair mentioned the existence of this report. I asked him to provide us with a copy and he said that he would but that he wanted us to know that the report was no longer valid or would of necessity express the views of the British Government. Under no circumstances were we to consider the information contained in this report as being officially binding on the British Government. He said that the report would be of value only as background material. Inasmuch as this is our only copy and Playfair indicated that he could not provide us with more than one copy, it would be appreciated if, in the event that this is photostated by the Treasury, you would send a copy of the photostat back to this office.

2/ Having received the Malkin Committee Report I made a few inquiries around the Embassy and ascertained that this report, or an earlier draft of it, had been discussed in the Department of State in September 1943. I was able to obtain a copy of the Department of State's memorandum dealing with "British Thought on Reparations and Economic Security". This memorandum sets forth some questions and answers that are merely supplementary to the Malkin Committee Report about which Lord Keynes spoke to the officials of the State Department. There are a number of interesting thoughts in the report that are of interest, and it would be well to have the thing gone through very carefully as much of the thinking set forth is still predominant in the British attitude.

Sincerely yours,

/s Bill

Mr. Harry D. White, Bill Taylor
Assistant to the Secretary
Treasury Department
Washington, D. C.

cc: 12/6/44 Messrs. Nathan, DuBois, Glasser, Fehle, Luxford,
Ostrow, Tomlinson, Miss Mikulich

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By SR NAPA Date 1-7-60

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DEPARTMENT OF STATE

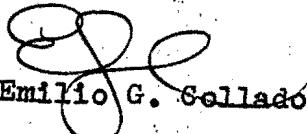
~~DEPARTMENT OF ECONOMIC COOPERATION~~

DIVISION OF FINANCIAL AND MONETARY AFFAIRS

October 6, 1944

Dear Harry:

There are attached some Russian comments on reparations which may be of interest to you.


 Emilio G. Collado

Noted by: Messrs. Glasser, Pehle, DuBois and White.

1943.

a. "There can be no doubt but that the aggressor countries are obliged to make good all the damage they have caused during the war. In solving this question it is necessary in the first place to take into consideration the experiences of the First World War. But

31 August 1943), go gitlerovskoying the Reparation to the Soviet Union), lecture are reiter- Working Class and from this article in

ring comparison. The in a year amount to ne that each laborer times more in new val- ple to say that each a year produces our assumed material rds of marks will working years of one is, to reconstruct necessary to have ap- German skilled work-

, reparations payments han people. But, on unjust if the peo- peoples of these war should find ion. Here is one in the bounds of

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War and the Work-
ER, 2 November

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~~SECRET~~EXCERPTS FROM RECENT RUSSIAN
PRONOUNCEMENTS ON REPARATIONS

1. E. S. Varga, (Moscow lecture, 31 August 1943), O vozmeshchenii ushcherba, prichinennogo gitlerovskoy Germaniyey Sovetskomy Soyuzu (Concerning the Reparation of Damage Caused by Hitlerite Germany to the Soviet Union), Moscow, 1943. The main points in this lecture are reiterated in a later article in War and the Working Class and are largely covered in the excerpts from this article in Number 2, below.

"I will introduce the following comparison. The earnings of a German skilled laborer in a year amount to about two thousand marks. If we assume that each laborer in the course of a year creates two times more in new value than he receives, then it is possible to say that each German skilled worker in the course of a year produces values to four thousand marks. Then our assumed material damage in the sum of 300 to 450 millards of marks will represent about one hundred million working years of one German skilled laborer. In other words, to reconstruct what has been destroyed it would be necessary to have approximately the labor of ten million German skilled workers over a period of ten years."

"As far as we are concerned, reparations payments do not signify punishment for the German people. But, on the other hand it would be absolutely unjust if the peoples of the aggressor countries, the peoples of these armies, which despoiled us, after the war should find themselves in a better economic position. Here is one of the principles which should determine the bounds of reparations payments."

2. E. S. Varga, "The Reparation of Damage by Hitlerite Germany and Her Accomplices", War and the Working Class, 15 October 1943, CID #5171LR, 2 November 1943.

a. "There can be no doubt but that the aggressor countries are obliged to make good all the damage they have caused during the war. In solving this question it is necessary in the first place to take into consideration the experiences of the First World War. But

the

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the present situation differs in many respects from the situation then. The material damage caused by Germany and her vassals in this war already--although the war is not over by a long way--exceeds many times over the losses suffered by the allied countries in the First World War.

"In the first place, in the present war far more territory has been devastated than in the First World War. In the second place the devastation of the First World War was chiefly caused by military activities, whereas in the Soviet Union in the present war the Hitlerites destroy everything valuable with German pedantry every time they retreat. In vast areas of the Soviet Union the devastation is incomparably greater than the devastation of French territory in the First World War. To this it is necessary to add the damage caused by the Germans in Poland, Czechoslovakia, Greece, Belgium, France, etc.

