

Ursula Rombeck-Jaschinski

From Confrontation to Cooperation: The London Debt Agreement of 1953 and Later Debt Crises

«Germany ends World War One reparations after 92 years with £59m final payment.» Thus ran the headline of an article by Allan Hall in *Mail Online* on 29 September 2010.¹ Mr. Hall explained to his readers, probably baffled, that the last German reparation payment set by the Versailles Treaty would be due on 3 October 2010. This report attracted attention in the media worldwide. *The Christian Science Monitor* spoke of the end of a «century of «guilt»». Germany today, according to the *Monitor*, is a model of financial stability, light-years away from the debt-ridden nation it used to be.² In Germany, media interest was more restrained. On 3 October, the headlines mainly centred on the 20th anniversary of German reunification. The widely-read boulevard paper *Bild* gave only a few lines to the definite «end of the First World War».³ The German public acknowledged the payment of the last war debt of Versailles quite calmly. How was it possible that 92 years after the end of the First World War, Germany still had a remaining war debt of roughly 70 million Euros to pay?

The newspapers specified that this last reparation payment fell under article 2.1.1.6 «Cleared Foreign Debt (London Debt Agreement)» in the federal budget of 2010.⁴ This makes clear that we are not speaking of war reparations in the original sense, but instead of a liability arising from the London Debt Agreement of 1953. The London Agreement solved the problem of the massive German foreign debt, which had accumulated up to the outbreak of the Second World War, and then rose again after the end of the war on 8 May 1945.

Since the mid-1990s, public interest in the Debt Agreement of 1953 has been revived, even though it had been largely forgotten up to that point. For one, the agreement was taken as a possible solution for the debt crises in the Third World;

1 *Mail Online*, Sept. 29, 2010, <http://www.dailymail.co.uk/news/article-1315869/Germany-end.html>.

2 *The Christian Science Monitor*, Oct. 4, 2010, <http://www.csmonitor.com/World/Europe/2010/1004/Germany-finishes-paying-WWI.html>.

3 *Bild*, Sept. 28, 2010, <http://www.bild.de/politik/am-sonntag-endet-fuer-deutschland>.

4 *Merkur Online*, Sept. 28, 2010, <http://www.merkur-online.de/aktuelles/politik/sonntag-endet-erste-weltkrieg-937195.html>.

for another, as a potential blueprint for the current financial crisis. In recent years, Greece repeatedly called for an international conference along the lines of the London Agreement, with the goal of significantly reducing Greek indemnities.

In order to judge the current relevance of the London Debt Agreement, it is essential to cast a glance at the historical background of the conference. Because of these particular historical circumstances, it is highly questionable whether the London Agreement can be used as a general blueprint for contemporary financial crises. This article points out that the present-day discussion on debt only ever draws on certain aspects, but never on the London Agreement as a whole. We will examine the course of negotiations in London as well as the key points of the Debt Agreement. This analysis proves that the London Debt Agreement should neither be misapplied as a general blueprint for the solution of problems in the Third World, nor be taken as a model for the resolution of current debt crises.

1. The Path to the London Debt Agreement⁵

National Socialist Germany was an unreliable debtor. This was not only true for the foreign loans of the Reich, but also for other categories of debt such as finance or trade. The Reich had ceased to repay its loans in 1934. By the outbreak of war at the latest, a wide range of German debt obligations to enemy countries were interrupted, if not annulled. During the war, the creditors had no chance of obtaining any sort of debt repayment. Great Britain considered the option of drawing on German foreign assets to redeem outstanding debt, as had been the practice in the First World War. But during the Second World War, this was more a theoretical than a practical scenario. In the First World War, the German external assets that had accumulated in the four decades before 1914 were entirely sufficient for debt settlement. In the 1940s, this was no longer an option. The external assets in question were much smaller, and the mountain of debt considerably higher.⁶ The only hope left to the creditors was to wait for their money until after the war.

That they would receive their dues was, however, by no means certain, since the claims of the pre-war creditors clashed with other demands for reparation and restitution on a vanquished Germany. A significant financial factor was the current expense for the occupation troops and the sponsoring of relief packages for the German population. The Americans and the British agreed that relief deliveries should be paid for as a matter of priority, according to the «first charge principle», as soon as Germany was in a position to do so. Under these circumstances, no old or new claims on German debt could be made for the foreseeable future. In light of this, it

5 For the developments leading to the London Debt Agreement, see U. Rombeck-Jaschinski, *Das Londoner Schuldenabkommen. Die Regelung der deutschen Auslandsschulden nach dem Zweiten Weltkrieg*, Munich 2005, 53–159.

6 German Property in the United Kingdom and United Kingdom Claims Against Germany: Paper by the Trading with the Enemy Department (1942), PRO (Public Record Office), T 236–1984.

can be considered a success that the reparation claims of the interwar years were legally sustained. All too easily could they have been subsumed in the turbulences of the questions of compensation and war guilt.

On an international level, the British government spoke out strongly for the old debt obligations not being modified or amended by jurisdiction. The American government, on the other hand, regarded investments in foreign loans rather as a private risk. In the end, it was decided that the solution to the question of debt should be left to a future German government: either through the conclusion of a peace treaty, or by means of special agreements with the countries in question.⁷ The Paris Reparation Agreement of January 1946 stipulated that «appropriate authorities» in Germany should, at a later date, see that the contractual obligations from the interwar years are fulfilled. This meant that the payment claims were maintained in principle, while the precise deadlines, transfer methods and total capacity were left vague.⁸ Both in the public as well as in the private sector, the United States were, by far, the largest creditor.⁹ Only with standstill debt did Great Britain retain the leading position. These «standstill debts» refer to short-term credits between British and German banks or industrial companies. In contrast to American banks, British institutions had left most of their credit in Germany during the Great Depression. The British banks trusted that they would be returned their capital investment in better years. This optimistic attitude on behalf of British financiers was wholeheartedly supported by His Majesty's government, since Great Britain had a vested interest in maintaining close economic ties to Germany.¹⁰ In the financial sector, in the short term, British appeasement policy did not bear fruit. At the end of the war, it was more than questionable if the standstill creditors would ever see their money again. No support was forthcoming from the American side. US policy, guided by Finance Minister Henry Morgenthau, aimed to punish Germany for its war crimes on the one hand, and to prevent it from becoming a serious industrial and financial force in future. This objective rendered any discussion on a later debt service on the German side superfluous. Against the background of the Cold War, which was taking shape around 1946, Morgenthau's policy, mainly driven by revenge, lost out against the more pragmatic approach of the State Department. Western Europe was to be a strong bulwark against the Soviet sphere of influence, and West Germany was an integral front-line state in this scheme. In 1948, prompted by US Foreign

7 J. W. Angell (U.S.A.) Paris: Pre war claims against Germany, Nov. 8, 1945, PRO, T-236-122.

8 J. Fisch, *Reparationen nach dem Zweiten Weltkrieg*, Munich 1982, 105-119.

9 Office of Military Government for Germany (U.S.): Appendixes to a Plan for the Liquidation of War and Rehabilitation of Germany, Jun. 10, 1946, NA (National Archives), RG 59-6840.

10 N. Forbes, «London Banks, the German Standstill Agreements, and «Economic Appeasement» in the 1930s», in: *The Economic Historic Review* 40 (1987), 586-587; B.-J. Wendt, ««Economic Appeasement» – A Crisis Strategy», in: W.J. Mommsen / L. Kettner (ed.), *The Fascist Challenge and the Policy of Appeasement*, London 1983, 161-172.

Minister George C. Marshall, the US proposed the European Recovery Program. The purpose of this so-called Marshall Plan was to strengthen a Europe devastated by war, both politically and economically, for an effective role in the looming conflict between East and West.

