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The Reparations Settlement and Germany's Peacetime Economy: Statement by the U.S. State Department (Press Release of December 12, 1945)

Issued on December 11, 1945, these U.S. State Department guidelines on the question of German reparations and the future place of the country in the global economy make clear that the United States was interested in Germany's economic revival and did not wish to see a permanent weakening of its economic power, especially not one that would translate into economic advantages to other countries. The deindustrialization of the country was to be limited to areas essential to the military. Up until 1948, the standard of living in Germany was to be kept in line with the average standard of living in Europe at the time and the average standard of living in Germany in the 1930s. Allied economic aid for imports, still essential at that point, would become unnecessary once the German economy boosted its performance and became capable of exporting goods again.

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3. The security interest of the United States and its Allies requires the destruction in Germany of such industrial capital equipment as cannot be removed as reparation and as can only be used for the production of armaments or of metallurgical, machinery, or chemical products in excess of the peacetime needs of the German economy. It is not, however, the intention of the United States wantonly to destroy German structures and installations which can readily be used for permitted peacetime industrial activities or for temporary shelter. It will evidently be necessary to destroy specialized installations and structures used in shipbuilding, aircraft, armaments, explosives, and certain chemicals which cannot be removed as reparation. Non-specialized installations and structures in the same fields may have to be destroyed in substantial part, if not desired as reparation, in cases of integrated industrial complexes the layout of which is such as substantially to facilitate reconversion from peacetime to war purposes at some later date. Finally, in removing equipment from plants declared available for reparation, no consideration should be given to withholding portions of the equipment desired by a reparation recipient in order to retain remaining installations and structures in more effective condition for peacetime uses. Within these limits, however, the reparation and security policies of the United States are not designed to result in punitive destruction of capital equipment of value to the German peacetime economy.

4. For the purpose of determining the industrial capacity of the peacetime German economy, thus eliminating its war potential—the real basis on which the amount and character of

reparation removals are to be calculated—it should be assumed that the geographical limits of Germany are those in conformity with provisions of the Berlin Declaration, i.e. those of the Altreich, less the territory east of the Oder–Neisse line.

5. The Berlin Declaration furnishes as a guide to removals of industrial equipment as reparation the concept of a balanced peacetime German economy capable of providing the German people with a standard of living not in excess of the European average (excluding the United Kingdom and the Union of Soviet Socialist Republics). In the view of the Department of State the Berlin Declaration is not intended to force a reduction in German living standards except as such reduction is required to enable Germany to meet her reparation payments. In effect, the Berlin Declaration merely provides that Germany's obligation to make reparation for the war damage which her aggression caused to other countries should not be reduced in order to enable Germany to maintain a standard of living above the European average. The Department of State further interprets the standard-of-living criterion to refer to the year immediately following the two-year period of reparation removals. For the purpose of meeting this requirement, German industrial capacity after reparation removals should be physically capable of producing a standard of living equivalent to the European average in, say, 1948. Given the difficult problems of administration and economic organization which the German peacetime economy will still face in 1948, it may be doubted that industrial equipment remaining in Germany at that time will in fact produce at full capacity, so that the standard of living realized in Germany is likely for some time to fall short of the European average.

6. It may be assumed that the European standard of living in 1948 would approximate the average standard of living over the period 1930–38. If this assumption be adopted, the German standard of living chosen as a basis for estimating industrial capital equipment to remain in Germany could be arrived at by use of German consumption data in a year in which the German standard of living as measured by national income indices most closely approximated the 1930–38 average in Europe. The German consumption standard in the year selected should be subject to adjustments upward or downward to compensate for any over-all difference between the German standard in the year selected and the European average. Past consumption records defined as suggested above are meant only as a general guide. They would require the following further adjustments:

(a) Provision for change in population between the year selected and 1948.

(b) Adjustment to allow for notable deviations in pattern of German consumption in selected year from normal pattern.

(c) Allowance to enable the German people to make good, at reasonable rates of reconstruction, the widespread damage to buildings in Germany and to the transport system as scaled down to meet the requirements of the German peacetime economy. It is suggested that sufficient additional resources beyond those required to provide the adjusted output of the

selected year should be left to overcome the building shortage in twenty years and to effect repairs to structures on rail and road transport systems over five years.

(d) Sufficient resources should be left to Germany to enable that country, after completion of industrial removals and reactivation of remaining resources, to exist without external assistance. This topic is more fully treated below.

7. In planning the peacetime German economy, the interests of the United States are confined to the industrial disarmament of Germany and to the provision of a balanced economic position at the standard of living indicated. The United States does not seek to eliminate or weaken German industries of a peaceful character, in which Germany has produced effectively for world markets, for the purpose of protecting American markets from German goods, aiding American exports, or for any other selfish advantage. Similarly the United States is opposed to the attempt of any other country to use the industrial disarmament plan of the Berlin Declaration to its own commercial ends at the expense of a peacetime German economy. It is our desire to see Germany's economy geared to a world system and not an autarchical system.