"The material damage in France and Belgium after the First World War was calculated at 14,000,000,000 gold rubles... Even if it is admitted that this figure is exaggerated and that some of the areas now occupied by the Germans are less rich than the French provinces devastated during the last war, none the less, in view of the far greater area of the territory (about 30 to 40 times as great) now subjected to devastation on the continent of Europe, the total material damage must constitute at least 200,000,000,000 gold rubles. To this must be added the not inconsiderable losses caused by the bombardment of England from the air and the Allied countries' large losses in tonnage."

"In addition to the reparation of the damage caused by devastation and bombardment, the countries occupied by the Germans have beyond question the right to demand indemnity for other damage caused to them in the most varied forms during the rule of the Hitlerite robbers. This covers: expenses of occupation, the requisition of all war materials, the requisition of other material assets, etc. The Germans themselves admit that the countries which they have conquered pay 16,000,000,000 marks per year to cover the expenses of occupation. The real loss of these countries--taking into account the private plundering widely practiced by German officers and soldiers--is assuredly twice this sum. This amounts, therefore, to about 50,000,000,000 gold rubles during the period of the war. Together with shipping losses and damage from air raids, material damage by itself reaches a total of 300-400 millard gold rubles."

b. "In"

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b. "In addition to this [compensation for personal damage, i.e. chiefly pensions for those who had taken part in the war], in the present war there must be added to the kinds of damage which have already been mentioned the enormous damage on the nationals of the occupied countries by their being sent forcibly to work in Germany or by their being mobilized by the German forces of occupation for forced labor in their own country. If we adopt in respect of this war the same ratio of material to personal damage as was laid down after the First World War, then the demands of the Allies on Hitlerite Germany and its vassals must fall roughly between 800 and 1,000 milliard gold rubles. The lion's share of this total falls to the Soviet Union, in which whole provinces have been devastated, thousands of villages and hundreds of towns have been razed to the ground, millions of peaceful citizens have been driven off to forced labor in Germany, and a large part of the peaceful population of the occupied regions has been physically destroyed, maimed, tortured, coerced, outraged."

c. "Reparations can be covered from three sources:
 1) from assets held abroad at the end of the war by countries compelled to pay reparations;
 2) from the national wealth of these countries, and finally
 3) from the national income of these countries in the years after the war.

"When Germany began the present war, she had considerable capital investments abroad. They were both short-term in the form of bank accounts and long term in the form of enterprises and shares in enterprises. The total of these investments can be fixed at 5,000,000,000 marks. Of Germany's allies only Italy had capital investments abroad and they were small.

"Further, from the national wealth of Germany it is possible to satisfy only an insignificant part of the claims for the reparation of war damage----If we accept the total of the national wealth of Germany within its extended frontiers as 200-225 milliard gold rubles, this estimate will probably be on the high side. The national wealth of all the satellites of Hitler--Italy, Finland, Hungary, Rumania taken together can hardly have exceeded 120 milliard gold rubles at the outbreak of the war.

"In reality, however, not more than 10 percent of the reparations demands [of the last war] were covered

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from the national wealth. In the present war the percentage will be much lower owing to the huge proportions of the material damage caused. It follows from this that the chief source for the reparation of the damage at the end of the war will have to be the current production of the countries which bear the responsibility of aggression."

d. "It is scarcely possible to count on the complete reparation of this damage if its colossal proportions are taken into account. For this reason alone it is impossible to add together mechanically the losses of the Allied countries, as was done after the last war, and then distribute the reparations in direct proportion to the losses. Justice and practical expediency demand a different approach to the question.

"1. In the first place, MATERIAL damage must be made good. Only after this has been done should payments be begun in respect of personal damage (compensation for forced labor, military pensions, etc.)

"2. The total payments received should be distributed between individual countries not in proportion to the absolute amount of the damage done to them, but in the first place those countries should receive reparations in which the damage done constitutes the largest proportion of their national wealth.

"The justice and practical expediency of this approach is based on the following considerations.

"Some Allied Countries, such as Poland, Greece and Norway have had such heavy material damage inflicted on them that in order to restore their economy at the end of the war IMMEDIATE help will be necessary. It is just and practically expedient that reparations payments should be received in the first place by the countries, including the Soviet Union, which have unquestionably suffered the greatest material damage in absolute figures and certainly the greatest relative damage, that is as a percentage of their total national wealth. However great the material losses may be which have been inflicted on the U.S.A. by the sinking of ships, or on England in addition to this by air raids, nevertheless, in comparison with the national wealth of these countries, their losses are comparatively small. These countries can convert their economy to a peace time footing and make good war damage by their own efforts, even if they do not immediately receive reparations from the aggressor countries. A number of European

countries,

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countries, however, will find it absolutely essential to receive indemnification from the aggressors for the losses inflicted on them in order to revert to a peace time economy, and in order to replace the enormous material assets destroyed during the war by new ones."

e. "As regards the question of the division of responsibility for the indemnification of loss, it appears to us that, in contrast to the First World War, it is necessary to make not only Germany pay reparations, but also Italy, Rumania, Hungary and Finland. The immense material damage borne by the countries which have suffered from enemy occupation, the Soviet Union occupying the first place, covers every branch of the national economy; agriculture, mining, industry, transport. It is therefore just and reasonable to demand that all countries which take part in the Hitlerite campaigns of brigandage should immediately take part at the end of the war in the reparation of the damage which they have caused by giving up part of their national wealth to the countries which have suffered....England and the USA, who do not necessarily require deliveries in kind for the restoration of their economies, could receive partial satisfaction of their claims for reparations in the form of the transfer to them of the capital investments abroad of the aggressor countries.