Of the total 14 billion Dollars of the European Recovery Program, the Federal Republic of Germany received a tranche of 1.4 billion Dollars by 1952, as aid for reconstruction. In contrast to other European countries, this was not in the form of a grant though, but rather as a loan. This alleged discrimination served in reality to protect German economic interests.¹¹ In the contract, the United States insisted on the assurance that the repayment of the funds from the Marshall Plan should take priority over any other foreign debt claims. German reconstruction was not to be endangered by uncontrolled external demands. Unlike after the last war, the American superpower wanted to reserve the right to action for itself. During the Cold War, the Federal Republic of Germany occupied a key role in the US government's strategic planning. The stability of Western Europe depended entirely on the economic potential and the political reliability of Germany. In military terms, too, the Federal Republic found itself in a decisive position. The US government wanted to ensure that Germany was capable of contributing to the defence of the Western world on a significant scale. Against this background, from the American point of view, the problem of German foreign debt called for a reasonable and lasting solution.

The predominant position as a creditor served the US government as bargaining leverage, so that it could push through its political and economic goals. The question of when and how German foreign debt should be resolved depended entirely on the will of the US. America alone held the key to the solution of the problem. In fundamental terms, the Americans considered the debt question an international problem. In cooperation with a future German government, they hoped to find a legal framework for all categories of debt. In the context of an overall settlement, the post-war obligations, i.e. the expenses incurred by Allied relief deliveries from the European Recovery Program, were to be regulated as well. Not just abroad, but also German financial circles were strongly interested in solving the debt problem as soon as possible, especially the matter of standstill debt, because the liquidation of this was a critical step to the re-establishment of normal trade and financial relationships with other countries.

The president of the Reconstruction Loan Corporation and later executive speaker of the Deutsche Bank, Hermann J. Abs, threw in all his weight to accelerate this process. In September 1949, Abs delivered a keynote address at the exclusive Hamburg Übersee Club on the problem of German foreign debt. He stated that deeds, not words, should speak for themselves. This was the only way to renew the

11 W. Abelshauser, *Deutsche Wirtschaftsgeschichte seit 1945*, Munich 2004, 130–154.

trust of foreign investors, which had been utterly destroyed during the years of the Third Reich, because «the creditors of yesterday are the potential creditors of tomorrow».¹² As a man of finance, Abs wanted to approach the debt question pragmatically, and to settle the short-term standstill and trade debts first. In his view, this was the essential prerequisite for the re-establishment of stable economic and financial relations. It was impossible to stem the huge mountain of debt from private and public loans of the pre-war years, as well as the obligations of the post-war years, in a short span of time. There were always further demands in the future to think of; after all, German financial capacities and means for the transfer of funds, were seriously limited. Economically, a step-by-step approach made perfect sense. But the Americans wanted an international settlement, so as to prevent unfair treatment of one of the numerous creditor groups.

In principle, the German government under Chancellor Konrad Adenauer, who was in power since October 1949, was ready to tackle the question of foreign debt. Due to the restrictive Allied jurisdiction, however, the federal government had no means of actively pursuing an independent course in this matter. According to the statute of occupation, essential state functions were still in the hands of the Allied powers: the USA, Great Britain and France. In spring 1950, the Allies established the Intergovernmental Study Group, which was to lay out «plan(s) for handling outstanding claims against Germany (including pre-war and post-war claims...)».¹³ The work of the Study Group turned out to be more difficult than anticipated, because the Americans, British and French had very different ideas of which categories of debt should be included in a debt arrangement. The three parties involved also found it difficult to agree on the exact procedure as well as who should participate in the negotiations.

From the start, the British had no illusions that the US would get its way in the end. As they saw it, a settlement of the pre-war debt would only be possible if claims to some of the prioritised post-war debt were relinquished. But this would be to America's disadvantage. Thus, the readiness of the US to renounce its claims on German debt became a key issue in the settlement of German foreign debt, and at the same time, the instrument to see this settlement through. In contrast to Great Britain, which was in a precarious financial position itself, the Americans were not really interested in the repayment of German post-war debt. For the US, this was first and foremost a means of political leverage. The British succeeded, however, in including the expenses of Allied post-war aid in the planned debt agreement.¹⁴ To

12 H. J. Abs, «Das Problem der Deutschen Auslandsverschuldung und der Auslandskredite. Vortrag vor dem «Übersee-Club», Gesellschaft für Wirtschaft e.V.», in: H.-P. Schwarz (ed.), *Die Wiederherstellung des Deutschen Kredits. Das Lon-*

doner Schuldenabkommen, Zurich 1982, 80–96, 90.

13 Min/TRI/P/13, FRUS (1950), Vol. III, 1050–1051.

14 J. H. Penson (UK Embassy Washington) to Sir D. Gainer, Sep. 23, 1950, PRO, FO 944–287.

ensure that international creditors could sustain their old claims successfully even after the end of the occupation status in Germany, the Allies demanded a declaration of indemnity from the federal government. In a letter dated 23 October 1950, the federal government, as the only legitimate German government, was asked to accept formally all foreign debt of the former Reich, as well as the reimbursement for the economic aid provided by the Allies after the war. Since West Germany accepted all claims made on the Third Reich, as the only legitimate successor state, East Germany was not taken into account. In fixing the total sum in question, the general political and economic situation of the Federal Republic was taken into account, as were the territorial restrictions. After all, the «new» Germany only encompassed a part of the former Reich. The prioritization of the post-war obligations, set out in the contract by the Allies, would be modified in due course, so that all parties involved in the debt agreement would be able to fulfil the demands specified therein. A declaration of indemnity on behalf of the German government was added as an appendix.¹⁵

From the West German perspective, the draft proposed by the Allies was unacceptable. The federal government was required to accept the liabilities of the former Reich in their entirety, and bind itself to this by international law; while all the Allies offered in return was a declaration of intent for reductions at a later date, and at their own discretion. After discussions, which lasted for several months, the negotiators managed to agree upon a final text for the declaration of indemnity. On 6 March 1951, an exchange of notes marked the understanding between the Federal Republic and the three Western Allies.¹⁶ The German government had successfully pushed through its most important demands. These included: firstly, the recognition of the Federal Republic as the successor of the former Reich on an international level; secondly, the consideration of the loss of territory and other factors limiting the capacities of Germany to pay; and thirdly, the regulation of obligations from post-war economic aid in bilateral arrangements. The Federal government was officially granted the right to negotiate independently in future questions of debt. Until spring 1951, the problem of foreign debt had been exclusively the business of the occupying forces. Not even other creditor nations were involved. After the settlement, this would change.

The internal coordination of the Study Group now entered its last phase. In May 1951, all efforts connected to the liquidation of German foreign debt were relegated to the Tripartite Commission on German Debts (TCGD). This commission was

15 Letter to Federal Chancellor on agreement on certain pre-war and post-war external debts, Kirkpatrick to Adenauer, Oct. 23, 1950, PRO, FO 311-85032.

16 «Deutsche Auslandsschulden», in: Auswärtiges Amt, Bundesministerium der Finanzen, Bunde-

sministerium für Wirtschaft and Bundesministerium für den Marshallplan (ed.), *Dokumente zu den internationalen Verhandlungen Oktober 1950 bis Juli 1951*, Bonn 1951.

responsible specifically for the preparation and negotiation of a debt settlement. Its task was to ensure that the basic criteria set by the Allied governments for the debt negotiations were upheld. The guiding principle was not to repeat the errors of the 1920s and the 1930s.¹⁷ Furthermore, it was to be ensured that the credit standing of the Federal Republic was not endangered by the debt agreement. The top priority for the US was that Germany would be able to fulfil its duties in terms of security policy as effectively as possible. The guideline was the German capacity to pay, which was judged to be poor with respect to foreign exchange, but stronger in the long term. Before negotiations on pre-war obligations could begin, the British and Americans – the French were hardly relevant for this debate – had to agree among themselves to what extent the post-war liabilities to the Allies could be scaled down. As long as this question was not answered, there was no point in a conference on questions of debt. The American government proposed a general reduction of the commitments after the Second World War to 10 per cent. The British government was merely considering a reduction by 10 per cent. Because of serious budgetary problems, the British government insisted on a complete repayment of German post-war debt – which had arisen from aid to the defeated former enemy. The British invoked an agreement between the Allied powers that the settlement of state debt was classified as a high priority. In terms of domestic policy, it was unthinkable that Great Britain should waive these claims. A reduction of German debt, however, was unavoidable, so that private foreign debt from Germany could be repaid in some form. German capacity to pay was by no means sufficient to service all financial claims in an equal manner.