8. In determining the volume of removals for reparation purposes, the United States should not approve removals on such a scale that Germany would be unable, owing to a shortage of capital equipment, to export goods in sufficient quantities to pay for essential imports. Thus capacity should be left to enable Germany to produce for export goods which yield enough foreign exchange to pay for the imports required for a standard of living equal to the average in Europe, excluding the United Kingdom and the Union of Soviet Socialist Republics. In this connection, the following points should be stressed:

(a) In determining the amount of capital equipment to be retained in Germany, provision need be made for capacity to produce exports sufficient to pay for estimated current imports. No allowance should be made in German export industry to provide capacity to pay for externally incurred occupation costs, including imports of goods consumed by forces of occupation, and troop pay not expended in Germany.

(b) The provision in the Berlin Declaration which stipulates that in organizing the German economy 'primary emphasis shall be given to the development of agricultural and peaceful domestic industries' requires that the maximum possible provision be made for exports from sources other than the metal, machinery, and chemical industries.

(c) It is implicitly recognized in the Berlin Declaration that the policy of industrial capital-equipment removals and the restriction of exports in the fields of metals, machinery, and chemicals will require countries which have previously depended on Germany as a source of these products to obtain them elsewhere. Since capacity in the metal, machinery, and chemical industries in excess of German peacetime needs is to be transferred to countries entitled to receive reparation from Germany, it is expected that the industrial capacity lost in Germany will after an interval be recovered in large part elsewhere in the world, and for the most part in

Europe. But it should be borne in mind that the industry removed from Germany will in the main replace industry destroyed by the Germans and will not be sufficient to meet the pre-war demand. It should be emphasized, however, that any effort toward industrial recovery in Germany must not be permitted to retard reconstruction in European countries which have suffered from German aggression.

(d) In determining the amount of capacity required to strike an export-import balance, the United States and other occupying powers cannot in fact guarantee that the export-import balance will be achieved. Their responsibility is only to provide reasonable opportunity for the attainment of balance at the agreed minimum level of standard of living. In fixing the amount of industrial capacity necessary for export, the provision of margins of safety is unnecessary if Germany's export potential is estimated on a reasonable basis. It should be noted that, if resources are left to enable Germany to make good her war damage and depreciation in housing and transport over certain numbers of years as suggested in paragraph 6 (d), extension of the period in which such deficits are liquidated would in case of need make some additional capacity available for production of export goods.

9. The necessity which devolves upon the United States and other occupying powers to finance imports into Germany and possibly to pay for such imports in the next few years does not arise in the first instance from the policy of reparation removals agreed upon at Potsdam. The German economy was brought virtually to a standstill by Germany's defeat, which produced an almost complete breakdown of transport, economic organization, administration, and direction. If no removals of industrial capital equipment were attempted, Germany would still require United Nations aid in financing and possibly in paying for minimum imports necessary to prevent disease and unrest. Even after substantial capital removals have been completed, it is doubtful that the German economy can operate for some time up to the limits of remaining industrial capacity, due to the limited availability of fuel, food, raw materials, and the slow progress which can be made in filling the gap left by the Nazis in the economic and political organization of Germany. It is possible, and even likely, that the physical transport of reparation removals will limit transport capacity available for recovery of the German economy and for the expansion of exports. It is in this respect only, however, that the reparation policy laid down in the Berlin Declaration may require the United Nations to finance German imports for a longer period, or to pay for them in greater degree, than if no provision for reparation from Germany had been made.

10. During the next two years the United States and other occupying powers must finance minimum essential imports into Germany to the extent that exports from stocks and current production do not suffice to cover the cost of such imports. Since the Berlin Declaration makes no provision with respect to the German standard of living in the period of occupation, the occupying powers are not obliged to provide imports sufficient for the attainment in Germany of a standard of living equal to the European average. The present standard of supply in Germany, so far as the United States is concerned, is still governed by the 'disease and unrest' formula. Under the conditions set forth in paragraph 9, it will prove desirable to extend the type and

volume of imports into Germany not only because of our interest in reactivating selected German export industries which would yield a volume of foreign exchange, and as far as possible to repay the past outlays of the occupying powers on imports. If, when the time comes for the conclusion of a peace treaty with Germany, there remains a backlog of unpaid imports, the occupying powers will have to decide whether or not to impose on Germany an obligation to pay off the accumulated deficit.

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12. The role of the occupying authorities in the process of German revival should, in general, be that of providing and setting the conditions within which the Germans themselves assume responsibility for the performance of the German economy. To this end, the occupying authorities should devote primary attention in planning revival to the development of German administrative machinery, not only in the fields of intrazonal production and trade but in interzonal and international trade, and in the application of common policies in transport, agriculture, banking, currency, taxation, etc.

As one aspect of this process, de-Nazification should be satisfactorily completed during the present period. For the rest, great importance attaches to the conclusion within the Allied Control Council of agreements governing policies to be followed in various aspects of the German economy enumerated, and devising interzonal German machinery for their application.

Source: *U.S. Economic Policy toward Germany*, U.S. Department of State Publication, Washington, DC, 1946, pp. 93-101; reprinted in Beata Ruhm von Oppen, ed., *Documents on Germany under Occupation, 1945-1954*. London and New York: Oxford University Press, 1955, pp. 93-97.