"As regards the proportions of the reparations payable from the national wealth of the aggressor countries immediately after the end of the war, it would be obviously unjust if the aggressor countries were not required to cover the losses caused by them to an extent which would make their economic position no more favorable than that of their victims. Furthermore, justice demands that the property of persons responsible for the instigation of the war and persons who have grown rich on the plundering of occupied countries should be confiscated and wholly devoted to the reparation of damage....But without question it would be unjust if the people whose armies have wrought such unheard of havoc should live better after the war than the peoples who were their victims.

"That Germany is able to make large yearly reparations is clear from the following: from 1933 to 1939 Germany, according to Hitler's statements, spent 90 milliard marks on armaments. This means an average of 15 milliard marks a year. As this expenditure on armaments will naturally disappear, it will be possible to make reparations payments in place of this sum."

f. "As

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f. "As regards the means of payment of this indemnity, the experience of the First World War shows that the centre of gravity should lie in payments in kind, which in point of fact are the only possible ones.

"For the Soviet Union with its planned economy, in which disproportion cannot arise between production and consumption, in which the demand for the foods always exceeds the supply, and in which economic crises are accordingly impossible, it is in fact desirable to receive payments destined to make good the country's losses not in money but in kind."

"Finally, it would be just and practically expedient to draw workers from Germany and the countries allied with Germany for work after the war in restoring the devastated areas. The Hitlerite bandits, who have trampled on international law, are forcibly sending to Germany millions of peaceful inhabitants from the occupied countries and in particular the inhabitants from the occupied zones of the Soviet Union, compelling them to make weapons to be used against their own country. Justice demands that after the end of the war the Germans should participate in the reconstruction of the roads, bridges, towns and factories that they destroyed during the war."

3. Professor L. Bogolepov, "The Cost of War", an article published in Bolshevik, No. 21, summarized in the Soviet Intake Report, 15 December 1943.

In this article Professor Bogolepov "analysed the difficulties of an accurate estimate of the cost of the present war. An estimate of this kind would be valuable both as a guide to reconstruction and as a basis for reparation demands. The work of the Extraordinary State Commission for the Investigation of Nazi Crimes will help to determine the real cost of war. Since the Fascists have paid over 90 milliard marks in preparing for war and are spending hundreds of milliards in its prosecution, it is quite feasible to extract from them reparations for all damage caused."

4. Decree of the Supreme Soviet, 2 November 1942, establishing the Extraordinary State Commission for Ascertaining and Investigating the Crimes of the German Fascist Invaders and Their Accomplices, in Bolshevik, No. 21 (November 1942), pp. 18-19.

For

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For all these monstrous crimes being committed by the German Fascist invaders and their accomplices and for all the material damages they have caused to Soviet citizens, collective farms, cooperative and other public bodies, State enterprises and institutions of the Soviet Union, the criminal Hitlerite government, the German Army Command and their associates bear full criminal and material responsibility.

... For the determination of the damages caused by the German invaders and their collaborators to the citizens of the Soviet Union, and for the determination of the size of possible compensation for personal damage suffered and for the determination on the basis of documentary evidence of the size of the damages sustained by the Soviet State, the kolkhozes and public organizations which are subject to restitution in accordance with the justified requirements of the Soviet people.... [the commission will be set up].

[It is indicated that the following matters are to be investigated by the Commission.]

A. [Crimes against persons.]

B. Damages done by the Hitlerite invaders to the Soviet population by way of /damage to/ residences and other buildings by filching and destruction of household and farm equipment, stores of produce, livestock and poultry, household goods and also by way of the imposition on the population of contributions, fines, levies, and other collections.

C. Damage caused by trespass and thievery of the German Fascist invaders to kolkhozes, cooperatives, trade unions, and other public organizations by way of pillage and destruction of buildings, economic and cultural equipment, stores of raw materials, products, and goods; the agricultural crops, forested areas, orchards and other plantations, and other kolkhoz and cooperative possessions.

D. The loss inflicted by the Hitlerite invaders to the state enterprises and institutions of the Soviet Union by way of destruction and pillage of mills, factories, electric stations, mines, oil installations, and other industrial equipment; rail and paved roads, bridges, canals, hydro-technical projects, and postal establishments; marine and river vessels, automobiles and freight transport vehicles, communications and also ores, crops, forests, arable land, perennials, and other public property.

E. Damages

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E. Damages caused by the Hitlerite vassals by way of the pillage and destruction of artistic, cultural and historical valuables of the peoples of the USSR; the destruction of museums, educational institutions, hospitals, schools, higher educational institutions, libraries, theaters, and other cultural establishments, as well as buildings, equipment, and vessels of religious sects.

F. The loss occasioned to the population and the Soviet State by the evacuation of citizens, industrial establishments, the property of kolkhozes and other public organizations into the interior of the USSR.

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