While Great Britain, due to its tense financial situation, insisted on the repayment of post-war debt, the Americans were essentially prepared to waive their demands entirely. Altogether, the American claims from the Marshall Plan and other post-war aid amounted to 3.2 billion Dollars, the British claims to 122 million Pounds (or 342 million Dollars). The rift between London and Washington grew as the American government rejected unequal scaling down on point of principle, and for reasons of domestic politics. The US asserted that both countries should grant a deduction of equal percentage.¹⁸ So as not to postpone the negotiations in London even further, in October 1951, the Americans finally gave in and accepted an unequal scaling down, to be presented to the public in a face-saving manner. Great Britain reduced its post-war claims by 25 per cent payable in 20 annual rates without interest. The US reduced its claims of 3.2 to 1.2 billion Dollars, to be paid in 35 annual rates at 2.5 per cent interest. The value of Great Britain's waiver was calculated, on

17 IGG/P(51)101: Statement of principles relating to the settlement of German external debts, May 8, 1951, NA, RG 43-166.

18 Memorandum of Conversation Department of

State: Sir Sidney Cains, Allan Christopher (U.K) and Stinebower, Margolies, Sept. 13, 1951, NA, RG 59-1514.

the basis of interest, at 40 per cent; the American waiver at 62 per cent. In December, the Federal Republic was informed of the provisional arrangement on post-war debt. The reduction agreed upon by the Allies would only come into practice, however, if all parties involved could come to an acceptable settlement also on the pre-war duties at the London conference. Thus, the path was finally clear to begin negotiations on the pre-war reparation payments.

2. The London Negotiations¹⁹

The debates on pre-war debt ran through several stages. They began at the end of June 1951 with a conference involving only the representatives of the most important creditor institutions and private creditors, by invitation of the TCGD. The purpose of the pre-conference was to prepare for the main one, with arrangements for the individual categories of debt between creditor and debtor. The discussions were hosted by the TCGD, which has received its mandate directly from the three Allied governments. Given the heterogeneous nature of pre-war debt, the diverging interests of the creditors and the multitude of nations involved in the negotiations, a mediating authority was established. It could settle disagreements and ensure a degree of fairness. The claims to leadership on behalf of the British, French and American governments arose from their prerogatives as occupying powers. The position of the occupying powers was further strengthened by the predominance of the US as a creditor in all categories of debt. As main creditors, the occupying powers could set out a framework and guidelines for negotiations between creditors and debtors, with the US assuming the leading role.

The British delegates, at times, had their difficulties with the American domination of the conference, who had no inhibitions about pushing their claims home against weaker partners. So as not to drive the total sum of obligations to astronomic heights, all expenses incurred during the war were exempt from discussion. The cut-off date was set at 1 September 1939. This excluded all clearing debt. Since the 1930s, German foreign trade was financed not directly, but through various clearing points. Credit and debit were offset against each other at regular intervals. This procedure meant that certain amounts of already scarce foreign currency could be saved. Actual payment in currency was due only if the accounts were out of balance. In order to save valuable foreign currency, the Reich refused to accommodate any claims arising from trade-in goods. Occupied states such as the Netherlands did not receive any reimbursement for their shipments of supplies to Germany, and were thus effectively exploited. Enormous amounts of debt were incurred in this way. The liquidation of this particular kind of clearing debt was expressly excluded from the

19 On the problems and difficulties of the negotiations, see Rombeck-Jaschinski, *Londoner Schuldenabkommen*, 222–361.

London Debt Agreement. The Netherlands, which had suffered severely from economic exploitation at the hands of the Nazi regime, protested vigorously – but without success.²⁰ In December 1951, the TCGD issued a document outlining the procedures for the conference to the involved parties.²¹ Three stages of negotiation were set out for the main conference: a plenary meeting as the central body, a smaller steering committee to prepare important decisions, including specific expert panels for the different categories of debt. In addition, there was a creditors committee as the main representative for all creditors and the TCGD itself as the highest administrative entity. Aside from this, there was a large number of delegates from the participating creditor nations. The German delegation, led by Hermann J. Abs, spoke for the debtor.²²

On 28 February 1952, the conference began at Lancaster House in London. Three hundred delegates from over thirty countries took part in the opening session. Apart from the three occupying powers, the most important creditor nations were Switzerland, Belgium, the Netherlands and Sweden. In his introductory speech, the board chairman of the TCGD, the Englishman Sir George Rendel, emphasised the absolute priority of the commitments made to the Allies after the Second World War. Repayment of this debt would be modified if a fair settlement could be reached on pre-war obligations, which would satisfy all countries involved.²³

After this, the head of the German delegation, Hermann J. Abs, held a programmatic speech. He explained how he regarded the settlement of foreign debt as a crucial step for the Federal Republic to return to the community of nations and the free world. The creditors had to realise, Abs requested, that Germany was subject to a whole range of financial demands, and had only limited capacity for transfers. Indirectly, he asked the creditor nations to improve the situation of German currency by liberalising their policies on trade. The funds for repayment of debt should come from real surplus of trade. Abs pointed out that the German capacity to pay was severely restricted due to territorial losses, the aftermath of war, the cost of sustaining Berlin, future expenditure for defence, and the general, war-induced destruction of economic infrastructure. All of these factors had to be given due consideration in the negotiations.²⁴ The actual negotiations between creditors and debtors

20 Vermerk Erbstößer btr. Vorbesprechungen über deutsche Auslandsschulden vom 5.7.–17.7.1951, in: London, HABB (Historisches Archiv der Bundesbank), B 330–2466.

21 Conference on German External Debts: Memorandum prepared by the Tripartite Commission on German Debts, Dec. 10, 1951, BA (Bundesarchiv) B 146–1183.

22 TCGD: Organization of work at the Debt Conference, Jan. 15, 1952, PRO, FO 371–100080

23 Anlage I zum Protokoll der ersten Plenarsitzung: Eröffnungsansprache Sir George Rendel, Feb. 28, 1952, PA/AA (Politisches Archiv des Auswärtigen Amtes), Abt. II Nr. 1560 (LSA 53).

24 Anlage II zum Protokoll der ersten Plenarsitzung: Eröffnungsansprache des Leiters der Deutschen Delegation, Feb. 28, 1952, PA/AA, Abt. II Nr. 1560 (LSA 53).

took place in four expert committees formed for this purpose. The number of experts in each committee was fixed at a maximum of seven. Panel A was responsible for the debts of the Reich and other public institutions. This central committee dealt with the major foreign loans of the Weimar Republic. Panel B dealt with industrial loans, Panel C with standstill debts, short-term inter-bank loans and Panel D with trade duties and other liabilities. Contrary to what the creditors had anticipated, the German delegation did not make a specific offer at the beginning of the negotiations, but contented itself with sounding out the expectations of the respective groups of creditors. This caused a certain level of discontent among them. In order to prevent the atmosphere from deteriorating further, Abs promised to present a concrete offer after the Easter break.

The situation for Germany was very difficult indeed, because at the same time as the London conference, restitution payments to Israel were being discussed in Den Haag. The creditors knew this, but they were not prepared to accept modifications to their own demands due to any obligations to Israel.²⁵ On 20 May 1952, Abs presented a first proposal on debt settlement to the members of the TCGD, which could hardly be taken as a serious offer due to the small scale of the sums in question.

For the entire (!) complex of debt discussed in London, Abs suggested a maximum annual contribution of 500 million DM – ca. 125 million Dollars – in the first years, and 580 million DM after that. With these figures, how could Germany expect to pay its pre-war obligations of 15,7 billion DM?

Abs indulged in extensive deliberations, which shocked the members of the TCGD. For the debt of the Reich and the former state of Prussia taken on by the Federal Republic, there was to be a cut in capital of 40 per cent, due to the loss of territory. The German delegation claimed a further reduction of 10 per cent because of the general impoverishment of the country in the aftermath of war. In order to justify this cut of capital by 50 per cent, Abs pointed to the Allied statement of 23 October 1950. There the Allies had assured the German government that the general political and economic situation of the Federal Republic would be taken into account, especially the reduction in territory, when agreeing on a settlement of debt. In addition to this, all outstanding interest was to be annulled and the current interest decreased to roughly 3 per cent. Germany would be granted a period of recovery before the repayment of debt would begin. The claims in capital would be redeemed with 2 per cent over a period of 35–37 years. With these and further reductions, the total sum to be repaid came to 4.6 billion DM.²⁶

25 L. Gall, *Der Bankier Hermann Josef Abs. Eine Biographie*, Munich 2004, 172–183.

26 Stichworte und Daten der mündlichen Erläuterung des deutschen Schuldenangebots vor Vertre-

tern der Dreimächte-Kommission, May 20, 1952, PA/AA, Abt II Nr. 1557 (LSA 50).

The creditors stated with unmistakable clarity before the TCGD that they would not accept this offer as a basis for discussion. The negotiations threatened to fall apart before they had even begun. On 30 May 1952, the creditors issued their official response. They claimed, quite openly, that rebuilding Germany's credit standing on this basis was impossible. The creditors set out four conditions if talks were to continue: first, that the German capacity for raising funds, and not the temporarily restricted capacity for transfer, should be the basis of further discussion. Secondly, the creditors demanded a significant increase in the total sum of the offer. Thirdly, instead of one general offer, there were to be separate offers for each category of debt. Fourthly, Germany would not be entitled to set any conditions on trade policy or future reparation payments herself.²⁷

After the creditor nations had spoken, one of those decisive moments came which determine the success or failure of a historic event. Hermann J. Abs rose and spoke extemporaneously, both rationally and emotionally at the same time, which left a profound impression on the creditors. He began with the rhetorical question of whether the creditors were really aware of the situation in which the Federal Republic happened to be at that moment. He enumerated the division of the territory of the former Reich, the economic and social consequences of the lost war, millions of refugees, the obliteration of assets, savings and more. In spite of this, Abs expressed his confidence that with the goodwill of all involved, they could find a solution which would just satisfy the creditors, and which the debtor could manage to shoulder.²⁸

Abs understood the disappointment and the objections of the creditors, but he was irritated by their unwillingness to compromise. No one would derive any benefit should the London discussions disintegrate. As the conference had until then been rather unsatisfactory, the strategy of negotiation changed. Rather than in the plenum, now it was Abs himself who debated quite informally possible solutions with the representatives of the most important creditors. First, the focus was on the major foreign loans from the days of the Reich. It made sense to start with them, since the major part of German foreign debt came from the Dawes and the Young Plan. The solutions found in this category of debt could be applied, at least partially, to industrial loans and other liabilities. The answer to the «gold clause» problem served as a model for other issues. Included in the Young Loan of 1930 was a gold clause for insurance purposes, as was the case in many other industrial loans, for instance. The Englishman Sir Otto Niemeyer and the American James Grafton Rogers led the negotiations for the creditors of the Reich loans.

27 Erwiderng der Gläubiger auf das deutsche Angebot (Rogers), May 30, 1952, PA/AA, Abt. II Nr. 1562 (LSA 55)

28 Erklärung des Leiters der deutschen Delegation

Herrn Hermann J. Abs auf die Erwiderng der Gläubiger auf das deutsche Angebot, May 30, 1952, PA/AA, Abt. II Nr. 1562 (LSA 55).

They proposed an offer to Abs, which left the capital untouched and achieved the necessary reduction of the total sum solely by the adjustment of interest. They distinguished between current interest for the future and accumulated interest from earlier years. The creditors suggested lowering the current interest from 7 to 5 per cent for the Dawes Loan, and from 5.5 to 4.5 per cent for the Young Loan. The outstanding interest was to be consolidated, capitalized with an interest rate yet to be agreed upon, and paid back after several years at a rate of 1 per cent. One third of the outstanding interest with a shadow quote was to be put off until a German reunification.

Abs accepted this proposal in principle, even though it was significantly more expensive than the German offer and structured in an entirely different manner. For the creditors, a cut in capital was out of the question. Abs acknowledged this; but as for the interest rate, the last word was not yet spoken. Abs was cautiously optimistic that they could reach an agreement on this basis if they could solve the problem of the gold clause. Since 1933, America had not signed treaties with a gold clause. The Young Loan had one, though, as a protective measure against losses in currency, which was valid equally for periods of peace and war. In the 1920s and the 1930s, nearly all international currencies had decreased considerably in value, with the exception of the US Dollar and the Swiss Franc.

At the pre-conference, the participants already discussed whether the gold clause should be replaced by a Dollar clause, which meant a loss of 30–40 per cent. Many creditors felt that this was a satisfactory response to the German demand to take into account the loss of territory. In November 1951, the TCGD had already internally agreed to implement the gold clause. This resulted in a certain disadvantage for the American loan issuers, as they would be reimbursed only at face value. All other creditor groups were notably revalued – with the exception of the Swiss. Rogers made it unmistakably clear that the American creditors felt that this approach was discriminating and they rejected it categorically. Once more, the talks threatened to fall apart. But this time, it was not because of the German debtors, but because the creditors were squabbling amongst themselves. In the question of the gold clause, the parties had reached a stalemate. With no amelioration for the claims of the American loan creditors, there would be no debt settlement at all. Only after a long back and forth, it was agreed that the American creditors should receive a moderately higher interest rate.²⁹

The head of the German delegation, Abs, could live quite happily with the arrangements made in Panel A – even though they were a far cry from the original German propositions for the liquidation of old debt from the Reich. Nor had the

29 P.F. Schaffner, *Die Regelung der verbrieften Auslandsschulden des Deutschen Reiches innerhalb des Londoner Schuldenabkommens – ein taugli-*

ches Modell zur Bereinigung gouvernementaler Auslandsschulden?, Diss. Würzburg 1987, 17–59.

creditors met the Germans halfway on the fixation of the interest rates, as the delegates from the Federal Republic had hoped. In the end, the modest reduction of the current interest, as suggested by the creditors, was maintained. The outstanding interest from the years 1945 until 1949 was postponed and subjected to a shadow quote. Not until a future reunification would the Federal Republic issue new debt securities with a duration of twenty years at 3 per cent interest. When this became a reality in 1990, the outstanding commitments amounted to an easier manageable 250 million DM. The very last payment was due on 3 October 2010.

In London, Hermann J. Abs had only one goal: at the end of the negotiations, there had to be a working debt agreement, even if Germany had to make concessions. In contrast to some members of his delegation, the financier Abs always saw the big picture. Only by regulating foreign liabilities would the Federal Republic be able to access the international capital market, absolutely vital for its economic development and recovery. Under the circumstances of 1952, a better result could not have been achieved – even if the critical voices in Germany did not want to accept this. The influential daily *Frankfurter Allgemeine Zeitung* went so far as to speak of a victory of the foreign creditors, whose original expectations had allegedly been exceeded.

In Panel B, discussions centred on the fixation of interest rates and the duration of defaulting industrial loans. Initially, after they had accepted the Dollar clause, the creditors of German industrial loans were not at all prepared to make compromises with their debtor. They argued not incorrectly that the German industry was recovering rapidly. Abs countered by indicating the losses incurred by the currency reform, heavy taxation and other charges. After long debates, the creditors waived a third of the incurred interest. The other two thirds were added onto the existing capital. The current interest was reduced, until its final deadline, to three quarters of the original contractually agreed interest, with a margin between 6 and 4 per cent. The duration extended to at least ten years, and to a maximum of twenty-five in exceptional cases. Just as with the loans from the former Reich, repayment would commence after a period of five years.

Negotiations in Panel D were more complicated. There, debt obligations from the movement of goods, services and private capital were treated with a variety of other, highly heterogeneous demands. Altogether, the claims amounted to 1.2 billion DM. Because of the tremendous number of debt obligations, it was impossible to reach an agreement on a lowering of interest rates. But a gradation of payment deadlines was arranged, with a duration from ten to seventeen years. Discussions in Panel C were professional and relaxed. Long before the conference, the question of standstill debt had already been settled. The US had opposed an earlier treatment of this debt category, even though this would have made sense economically. At the end of July 1952, the informal negotiations in all four panels were complete. The TCGD had hardly become involved in the discussions at all. A final report brought

together the recommendations agreed upon in the panels, along with mandatory guidelines.³⁰

3. The Agreement

Before the London Conference, all three Allied powers had decided to outline the rules set out in the Panels A-D, as well as the bilateral treaties on the settlement of post-war debt, in an international agreement. This was to guarantee German commitment to the repayment of debt. Creditors from states which did not sign the London Debt Agreement were not entitled to any form of reimbursement. A committee of the TCGD established especially for this purpose worked out a specific agreement. At a later date, the members of the German delegation would be asked for their views and their input. It was not intended that other creditor nations should participate in this particular process. However, key creditors such as Switzerland, the Netherlands, Belgium and Sweden were to be informed of developments on a regular basis. Only the parliaments of the occupying forces and Germany were to participate as part of the ratification procedures. The debt agreement was supposed to come into force, once signed, without major delay. The international agreement was based on the final report of the main conference, and comprised three sections: a historical review, the arrangements made in the Panels A-D, as well as a range of general recommendations for the practical implementation of the debt settlement.

One important aspect from the German point of view was a safeguard for money transfers. Based on their experiences of the 1920s, Germany insisted on a clause for the safeguard of transfers in order to pre-empt difficulties in the transfer of sums beyond its control. The deciding factor was not to be the capacities of the individual debtors to provide funds, but instead the capability of the Federal Republic to transfer money abroad. Since the young nation hardly held any currency reserves, Germany additionally stated that only money from trade surplus could be transferred. The creditors, it was hoped, would strengthen the German position in international currency exchange by liberalising their trade policies. Credit-based financing, as practised in the 1920s, was out of the question.³¹

Only with serious effort, and against the resistance of the TCGD, did Germany manage to include a clause for the safeguard of transfers in the final report. The TCGD was, as a point of principle, against so-called escape clauses. At the last session of the conference on 8 August 1952, Abs mentioned once more very clearly that his country could only fulfil the contractual debt obligations if no further demands were made upon Germany by other powers. He was referring to reparation claims.

30 Berichte der Konferenz über Deutsche Auslandsschulden, London, Februar-August 1952, Aug. 8, 1952.

31 Proposals with regard to the Final Report of the

German Debt Conference and the Intergovernmental Agreement, U.K. Draft, July 4, 1952, PRO, FO 371-1000087.

Abs regarded this condition as indispensable for the international agreement. He was, nonetheless, generally content with the result of the London negotiations, in spite of certain concessions from the German side. His focus was not so much on the total sum of the liabilities, but on the extension of the payment deadlines and the reduction of interest.

Following the arrangements of the main conference, for the five years after the settlement was signed, the Federal Republic would be required to pay an annual sum of 576 million DM. After this period, the amount would increase to 750 million DM. After those five years, 391 million resp. 550 million DM of the total sum would be guaranteed by the German government. The remainder was made up of private pre-war debt. The reimbursement began, strictly speaking, five years after the agreement came into effect, i.e. in 1958.

Abs was very happy that the original German pre-war debt of 13.5 billion DM – without the gold factor, 9.6 billion DM – had been reduced to 7.3 billion. This was equivalent to a reduction of 46 per cent. Not adding in the gold factor, it still amounted to 25 per cent. The debt settlement was reached not by means of a cut of capital, but by the reduction and consolidation of outstanding interest, the decrease of current interest rates, the waiver of compound interest, and the extension of payment deadlines. Abs felt certain that the agreement was practicable. With this assessment, courageous at the time, he was to be proven right. Even though negotiations came to take place in a friendly and cooperative atmosphere, we must not forget that the Federal Republic was significantly handicapped in its independent course of action, since its sovereignty as a state was still very limited. The London Debt Agreement was a vital step for Germany to reacquire its sovereignty.

In mid-September 1952, talks on an international agreement began in London. These were considerably more complicated and took far longer than originally expected. The German representatives were not happy with several points in the draft proposed by the TCGD. For instance, the TCGD was vehemently opposed to the inclusion of a transfer safeguard clause in the treaty. Instead, there was to be a vague clause on possible consultation, which was decidedly not enough for the German side.³² Drawing on their lessons from history, it is understandable that the Germans wanted to insure themselves against any payment difficulties in future, especially if these were subject to factors beyond their control.

After controversial discussions, the parties reached a compromise. It was agreed that the consultation clause in the treaty would refer specifically to the transfer clause in the final report, thus ensuring a safeguard for future financial transactions. In addition, it was granted that in case of a default, a panel of international experts

32 Niederschrift über die Besprechung von Transferfrage, Oct. 9, 1952, PA/AA, Abt. II Nr. 1606 (LSA 96).

would be called upon to find a solution. The most difficult aspect of these talks, however, were the differences on Article V, which concerned claims not covered by the Debt Agreement. Generally speaking, this involved reparation payments in the widest sense. Demands of this kind, such as the clearing of debts incurred in the territories occupied during the war, had not been discussed at the London conference. Both the TCGD and the German delegation agreed that this was the way it should remain. Abs had repeatedly made the point that debt and reparation payments were two different issues and essentially irreconcilable.

In mid-January 1953, talks on the international agreement were resumed. Before Christmas, the TCGD had sent their draft of the treaty to more than 60 creditor nations asking for comments. Only few countries made use of this offer, however. The TCGD invited the creditor nations of Switzerland, Sweden, Belgium, the Netherlands, Canada, Denmark, Norway, Yugoslavia and Italy to London for a «minor international conference», as it was called. The idea was to keep the debate as brief as possible, which gave the impression of a token event. The arrangements for German pre-war debt had already been made beforehand by an exclusive circle representing British and American creditors. This was an opportunity for the delegates from smaller creditor nations to speak, since previously, they had hardly had any opportunity.

The organisers of this smaller conference did not anticipate a major need for discussion. But they were proven wrong, since the Netherlands expressed grave doubts on Article V of the international agreement. Paragraph two of Article V stated that all claims resulting from the Second World War should be deferred until a final settlement of the reparation payments. In essence, this meant that all related claims – including clearing debt – would be shelved until a final peace treaty.³³ The Dutch delegates were concerned that the Debt Agreement should be restricted to monetary questions. Political problems of this dimension had no place in a purely financial settlement.³⁴ In spite of strong criticism from the Dutch side, the TCGD was not prepared to change Article V. Consequently, the Dutch delegates refused to ratify it. Not until many years later did the Netherlands join the agreement in order to obtain reimbursement for their creditors.³⁵

Article V Paragraph 2 of the London Debt Agreement remained in the public focus even after the papers were signed. Abs in particular insisted that Article V was a protective measure against reparation claims of any kind, and should not be

33 R.M. Buxbaum, «The London Debt Agreement of 1953 and Its Consequences», in: P. Hay (ed.), *Balancing of Interests*, Frankfurt a.M. 2005, 67–72.

34 Vermerk über die Sitzung mit den neun eingeladenen Regierungen, Feb. 4, 1953, BA, B 146–1207.

35 U. Rombeck-Jaschinski, «Schuld oder Schulden?

Die niederländischen Entschädigungsansprüche an die Bundesrepublik Deutschland 1950–1960», in: V. Ackermann / B.A. Rusinek / F. Wiesemann (ed.), *Anknüpfungen*, Essen 1995, 352–362.

modified. No one should be allowed to sabotage the fulfilment of the obligations in the settlement. On 27 February 1953, the London Debt Agreement was signed at Londonderry House by 21 states. Seventy Western or neutral countries had been originally invited. But the option remained to join the agreement at a later date. Several nations, such as the Netherlands, Austria, Israel, Argentina, Australia, etc. made use of this option in later years, since this was the only chance for creditors from these countries to redeem their claims.³⁶

The London Debt Agreement was a large-scale project to regulate German foreign debt. The final document contained 38 articles. The final report from the conference was added to this, as well as the arrangements from the panels A-D along with other relevant information. These included bilateral contracts regulating post-war obligations to the Allied powers.³⁷ The settlement came into effect once France, Great Britain, the US and Germany had placed the ratification treaty in the hands of the British government. While the ratification process ran smoothly in France, Great Britain and Germany, with the exception of minor hitches, it was the US, of all participating countries, which encountered serious difficulties at the last minute. The Democratic Senator Guy Gilette from Iowa and his party friends denied the federal government the right to renounce German expenses from post-war aid, amounting to 2 billion Dollars, at the expense of the American taxpayer. Gilette's intention was to help private investors to get their dues, who had bought loans from the Reich in the pre-war period at their own personal risk. Arguably, this money even helped the National Socialists rise to power. This allegation had already been used in the 1940s by British socialists. As the name «Morgenthau» was mentioned more than once, certain US senators gave the impression of still being stuck in the year 1945. It was common knowledge that former Minister of Finance Henry Morgenthau stood for a policy of revenge against the former enemy, Germany. The country was to be permanently crippled, both financially and industrially. To be sure, Morgenthau's policy, if put into practice, would have driven Germany into the arms of the Soviets. The Republican senator Alexander Wiley from Wisconsin, President of the Committee on Foreign Relations, brought these arguments forward. He advocated a prompt ratification of the London Debt Agreement, which he defended against vicious criticism from Senator Gilette. The contributions of Senator Gilette and his supporters testify to a grave ignorance of the political and economic situation in Europe.

The proponents of the Debt Agreement, on the other hand, based their arguments on the current state of world affairs, and the geo-strategic interests of the United States. In this context, Germany, as a front-line state against the Eastern bloc,

36 Liste der an den internationalen Abkommen zur Regelung der deutschen Vorkriegsschulden zu beteiligenden Staaten, Oct. 8, 1952, PA/AA, Abt. II Nr. 1510 (LSA 6).

37 Abkommen über Deutsche Auslandsschulden, London, Feb. 27, 1953.

was of crucial importance. It was in the interest of the defence of the entire Western world that Germany should be given all possible support for economic reconstruction. In contrast to the arguments of Senator Gilette, Senator Alexander Wiley felt strongly that the burden resulting from the German financial collapse after the war should be distributed evenly onto the shoulders of a large number of taxpayers, rather than making individual pre-war creditors suffer. Allowing a serious reduction of the private pre-war debt would mean that German credit standing, i.e. German access to the international capital market, could not be restored. If the Federal Republic had no means to cover its own expenses in the near future, the US would have to continue to pump huge funds into the German economy. This was a political necessity against the backdrop of the Cold War. The American state would have to provide for this financial aid, so the American taxpayer would have to bear a much heavier burden in this scenario than if German post-war debt were reduced.

It appears that Senator Wiley's arguments proved to be more convincing, on the whole. 46 senators voted for the ratification, while only 16 voted against it. However, 39 senators abstained.³⁸ Once the three occupying powers and the Federal Republic had concluded their ratification procedures, the London Debt Agreement came into effect on 16 September 1953.

4. Further Developments

The implementation of the debt agreement ran much more smoothly than expected. The financial concerns that had been nervously anticipated did not materialise. From the mid-1950s on, the German balance of payment evolved very positively indeed. The London Debt Agreement strengthened the German borrowing capacity significantly. Fresh capital flowed into the country at low interest rates, which benefited the German economy immensely. The standstill debts were liquidated by late 1954; and by 1960, more than a third of the pre-war debt was repaid as well. The post-war obligations were redeemed by 1966. In the light of this positive development, German critics of the agreement fell increasingly silent. The «victory of foreign creditors»,³⁹ which the influential *Frankfurter Allgemeine Zeitung* had trumpeted in August 1952, proved to be, in fact, a windfall for Germany. Now, quite the contrary to what the *FAZ* had claimed, voices were heard abroad demanding a revision of a settlement that was supposedly too advantageous for the German side. Over the next few decades, the London Debt Agreement disappeared from public awareness in Germany, because the Federal Republic developed into one of the most stable economies in the world, and a debt crisis seemed a very remote danger. In the end, only financial experts remembered it. Hermann J. Abs regarded the fact that the regulation of German foreign debt took place so seamlessly and silently as his

38 Congressional Record, Senate, July 13, 1953, 8927–8945, NA, RG 43–219.

39 *Frankfurter Allgemeine Zeitung*, Aug. 1, 1952.

personal achievement as a negotiator – and he was right. It was a decided improvement over the extensive public unrest about the reparations payments after the First World War.⁴⁰

Since the 1990s, the almost-forgotten agreement has been brought to public attention in Germany once more. The last segment of debt, which had been postponed at the signing of the Debt Agreement in 1953, was due at the reunification of the two German states. These were arrears of interest from the post-war period (*Schattenquote*), which had to be paid within twenty years. Thus, after decades, the London Debt Agreement made the headlines once more, and attracted considerable public attention.

NGOs such as *Germanwatch* and *erlassjahr.de* hailed the London Debt Agreement as a model for solving current debt crises. Back in the 1990s, the focus was on the debt crises of the Third World. Religious and secular *One-World-Initiatives* called on the German government and private banks to remit the larger part of their financial claims in developing countries. The funds originally designated for the repayment of debt could then be used to strengthen the individual countries' economy, for education, and to combat the misery and poverty of their populations.

In their arguments, the proponents of a debt cut for the Third World habitually refer to the fact that in the early 1950s, the newly-founded Federal Republic was never required to pay more than 5 per cent of its proceeds from export for the redemption of debt. In contrast, the countries of the Third World are obliged to invest 20–30 per cent of their export proceeds to repay dubious credit loans, which had been granted them all too easily and with no constructive aims in mind. Thus, the lending countries and institutions of the First World, such as the World Bank and the IMF, were accorded partial responsibility for the severe indebtedness of the developing countries. At the same time, this would justify and enable a remission of debt, if only there was serious political intention to do so.⁴¹

For the sixtieth anniversary of the London Debt Agreement in 2013, many publications of well-meaning debt critics appeared, both in the press and online, calling for fairer financial relations between the wealthy countries of the North and the poorer ones of the South.⁴² One of the figures who inspired these articles was Jürgen Kaiser, the political coordinator of the network *schuldenerlass.de*. For more than a decade now, Kaiser praised the «extraordinarily humane conditions» of the London

40 H.J. Abs, *Entscheidungen 1949–1953. Die Entstehung des Londoner Schuldenabkommens*, Mainz 1991, 251–273.

41 W. Eberlei, *Von Abs lernen. Schuldenerlaß: Vorbildliches Modell aus Deutschland*, Frankfurt a.M. 1993; Rat der Evangelischen Kirche und Deutsche Bischofskonferenz (ed.), «Internationale Verschuldung – eine ethische Herausforderung». Gemein-

sames Wort des Rates der Evangelischen Kirche in Deutschland und der Deutschen Bischofskonferenz 1998, <http://www.ekd.de-Texte/2064-verschuldung.1998>.

42 Bistum Trier, *Schuldenerlass für Deutschland feiert Jubiläum*, Feb. 27, 2013, <http://www.bistum-trier.de/news-details-tab/pressediens>.

Agreement as an example for debt relief in the Southern nations; and also as a counter-model to the «conduct of the Parisian Club». His anniversary essay, offered on the internet as a free download, contains a range of material for the organization of campaigns. Apart from posters and flyers, there is even information for church services.⁴³

Kaiser's writings are published in English as well as in German. The federation *erlassjahr.de-Entwicklung braucht Entschuldung* [Development Needs Debt Relief] combines roughly 700 organisations, including regional churches and dioceses. The federation *erlassjahr.de* is part of a world-wide network of over 50 similar campaigns and unions. Critics have met the arguments of Kaiser and his fellow campaigners with a degree of scepticism. Certain renowned economists have estimated that the Highly Indebted Poor Countries (HIPC) receive transfers from international organisations which are higher than the sums those countries invest in debt redemption. Besides, the critics claim, one cannot simply compare the indebtedness in the Third World with German foreign debt after the Second World War. In contrast to developing countries, Germany was an important industrial nation already before the war, which was absolutely indispensable for the world economy, and, more specifically, for the economic recovery of Europe. It was therefore in the interest of all European states that Germany should once more be able to assume its role as the motor of the European economy. In the strategic considerations of the US at the time, Germany occupied a key position. In the 1950s, German economic power had to be rebuilt as quickly as possible, because without a strong Germany, it would be impossible to defend Western Europe against the Communist Eastern bloc. Due to its strategic relevance, Germany held a rather strong negotiating position, in spite of its temporary weakness. The countries of the Third and Fourth World are in an entirely different situation, standing in no comparison to the situation of the Federal Republic in the 1950s. In terms of global politics or world economy, they are not in a position of similar significance.⁴⁴

It is also problematic to ascribe «extraordinarily humane conditions» to the London Debt Agreement. «London 1953» was no more and no less than a rational, realistic balancing of interests between German debtors and international creditors. It had nothing at all to do with starry-eyed idealism. The suggestion occasionally made by the *One-World*-activists, that developing countries should be exempt from repaying so-called «odious debts» in their entirety, stands in no connection whatsoever to the purpose and content of the London Debt Agreement.

43 J. Kaiser, «60 Jahre Londoner schuldenabkommen. Hintergründe und Aktionen zum Jubiläum, *erlassjahr.de* (2013)», <http://www.erlassjahr.de/material-und-publikationen/arbeitshilfen>.

44 T. W. Guinnane, «Financial *Vergangenheitsbewältigung*: The 1953 London Debt Agreement», Eco-

nomic Growth Center Discussion Paper No. 880. Economic Growth Center Yale University (New Haven, 2004, revised July 2015), 26–28, <http://www.econ.yale.edu/-egcenter/resaerch.htm>.

The Agreement was not only offered as a model for the debt problem in the developing world, but also, on more than one occasion, for the governmental debt crises which have been occurring more and more frequently since the 1980s.⁴⁵ This was especially true for the debt crisis caused by the collapse of the Lehman Brothers in September 2008. Since 2010, some Euro-currency-countries such as Ireland, Portugal, Spain and Greece were sucked into the maelstrom as well. In spite of financial aid from other Euro-nations, Greece was on the brink of financial ruin in 2011. The relief packages for Greece were, however, always tied to strict conditions to implement structural reforms. For the Greek population, this brought serious hardship. In the negotiations with the nations in crisis, Chancellor Angela Merkel and Finance Minister Wolfgang Schäuble showed no willingness to compromise, and demanded incisive reforms as a precondition for further aid. *Erlassjahr.de* and other debt initiatives criticised the strict policy of the German government. They asked the German government to remember the lessons learned from the London Debt Agreement, and to cancel a significant portion of the Greek debt in closely-supervised insolvency proceedings.⁴⁶

The activist Eric Toussaint from the Belgian network CADTM (Comité pour l'Annulation de la Dette du Tiers Monde) contrasted the advantageous conditions for Germany in the London Agreement of 1953 with the debt relief for Greece in March 2012, which was, in his view, entirely insufficient, unjust and socially damaging. Toussaint argued that contrary to the London Agreement, the economic and social conditions of the debt plan for Greece made no contribution whatsoever to the economic recovery of the country.⁴⁷ The uncompromising attitude of the German government was criticised in the foreign press as well.⁴⁸ In this context, it was often mentioned that the Federal Republic had been relieved of a substantial portion of its debt in the Agreement of 1953. Greece had been one of the signatories in that year. One should take into account that the Federal Republic settled its debts in full. There was no capital reduction (haircut), which the creditors rejected on point of principle. The total debt was reduced exclusively by modifying interest rates and loan periods.

Economic historian Albrecht Ritschl criticised «the brevity of Germany's collective memory. For during most of the twentieth century, the situation was radically different: after the First World War and again after the Second World War, Germany

45 F.Hütz-Adams, «Argentinien in der Schuldenkrise. Alles schon mal dagewesen: Die Entschuldung Westdeutschlands durch das Londoner Schuldenabkommen», 2003, http://members.aon.at/goedheinz/GOD_Deutsch/Archiv/Krieg.

46 *Deutsche Welle*, Sept. 22, 2011, <http://www.dw.de/als-griechenland-deutsche-schulden-halbierte/>.

47 E.Toussaint, «Griechenland – Deutschland: Wer

schuldet wem? Zum Londoner Schulden-Abkommen von 1953», Oct. 12, 2012, <http://www.juergen-klute.eu/de/article476>.

48 *The Telegraph*, Feb. 12, 2012, «Germany's Carthaginian terms for Greece».

was the world's largest debtor, and in both cases owed its economic recovery to large-scale debt relief». ⁴⁹ Ritschel contended that «Germany's resurgence has only been possible through waiving extensive debt payments and stopping reparations to its World War II victims. [...] The German Bankruptcies in the last century show the sensible thing to do now would be to have a real reduction of the debt». ⁵⁰ Ritschl called on the German government to remember its history, and to do so quickly. For Greece, he recommended a combination of debt reduction and reconstruction aid similar to the Marshall Plan. ⁵¹ While on an international level the responses to Ritschl's theses were usually positive, this was not the case in Germany itself. The influential economist Hans-Werner Sinn contradicted Ritschl in severe terms. Both professors embarked on a serious controversy. ⁵² Sinn defended the staunch position of the German government in the European debt crisis. In his view, there was no alternative. A bailout is illegal by the terms of the Treaty of Maastricht, argued Sinn, and it made no sense economically, since this would undermine the central principles of stability in the European community. Sinn viewed Ritschl's criticism of current German policy as unfair, because Germany was already bearing the heaviest financial burden of the crisis. ⁵³

The Institute of German Economy in Cologne also criticised the demand to grant Greece a large-scale remittance of debt, following the example of London 1953, so as to provide relief for the country and its population. Relief would be nothing more than an illusion, claimed the Institute, since state bankruptcy and restructuring of debt was always a path of trial and tribulation, which would have negative consequences not only for Greece itself, but also for the other European nations, whether they were in crisis or not. ⁵⁴ In contrast to the Federal Republic of 1953, Greece no longer had its sovereign currency, but was part of the Eurozone. This ruled out the option of defusing its debt crisis by means of an inflationary policy, or by dealing in foreign currency. The traditional division between domestic and foreign markets no longer exist in Europe, so that the crisis of one country always affects the entire community. It is the worst case scenario as it even causes a domino-effect.

In taking the London Debt Agreement of 1953 as a model for contemporary financial crises, one should consider the different political circumstances in each country. Unfortunately, this does not always happen. In the 1950s, the German state was intact and functional, and no longer depended on foreign aid like in the imme-

49 *The Guardian*, Jun 21, 2011, «Germany owes Greece a debt».

50 *Spiegel online*, Jun 21, 2011, «Germany Was Biggest Debt Transgressor of the 20th Century».

51 *The Economist*, Jun 15, 2012, «Germany, Greece and the Marshall Plan».

52 *The Economist*, Jun 21, 2012, «Germany, Greece and the Marshall Plan, a riposte».

53 *The New York Times*, Jun 12, 2012, «Why Berlin is Balking on a bailout».

54 J. Matthes, *Staatsbankrotte und Umschuldungen: Missverständnisse und Fehleinschätzungen prägen das Bild*, Köln 2012, 2–7.

diate post-war years. The regulation of German foreign debt following the terms of the London Debt Agreement served, first and foremost, to re-establish German credit worthiness. The situation in present-day Greece is entirely different. The comprehensive financial aid and debt relief given so far were not sufficient to put Greece back on its feet. Further structural reforms are necessary to make the Greek state and its banking system fit for future challenges. A one-sided haircut would not only make for political difficulties, but is also highly questionable when looking to the economic future of the country.⁵⁵ State bankruptcy or the restructuring of debt have had long-term consequences in every case, and they must be taken into account. The important question is when and under what conditions the country affected by the «haircut» can receive fresh credit on the international financial market once its crisis is over. International investors have a long memory, as Herman J. Abs already mentioned during the debates for the Agreement of 1953. The more extensive the so-called «haircut», the longer it takes for investments to trickle back into the respective country.

On the sixtieth anniversary of the Agreement in February 2013, debate flared up once more as to whether it could serve as an example for the current debt crisis. Together with *erlassjahr.de*, the Friedrich-Ebert-Foundation, which is close to the SPD, published an essay by Jürgen Kaiser. It sketched an outline of the London Debt Agreement and presented it *expressis verbis* as a solution for contemporary debt crises. The Agreement is not a blueprint for situations today, Kaiser argued, but certainly contains elements which could be useful as answers for current and future economic predicaments. For instance, the overriding goal of the London Agreement was to rebuild the German economy. As the main creditor, the US ensured that this goal was achieved by means of a legally binding arrangement. A whole range of German obligations from the pre- and post-war periods were discussed and resolved. Both the debtor and the creditors were obliged, by necessity, to come to an agreement. The Tripartite Commission on German Debt exerted the necessary pressure. Thanks to the Agreement, Germany was able to repay her debt with surplus from trade. The treaty foresaw a court of arbitration in case of conflict.⁵⁶

Kaiser sees these elements as exemplary for future regulations. In a number of radio broadcasts⁵⁷ and internet blogs,⁵⁸ the Debt Agreement was honoured not only as a cornerstone of the post-war «economic miracle» in Germany, but also recom-

55 Guinnane, «Financial Vergangenheitsbewältigung», 28–29.

56 J. Kaiser, *One Made it Out of the Debt Trap. Lessons from the London Debt Agreement of 1953 for Current Debt Crises*, Bonn, 2013, 21–22.

57 *Deutsche Welle*, Feb. 27, 2013, <http://www.dw.de/ohne-schuldenerlass-keinwirtschaftswunder>; *Deutschlandfunk*, Feb 27, 2013, <http://www.deutschlandfunk.de/als-deutschland-viel-kredit-genoss>.

58 *Another Way 2Look@Greece*, <http://anotherway-lookatgreece.de/2013/02/the-wirtschaftswunder.html>; *Patje.de*, Feb 27, 2013, «Londoner Schuldenabkommen – 60 Jahre alt und dennoch ein Vorbild?», <http://www.patje.de/2013/02/Londoner-Schuldenabkommen-60-jahre>.

mended as a basis to overcome current debt crises. This suggestion was usually combined with more or less virulent criticism of the German government for its questionable moral stance towards Greece. Individual elements of the agreement, such as arbitration, could possibly make a useful contribution to current debt crises. In general terms, however, the London Debt Agreement is no model solution for present debt crises. The political and economic situation of the German Federal Republic in 1953 is in no way comparable to the current situation in Greece or other nations in crisis. The debt relief granted to Germany back then was not driven by generosity or moral reasons, but by rational calculation. It was in the economic, political and military interests of the creditor states that Germany should regain its economic strength.

In the foreign press, the call to remember the London Agreement often went hand in hand with attacks of varying degrees of severity on Chancellor Angela Merkel. Time and time again, it was emphasised that the Federal Republic was required only to invest a modest percentage of its budget for the liquidation of debt, whereas the present-day debtor nations, especially Greece, were aching under the financial strain imposed upon them.⁵⁹ The British Labour MP Michael Meacher used the Agreement of 1953 for a vicious attack on Merkel, accusing her policy of austerity «of undermining the European project, impoverishing Germany's neighbours (and export markets), and risking another worldwide economic downturn».⁶⁰ Greece called for a debt conference along the lines of London 1953 over and over again. The left-wing populist politician Alexis Tsipras toured Europe and the US with exactly this demand.⁶¹ In the end, he was unsuccessful, for the German government opposed any efforts in this direction, no matter from which side they came. In December 2013, former chancellor Helmut Schmidt also proposed an EU debt conference based on the London Agreement of 1953.⁶²

In Germany, the payments to Greece and various haircuts during the crisis were hotly debated and frequently opposed, at least in the public opinion. In Greece, on the other hand, the prevalent view was that the payments were rather low and, considering certain scores to settle from the Second World War, even insufficient. In April 1941, the German Wehrmacht invaded and occupied Greece. The occupation regime exploited the country economically. At the Reparations Conference in Paris in 1946, Greece was granted restitution payments, which were not adequate, however, from the Greek perspective. Aside from the material damage, there was a large

59 *The Guardian*, Feb 27, 2013, «Greece and Spain helped post-war Germany recover. Spot the difference».

60 M. Meacher, MP, «Why do we pick on the Greeks rather than the Germans?», Feb 7, 2014, <http://www.michaelmeacher.info/weblog/2014/02/why-do-we-pick>.

61 *The New York Times*, Jan 25, 2013.

62 *FN FinanzNachrichten.de*, <http://www.finanznachrichten.de/nachrichten-2013-12/28967063-helmut-schmidt-schlaegt-eu-schuldenkonferenz-vor-003.htm>.

number of victims of specific acts of retribution from the German occupying army. In a bilateral agreement from 1960, the German government paid 115 million DM for the victims of National Socialism and the bereaved. This was now, and at the time, considered not to be enough. In Article V Paragraph 2 of the London Debt Agreement of 1953, all reparations and similar compensation was deferred until a final settlement, by which was meant a peace treaty.

Instead of a peace treaty, however, the Two-Plus-Four Agreement came into being upon German reunification in 1990. With this, from the German perspective, the question of reparations was seen as solved once and for all, even though this issue was not expressly mentioned in the treaty. In spite of this, Greece has claimed reparations from Germany on several occasions since then. And during the debt crisis, these claims were made once more.⁶³ The Greek government commissioned a panel of experts to go through documents in various Greek archives. The group of experts proclaimed, as a result, that Germany still owed Greece substantial sums for war damage. The numbers varied from 108 and 162 billion Euros.⁶⁴ Notwithstanding strong protests from Greece, the German government was not ready to compromise. Finance Minister Wolfgang Schäuble stated that the case was closed and reparation payments were out of the question. The new government in Greece under Tsipras, in power since January 2015, refuses to accept the German position in the question of wartime reparations. Greece insists on the repayment of a forced loan from the Second World War, which, so the Greek government argues, is not strictly a reparation payment, but a civil credit loan. The chances of ever receiving reimbursement for this loan are slight, since the German position states that with the Two-Plus-Four Treaty, all issues connected with reparations were definitively resolved. The situation is complicated, since in the case of Greece, political, economic, legal and moral questions of a different nature are inextricably intertwined. In an atmosphere of mutual mistrust, it will hardly be possible to come to a lasting agreement acceptable to both parties.

63 *Die Welt*, Sept 17, 2011.

64 *Spiegel Online*, April 7, 2013, <http://www.spiegel.de/wirtschaft/soziales/bericht-deutschland-schuldet>.

ABSTRACT

**From Confrontation to Cooperation:
The London Debt Agreement of 1953 and Later Debt Crises**

The London Debt Agreement of 27 February 1953 managed to solve the complex problem of German foreign debt of the pre- and post-war periods. The initiative for an international debt conference came from the Allies. But Germany also had a vested interest in regulating its debt, so as to be granted access to the global capital market once more. Contrary to all prior concerns, the settlement was finalised without a hitch. Most of the obligations were even paid back ahead of time. Since the 1990s public interest in the Agreement has been reignited. It has been repeatedly proposed as a solution to contemporary debt crises. At first, the London settlement was considered as a potential answer to debt crises in the Third World. One-World activists demanded that the countries in question should be relieved of a large part of their debt in the spirit of London 1953. It is frequently overlooked that the London Agreement did not specify a cut in capital for private pre-war debt, but instead a modification of interest and duration periods. Even in the current debt crisis, which originated in 2010, the London Agreement is frequently cited as a possible solution. The German government is often criticised in the foreign press for its uncompromising attitude on debt relief, especially towards weaker members of the Eurozone, and is called on to remember its recent history. When this happens, however, the special historic circumstances of the 1950s are usually not taken into account. Greece and other debtor countries, as part of the Eurozone, no longer have control over a national currency. The crisis of one country always impacts the community of the Eurozone as a whole. In light of this, it is rather misleading to take the London Agreement as a blueprint for the solution of contemporary debt crises. However, the discussion in the international press continues on whether the London Debt Agreement can serve as a model in the present crisis.

Ursula Rombeck-Jaschinski
Universität Stuttgart
Neuere Geschichte
Keplerstraße 17
D-70174 Stuttgart
Ursula.Jaschinski@hi.uni-stuttgart.de